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## **1 OBJECTIVES OF THE EMPLOYMENT POLICY**

### **1.1 The Government's employment targets**

The main target of the financial and employment policy of Prime Minister Matti Vanhanen's Government was to increase employment by a minimum of 100,000 people during the government term 2003-2007. The aim was to increase the employment rate and decrease unemployment in the area of each Employment and Economic Centre and decrease regional differences in unemployment. A significant increase in the employment rate would safeguard the financing basis of welfare services and the public finances.

Over the longer term, at least two important forces of change will affect the operational environment of the Finnish economy and labour market: the ageing of the population and a dramatic change in the international division of labour brought about by globalisation development. The growth outlook of the economy and employment will in the next few years be curbed by the declining offer of labour, which is why safeguarding the availability of skilled labour will be a priority for the future success of the country. Growing global markets that are changing at a fast pace offer numerous possibilities for competitive Finnish production. Being successful in the competition and creating new jobs will, however, require a high degree of adaptability of the economy and labour market. Even in the future, Finland's success will be built on strong skills and entrepreneurship.

An increase of 100,000 people in the number of the employed during the government term would mean that the average employment rate would go up to approx. 70% in 2007. The general target of the EU employment strategy is to achieve an employment rate of 70%, an employment rate of 60% for women and that of 50% for the aged workers (55-64-year-olds) by 2010. A decline in the employment was recorded in the beginning of the Government term, but during the positive economic trend of 2005-2006, the number of the employed went up by 79,000 people. In 2006, the employment rate in Finland (age group 15-64) was 68.9%. Finland has already exceeded the employment targets for women and aged workers for 2010 in line with the Lisbon strategy.

Interadministrative employment and entrepreneurship programmes, the Finnish National Reform Programme in keeping with the Lisbon strategy, and the strategy of the Ministry of Labour's employment policy contribute to supporting the implementation of the employment targets in the Government Programme. A significant part of the measures to develop the interadministrative employment programme were implemented during the Government term. The main goals of the programme are decreasing structural employment and increasing the offer of labour. The Entrepreneurship Programme co-ordinates government measures that support entrepreneurs with promoting practical projects as a priority.

### **1.2 Labour policy strategy**

In the reporting year, the Labour Administration continued to implement the labour policy strategy for 2003-2007-2010. The main priorities of the strategy are the following:

1. Reducing structural unemployment and preventing exclusion
2. Ensuring the availability of skilled labour
3. Enhancing labour productivity in a way that is sustainable in terms of quality
4. Creating preconditions for an active labour immigration policy
5. Increasing entrepreneurship and self-employment.

The implementation of this strategy has involved projects targeting central priority areas, performance guidance of the Ministry and regional governments and reinforcing co-operation with other actors. In June 2006, the Ministry of Labour published the future outlook "Hyvää työtä ja osaavaa työvoimaa" ("Good work and skilled labour") concerning the needs to develop the labour policy in the forthcoming parliamentary term 2007-2011. This report estimates that with a successful combination of policies and in conditions of favourable economic development, it will be possible to achieve a net growth of 90,000-100,000 jobs, bring the employment rate up to a minimum of 72% and decrease unemployment to less than 5%. In practice, this would approximate the realisation of full employment by the year 2011. The Ministry of Labour will update the labour policy strategy based on the objectives of the future outlook and the programme of the new Government by June 2007.

### **1.3 The EU's employment strategy and the Finnish National Reform Programme 2005-2008**

In 2005, the Council of Europe reformed the Lisbon strategy, placing economic growth and employment in the forefront of European policy. Each EU member state outlines its employment policy priorities in a three-year National Reform Programme. The Finnish National Reform Programme for 2005-2008 was completed in October 2005. The preparation of the Finnish National Reform Programme and the annual reporting on its implementation are co-ordinated by the Ministry of Finance, while the Ministry of Labour assumes responsibility for the employment policy section. In this Programme, increasing the employment rate and making the functioning of the labour market more efficient were set as targets for the Finnish employment policy. Central measures in achieving this include extending careers, matching the tax and benefit schemes and determination of pay systems to increase the incentive effects of working, as well as alleviating the mismatch in the demand and offer of labour. In October 2006, Finland submitted to the Commission an interim evaluation concerning the implementation of the Lisbon strategy.

The Commission published its annual report on the implementation of the Lisbon strategy in December 2006. This report contains an analysis of the progress made by the EU area in the implementation of the community level Lisbon Reform Programmes and the Commission's proposals for national recommendations. In case of Finland, the Commission did not put forward any recommendations. The report notes that Finland has made excellent progress in the implementation of the National Reform Programme. In the future political priorities, such as extending careers, safeguarding the sustainability of public funding and alleviating the high structural employment will continue to play an important role.

## **2 ECONOMIC DEVELOPMENT**

### **Global economy**

The long-term boom of the global economy continued in 2006. It is estimated that gross production increased by over 5% and world trade by 8-9%. In the US, the increase in the production was an average of 3.3% and in China 10.7%. The economic growth in the US was again based on strong private consumption, even though it was feared in the autumn that the high oil prices and disturbances in the housing market could even drive the country into a recession. On the other hand the greatest problem of the country, the unbalance in the foreign trade, continued to deteriorate, and the trade deficit (USD 764 billion) was exceptionally large.

The economic trends in Europe were better than expected in 2006. Production in the Euro zone increased by 2.7%. Consumer demand was the most important element in the growth of production. Exports and investments also went up. The improved employment situation speeded up private consumption. The price increase at times exceeded the limit of 2%, and the Central Bank increased its interest rate to 3½ %.

The situation at the oil market continued tense, and the price of crude exceeded USD 70 a barrel at times. Towards the end of the year, however, the price went down. The annual average of the oil price (USD 65) exceeded the 2005 level by one fifth. The real price of oil has only been higher than this during the second oil crisis in 1979-1980. The prices of raw materials went up by nearly 30%.

### **Economic trend in Finland**

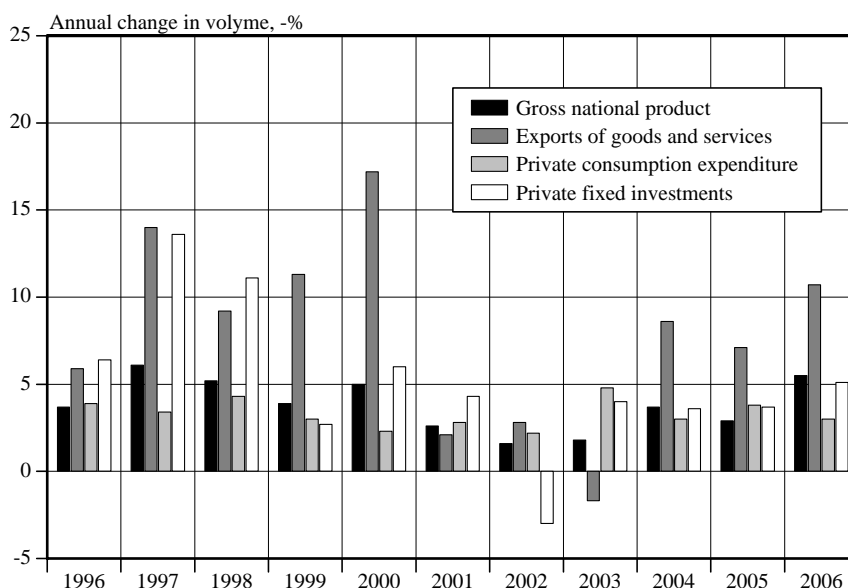
The growth of gross production speeded up considerably in Finland in 2006. Financial activity was intense and wide-spread, but the growth figures were also affected by random factors, such as the industrial unrest in the paper industry the year before. The GNP increased by 5.5% from its 2005 level. Economic development was speeded up by the positive development in the productivity of labour. Its share in the growth was some 3.5 percentage points. Some 1½ percentage points of the growth were based on the increased labour input. In the future years, too, economic growth must primarily be sought in factors improving productivity and the quality of employment, in case the offer of labour will no longer increase due to the ageing of population.

All items of demand in the national economy facilitated economic growth in 2006. The sector showing the fastest growth rate was exports (10.7%), even though the strengthening of the Euro during the year contributed to undermining the competitiveness of exports outside the Euro zone. The volume of production increased by over 5%. The current account surplus amounted to EUR 10.1 billion. Expenditure on consumption increased by 2.3%: private consumption expenditure by 3% and public expenditure on consumption by approx. 1%. Fixed investments went up by approx. 5%.

The indebtedness of households increased at a fast pace, and the savings ratio went down further. The indebtedness was increased by the busy housing market. The increase in the purchasing power of households remained at 1.6%, or at the same level as the year before. Towards the end of the year, the average debt of households already corresponded to 97% of their annual income. The increase in public consumption was 0.9%. The public expenditure remained within the scope of budgetary discipline.

Even if the operating surplus of companies is on the increase and net lending has been strong for years, the investment rate has hardly gone up. Typically for an economic boom, investments focus on private projects, which were up by 5.6%. Private investments were increased by both house building and residential building production in the early part of the year in particular, and replacements of old machinery and equipment in companies. Public investments went up by 1.8%.

**Figure 1. Change in GNP, exports, private consumption expenditure and fixed investments**



Source: Statistics Finland, National accounts

Despite the more stringent financial policy, rising energy costs and rapid economic growth, inflation pressures did not increase significantly in 2006. The consumer price index went up by 2.2% during the year, nearly one half of which was due to an increase in house prices and interest rates. The decline in the prices of consumer electronics, IT technology and clothes continued. On average, the consumer price index went up by 1.6%. Towards the end of the year, inflation exceeded 2% for the first time in five years.

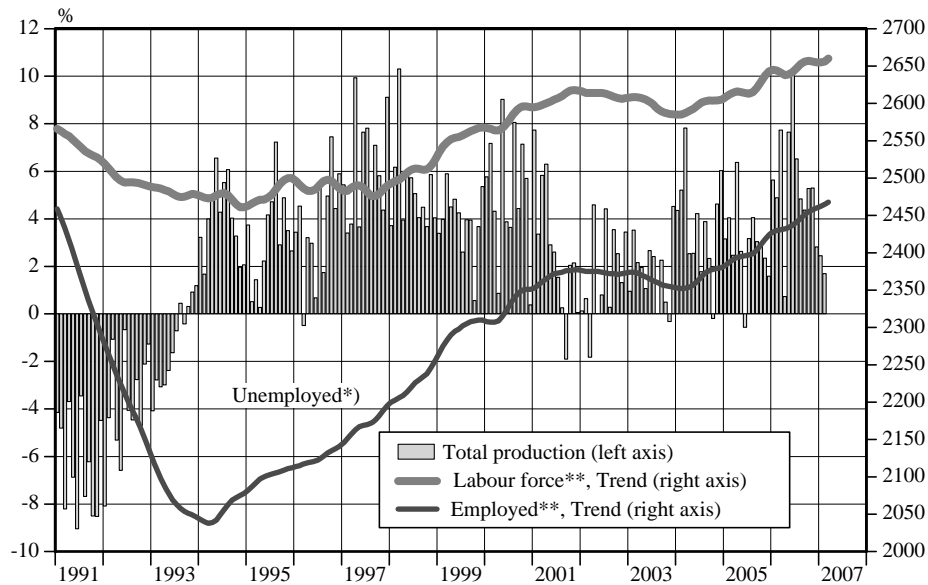
Earnings went up by 3%, or clearly more slowly than the year before. The timing of pay rises in June in accordance with the income policy agreement alleviated their cost impact during the reporting year, and neither did the wage drift become greater than before despite the tense situation in the labour market. The unit wage cost went down in 2006 due to the positive productivity development and moderate pay rises.

### 3 DEVELOPMENT OF THE EMPLOYMENT SITUATION

#### 3.1 Demand for labour

In the reporting year, the development of employment was extremely positive. The average number of the employed was 2,444,000. (Figure 2). This was an increase of 43,000 from the year before. The average employment rate in 2006 (age group 15-64) was 68.9%. This was an increase of 0.9 percentage points from the previous year. The number of working age population (age group 15-64) increased by 11,000 people. The 18% increase in the number of vacancies reported to the Employment Offices is another indication of the increased demand for labour. Additionally, the number of hours worked went up along with the improved employment situation.

**Figure 2. The Demand and Supply of the Labour Force and the growth of the total production**



Source: Statistics Finland, Labour Force Survey

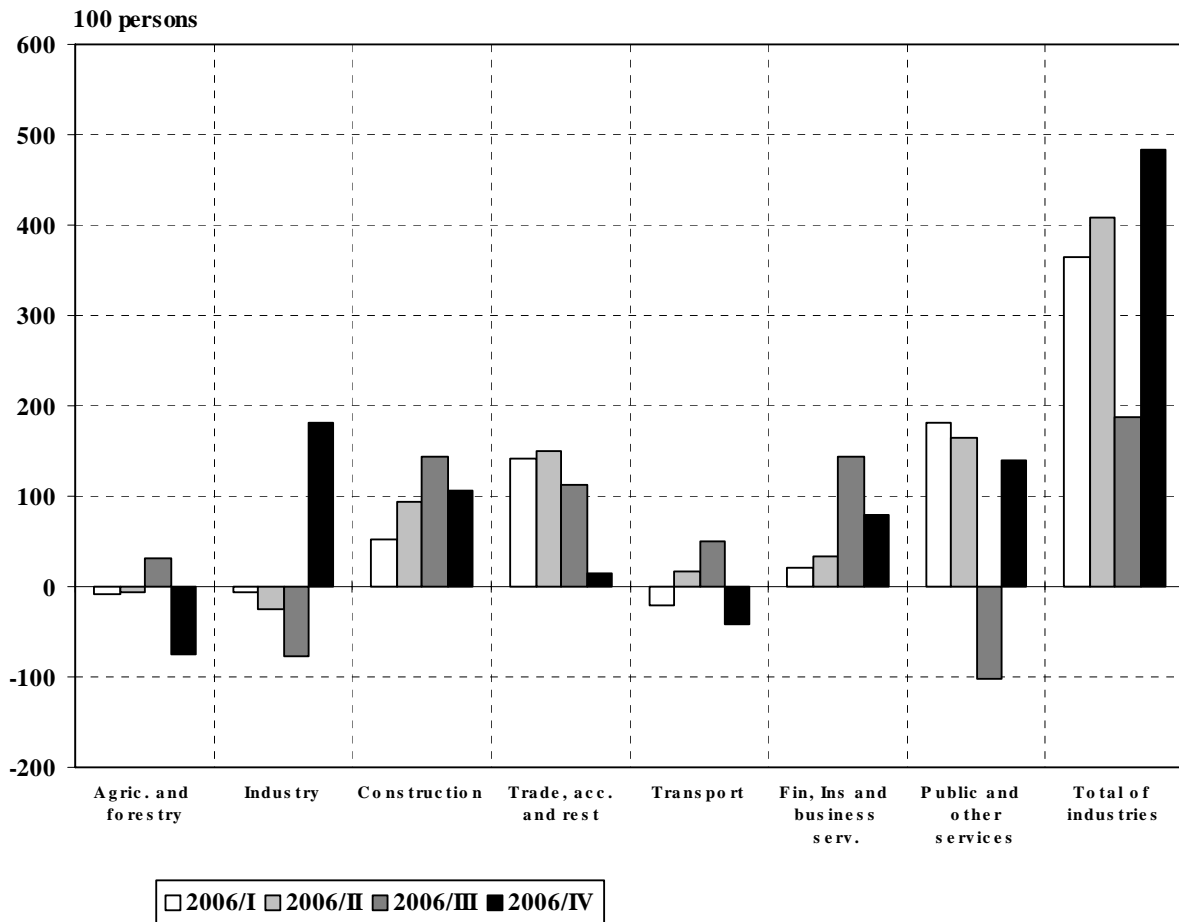
\*) The number of the unemployed between the lines, or labour force minus the employed

\*\* Labour force and the employed, 1,000 people

The increases in employment concentrated in the private sector, in which the employed labour force increased by over 41,000 people compared to the year before. In the public sector, this increase totalled 2,000 people, mainly in the State services for such as the needs of Finland's Presidency of the EU. In 2006, an average of 1,786,000 of the employed (73%) worked in the private sector, 507,000 (21%) in municipalities and municipal federations and 149,000 (6%) for the State. In the Labour Force Survey, the figures for the public sector include the labour force of the State, provincial government of the Åland Islands, agencies and institutions of municipalities and municipal federations and State enterprises.

Employment went up in all the main sectors excluding agriculture and forestry, in which the number of the employed went down by approx. 1,500 people (Figure 3). In agriculture and forestry, a declining employment trend has prevailed for decades. The demand for labour was at its strongest in the private services sector, in which the number of the employed went up by 32,000 people. Approximately one half of these were in business and technical services. Jobs in the social and health care industry went up by more than 5,000 in the private sector, but declined slightly in the public sector. The number of the employed went up by 9,000 in transports and 3,000 in trade. The construction industry employed 4,000 people less than the year before. Despite the job losses due to globalisation development, the employment situation in the industries improved for the second year running. The number of the employed in this sector went up by 5,000. In 2002-2004, the number of the employed in the industries went down by nearly 40,000.

**Figure 3: Changes in the number of employed persons by industry in 2006 compared to the corresponding quarters of the previous year**



Of the employed, 2,129,000 were wage and salary earners (87.1%) and 314,000 were entrepreneurs and assisting family members (12.9%). The latter figure also includes farmers. The number of wage and salary earners went up by 32,000 and that of entrepreneurs and assisting family members by 11,000. The year before, the number of entrepreneurs and assisting family members only went up by 2,000. Of wage and salary earners, 1,382,000 were white-collar and 746,000 blue-collar employees. The trend has for some time been for the share of white-collar workers in the wage and salary earners to grow.

In 2006, the number of entrepreneurs excluding farmers was an average of 230,000. Of these, 141,000 were self-employed and 89,000 employers. 156,000 of the entrepreneurs were men and 74,000 women. The number of men categorised as entrepreneurs went up by 10,000 and that of women by 1,000 in 2006. Of entrepreneurs who were employers, 66,000 were men and 23,000 women.

Of the employed labour force, 1,178,000 were women and 1,266,000 men. The number of employed women went up by 20,000, or 1.7%, and that of employed men by 23,000, or 1.9% compared to the year before. The employment rate of women went up by 0.8 percentage points to 67.3% and that of men by 1.0 percentage points to 70.5%.

The number of the employed increased in 2006 in all other age groups except for age groups 35-39 and 45-49. This increase was the greatest in the age group 60-64 (+21,000 people), as a result of which the employment rate of this age group (37.2%) went up by 3.7 percentage points from the previous year. In the age group 55-59, the employment rate went up by 1.9 percentage points to 67.3%. These figures show that an increasing number of ageing workers stay on in working life longer than before. Essential reasons for the extending of careers include the favourable development of the economy and employment situation, the pensions reform of 2005, measures to develop working life and the increasing problems of finding labour. The rates of taking part in working life are lower in Finland than in other Nordic countries. In recent years, however, the difference to the other Nordic countries has become less significant.

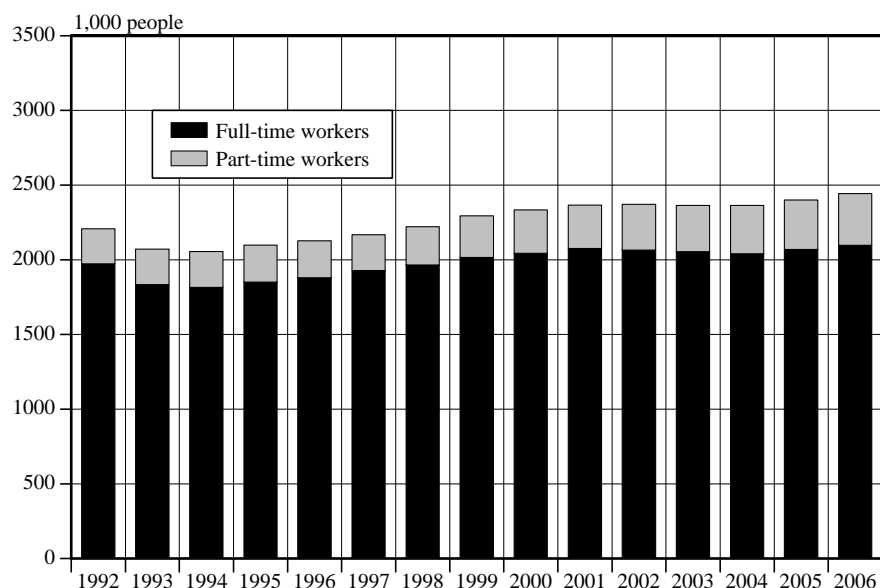
The rate of taking part in working life is the highest for the age group in the best working age, or the 30-49-year-olds. In this age group, the employment rate was 84.1% in 2006. This was an increase of 0.8 percentage points from the previous year. The participation in working life of young people also went up. The employment rate of those aged under 30 went up to 52.9% from the 51.9% of the year before. The participation in working life of the ageing was at a slightly higher level than that of young people, as the employment rate of the age group 55-64 was 54.6% in 2006.

In 2006, an average of 288,000 people or 13.5% of wage and salary earners worked part time (Figure 4). Nearly two out of three of these were women. The corresponding figures for the year before were 275,000 and 13.1 %. The number of those working part time went up by 14,000 and their share by 0.4 percentage points. Approx. one out of three of all part-time workers worked part time against their will, or had been laid off and were on a shortened working week. According to the Labour Force Survey, there is no working time limit for part-time work. The information is based on personal assessments of the interviewees. In Finland, the share of part-time work remains rather low compared to many European countries. In the Netherlands, for instance, part-time work has been consciously promoted by the employment policy.

The share of wage and salary earners in part-time work has increased since the years of recession in the 1990's. There are many reasons for this trend, such as the extended opening hours of shops and restaurants, increased competition, increasing numbers of students taking part in working life, development of the IT technology, changes in the age limits of part-time pensions and the effects of the 1990's recession. The extended opening hours in particular have resulted in a number of new part-time jobs, which have been taken up by students. In the private services sector, the most central explanation for the increasing number of part-time employees is students taking part in working life. Part-time work was the most common in retailing and the restaurant sector. In these sectors, the labour force is young, more than one out of three of the wage and salary earners work part time and the share of students in those engaged in part-time work is nearly one half. Students are increasingly taking part-time jobs while studying. According to the Labour Force Survey, the average number of full-time pupils or students who worked was 127,000 in 2006. Their number increased by 20,000 in 2003-2006.

In 2006, approx. 31,000 people, or 1,000 less than the year before, were on part-time pensions. Of these, 18,000 were in the private and 13,000 in the public sector. In the public sector, more than one in four of part-time workers are on a part-time pension. In the private sector, this share is smaller by one half.

**Figure 4. Development in the numbers of the full-time and part-time employed**



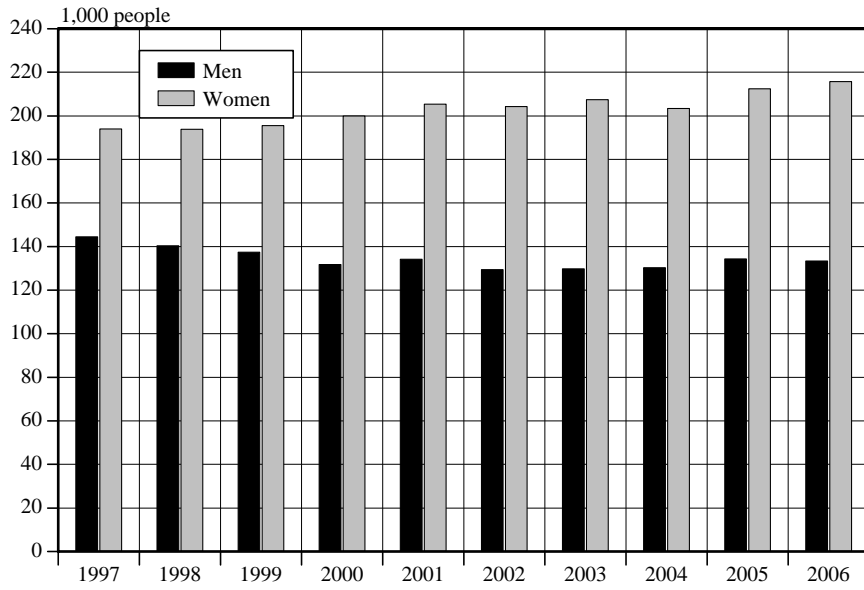
Source: Statistics Finland, Labour Force Survey

In 2006, 16.4% of wage and salary earners, or 348,000 people, worked in an employment relationship for a fixed term. These figures for the year before were 16.2% and 345,000, indicating an increase of 3,000 in fixed-term employment relationships. Nearly two out of three of those in fixed-term employment relationships were women. Summer jobs and labour political subsidised employment have a significant impact on the development of fixed-term employment relationships. Over long term, the number of employment relationships for a fixed term has gone up slightly (Figure 5). Compared to permanent employment relationships, they have increased more slowly.

Employment relationships for a fixed term are more common in the public than in the private sector. Nearly one out of four public sector employees had fixed-term contracts, whereas only slightly more than one out of ten private sector employees were in this situation. In 2003-2006, the number of fixed-term employment relationships with the State have gone down, while their number in municipalities and municipal federations as well as in the private sector have gone up. In 2006, the share of wage and salary earners in a fixed-term employment relationship with the State was 23.9%, or one percentage point less than in 2002. This share for municipalities and municipal federations was the same as for the State in 2006, but it had gone up by 0.7 percentage points since 2002. In the private sector, the share of wage and salary earners with an employment relationship for a fixed term had gone up from 12.5% to 13% in this period.

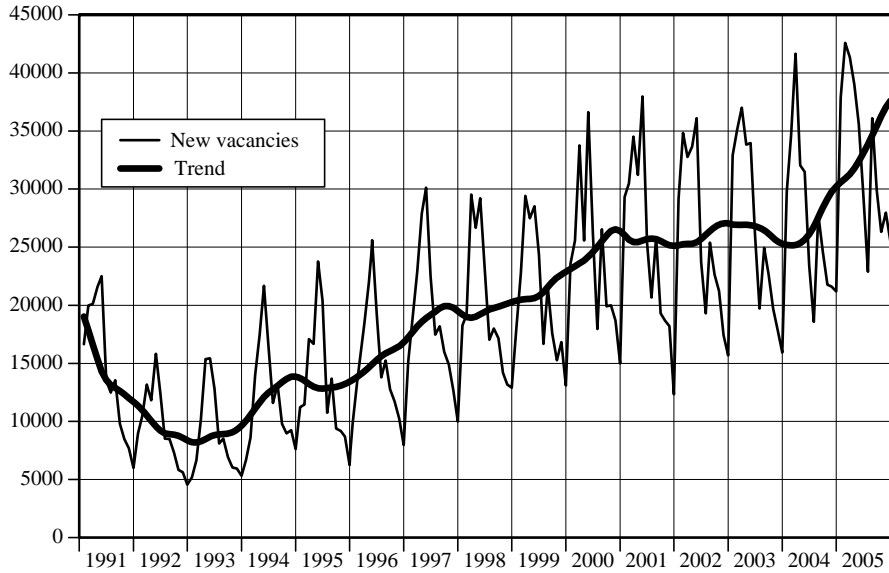
In 2006, an average of 38,800 new vacancies were registered with the Employment Offices, or 18% more than in the year before (Figure 6). The number of vacancies increased particularly in the packaging, warehousing and stevedoring sector, road transports, information technology, guarding and security sector and financial administration planning and accounting.

**Figure 5. Development of fixed-term employment relationships**



Source: Statistics Finland, Labour Force Survey

**Figure 6. New vacancies**



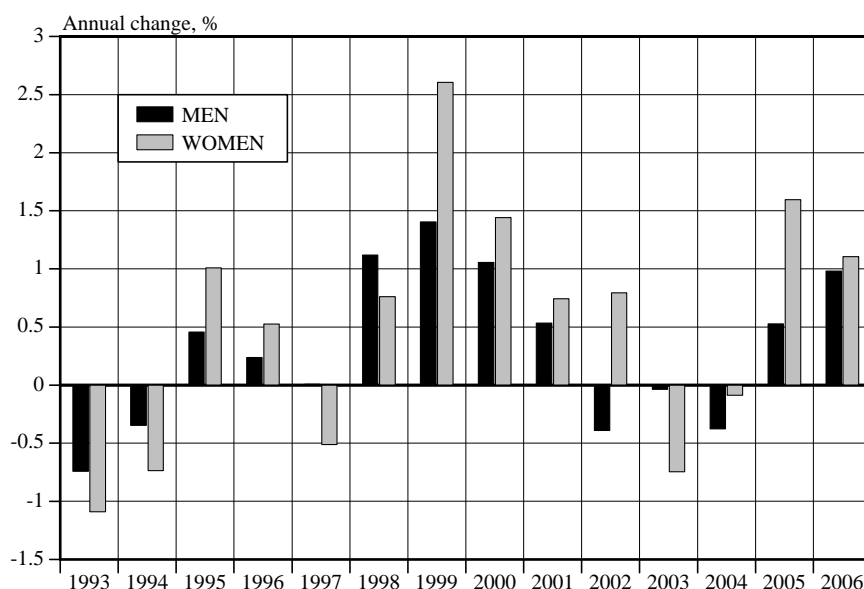
Source: Ministry of Labour, Employment service statistics

### 3.2 Supply of labour

In 2006, the labour force comprised on average 2,648,000 people, or 27,000 more than the year before. Of the labour force, 52% were men and 48% women. Of the increase in the labour force (Figure 7) 13,000 were men and 14,000 women. The number of people in age group 15-74 who were outside the labour force went down by 12,000 people, of which 7,000 were women and 5,000 men. The number of male labour force increased by 15,000 and that of female labour force by 23,000 in 2003-2006. In the same period, the number of men outside the labour force went up by 12,000, whereas the number of women outside the labour force went down by 5,000.

The increasing average age of the population and retirements of the large age classes will result in problems with the availability of labour in the years to come. Essential reasons for these problems include the decreasing size of the new age classes entering the labour market and the extended time period spent studying.

**Figure 7. Changes in labour force numbers by gender**



Source: Statistics Finland, Labour Force Survey

The number of labour force went up in the areas of 13 Employment and Economic Development Centres and only went down in the areas of 2 Centres (Figure 8). The year before, the number of labour force had decreased in the area of 4 and increased in the area of 11 Centres. In the reporting year, the supply of labour increased in the areas of the Employment and Economic Development Centres of Central Finland, Southern Ostrobothnia and Southwest Finland, in all of which the increase was a minimum of 2%. There was a decline in the labour force in the areas of the Employment and Economic Development Centres of Satakunta (-1.1%) and Southeast Finland (-0.7%).

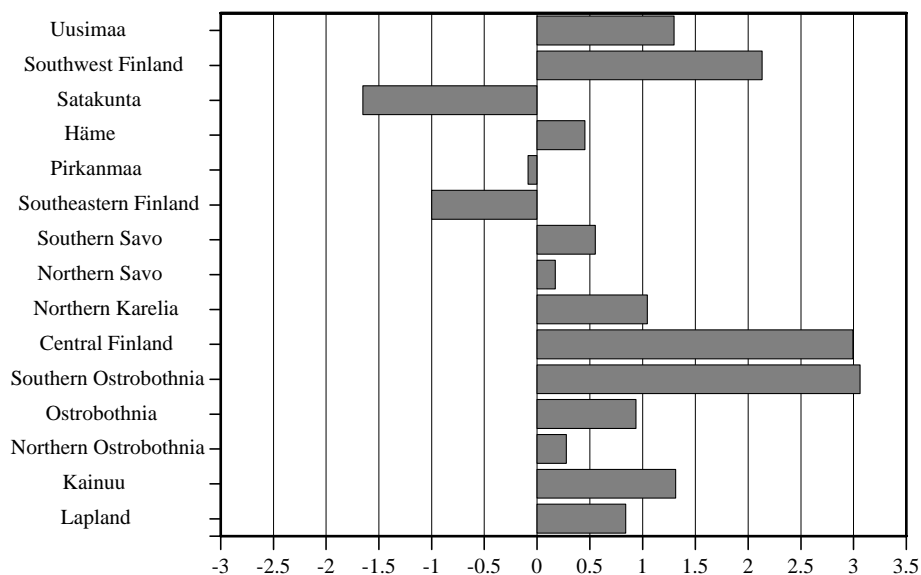
The strong growth in the demand for labour has kept migration going. Migration within the country, or mobility between municipalities, has been active in the last decade. Previously, immigration

flows were mainly directed towards the large growth centres in the south, but during the last three years the main part of migration within the country has taken place inside the provincial boundaries.

According to preliminary data, some 286,000 people changed their municipality of residence in 2006. This was a decrease of 4,000 in the number of removals compared to the year before. The Provinces of Uusimaa, Tampere Region and Northern Ostrobothnia saw the greatest population increases. The population in the Provinces of Southern Savo, Kymenlaakso and Kainuu, on the other hand, went down.

A total of 22,700 people immigrated to Finland, which was the greatest figure since Finland became independent. In 2005, the number of immigrants was approx. 21,400. In the reporting year, 12,100 people emigrated from Finland. The net immigration was thus 10,600 people, exceeding the previous year's figure by 1,000.

**Figure 8. Changes in labour force by the Employment and Economic Development Centre, % 2006**



Source: Statistics Finland, Labour Force Survey

### 3.3 Development of unemployment

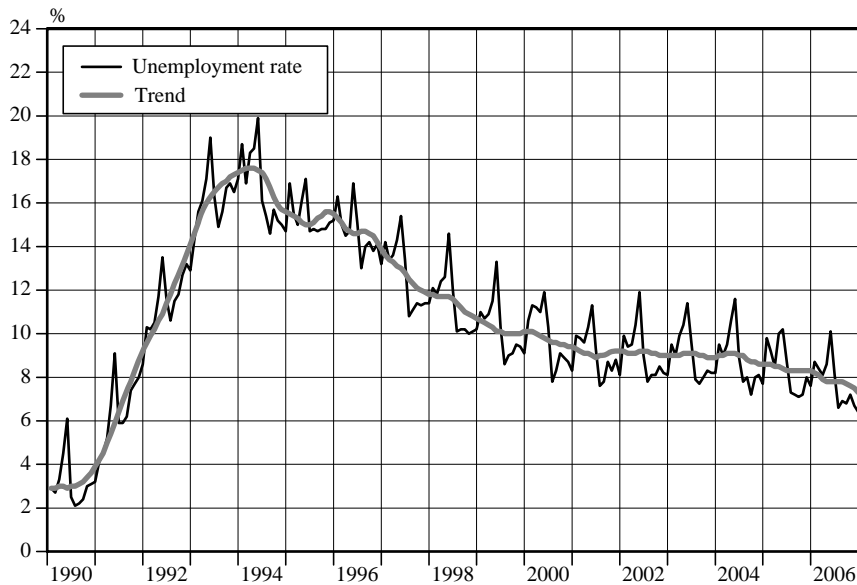
According to the Labour Force Survey of Statistics Finland, the number of the unemployed was an average of 204,000 in 2006. This was a decrease of 16,000 compared to the year before. The unemployment rate was 7.7%, or 0.7 percentage points less than the previous year (Figure 9). The share remained the same as in 2005. In the period 2003-2006, the number of the unemployed has gone down by some 33,000 and the unemployment rate by 1.4 percentage points from 9.1%. The number of the concealed unemployed who were not part of the labour force was 99,000 people in the reporting year, which is 2,000 more than the previous year. The concealed unemployed are those who have not been actively looking for a job within the last four weeks, but who otherwise are available for work. In proportion to the labour force, their share was 3.7%. The number of the concealed unemployed has gone down by approx. one percentage point since 2002.

According to the employment exchange statistics of the Ministry of Labour, an average of 249,500 unemployed jobseekers were registered with the Employment Offices in 2006, or 25,800 less than the year before. In the latter half of the year, the increased demand for labour speeded up the decrease of unemployment. An average of approx. 8,300 people were laid off, or 2,300 less than the previous year. The laid-off workers are included in the number of unemployed jobseekers. More than one half of the unemployed jobseekers were persons who were difficult to employ, such as long-term or repeatedly unemployed, disabled, aged and immigrants. This figure remained at the previous year's level.

Looking at the regional figures, the positive employment trend has in 2005-2006 affected the whole country. The demand for labour has increased to the extent that a downward trend in unemployment was registered in all Employment and Economic Development Centres for two years running. As recently as in 2004, the regional development of unemployment was heterogeneous. At that time, unemployment grew in southern Finland and declined in the northern parts of the country.

In 2006, the number of unemployed jobseekers went down in the areas of all Employment and Economic Development Centres by 7.1 - 13.6%. The greatest decreases in unemployment were recorded in the area of the Employment and Economic Development Centre of Southwest Finland, where the number of jobseekers went down by 13.6%. The year before, the greatest decrease in unemployment figures was also recorded in Southwest Finland. An important reason for this was the construction projects of Olkiluoto. The unemployment also went down significantly in the areas of Satakunta, Southern Ostrobothnia, Ostrobothnia and Tampere Region, in all of which the number of unemployed jobseekers decreased by more than 11%. The number of unemployed jobseekers went down the least in the Employment and Economic Development Centres of Northern Karelia and Häme, but even in these areas unemployment decreased by more than 7%.

**Figure 9. The monthly development of the unemployment rate, %**



Source: Statistics Finland, Labour Force Survey

According to the Labour Force Survey of Statistics Finland and examined by main sectors, the unemployment rate went down the most in construction in 2006, similarly to the year before. The unemployment rate went down from 8.0% to 7.0%. There also was a clear downward trend in unemployment in trade, activities serving financing, insurance and other business as well as in public and other services. The unemployment rate in the industries went down from 4.9% to 4.3% and that in transports from 3.9% to 3.6%. In agriculture and forestry, the unemployment situation remained more or less unchanged.

According to the employment exchange statistics of the Ministry of Labour, the number of unemployed jobseekers went down in all professional groups except in the fields of technology, natural sciences and social sciences. The number of the unemployed belonging to this professional group increased by 2.8%. The number of unemployed jobseekers went down the most in construction, the industries and the sector of transports and traffic. The number of the unemployed also went down considerably in the professions of agriculture and forestry as well as social and health care.

### 3.4 Structure of the unemployment

#### Unemployment by educational standard

A major share of unemployed jobseekers are persons with basic education only. In 2006, an average of 40.3% (97,000 people) of all unemployed jobseekers had a basic level education only<sup>1</sup>. These

<sup>1</sup> Unemployed jobseekers excluding laid-off workers

figures for the year before were 40.8% and 108,000 people, indicating that in the reporting year, the number of the unemployed with only basic education had gone down by 11,000.

As a result of the favourable employment trend, the number of unemployed jobseekers with secondary level and lower third level qualifications also reduced by nearly 12,000. The increased demand for labour in the labour market was also reflected in the highest levels of education. The unemployment of university graduates and those with researcher training, which had been increasing in recent years, started declining in 2006.

Regionally speaking, the number of unemployed jobseekers with basic education only was the greatest in the areas of the Employment and Economic Development Centres of Häme, Satakunta and Southeast Finland. Similarly, the unemployment of university graduates concentrated in the southern parts of the country (Uusimaa, Southwest Finland and Tampere Region) and university towns.

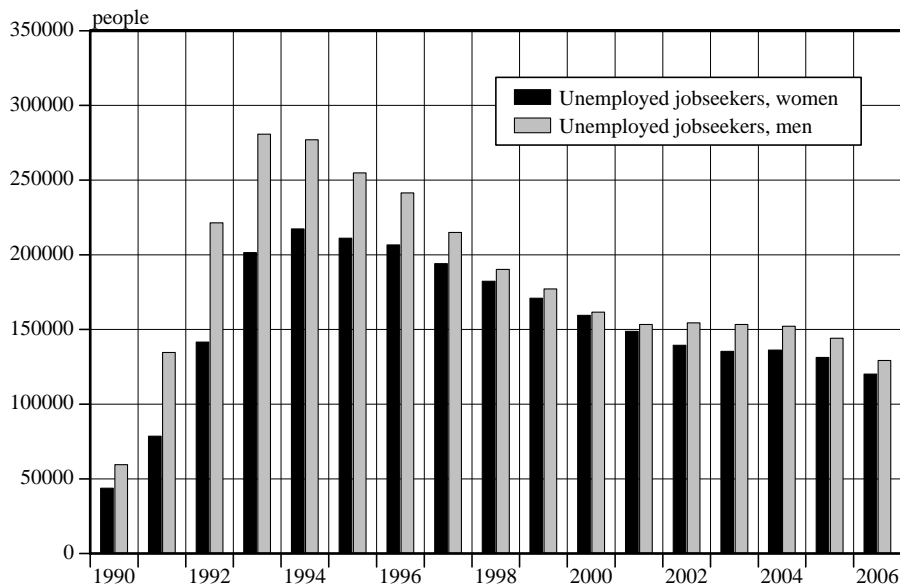
### **Unemployment by gender**

According to the Labour Force Survey of Statistics Finland, the numbers of unemployed men and women were nearly equal in 2006: there were 101,000 unemployed men and 103,000 unemployed women. The number of unemployed men had gone down by 10,000 and that of women by 6,000 from the year before. The unemployment rate was 7.4% for men and 8.1% for women.

According to the employment exchange statistics of the Ministry of Labour, the number of unemployed jobseekers registered with the Employment Offices in 2006 was an average of 129,000 for men and 120,000 for women (Figure 10). The unemployment of men had gone down by approx. 15,000 people and that of women by 11,000 people from the year before. The better employment trend of men is due to the fact that the recent exports-driven economic growth has particularly concerned male-dominated sectors. On the other hand, globalisation has led into many job losses in labour-intensive and female-dominated companies of the electronics sector.

Examined by the age group, the number of unemployed men was higher than men in the young and middle-aged groups. Correspondingly, more women than men are unemployed in the older age classes. In the reporting year, the number of jobseekers aged 50 or less was 76,000 for men and 71,000 for women. Of men aged 55 or over, 32,000 were unemployed, whereas this figure for women was 2,000 more, or 34,000. The unemployment figures as such do not give a comprehensive picture of the labour market positions of women and men. Another factor is the nature of the employment relationship. More women than men work in part-time and fixed-term employment relationships.

**Figure 10. The unemployed by gender**



Source: Ministry of Labour, Employment Service Statistics

### Long-term unemployment

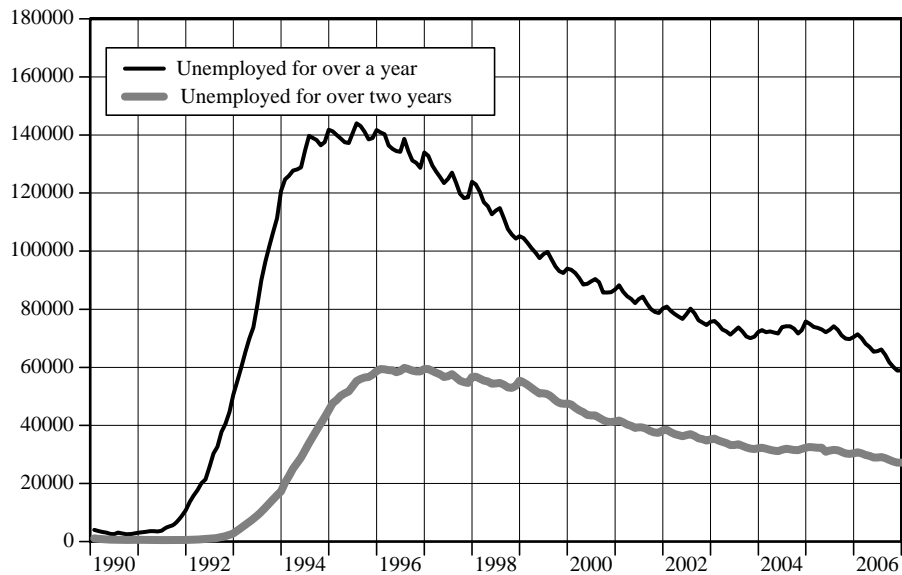
The number of those who had been unemployed for an uninterrupted period exceeding one year was an average of 64,800 people in the reporting year, or 7,600 less than the year before. Of these, 28,900 people had been unemployed for more than 2 years without interruption (Figure 11). Their number went down by 2,500. In the four-year period 2003-2006, the number of the long-term unemployed has gone down by 13,000 people. Along with the downward trend of long-term unemployment, structural unemployment has also been alleviated. In 2006, more than one half of unemployed jobseekers, or an average of 146,500, were difficult to employ (long-term or repeatedly unemployed, those becoming unemployed after a measure or being moved on to another measure). The number of those difficult to employ went down by 15,300 compared to the year before.

Long-term unemployment particularly affects the ageing. Some 66% of those who had been long-term unemployed without interruption were aged over 50. In age groups with five-year intervals, the largest share of the long-term unemployed (41%) were found in the age group 55-59 and the lowest share (0.9%) in the age group less than 25. In 2006, long-term unemployment went down in all age groups excluding those aged 64 or over (Figure 12). The long-term unemployed of all age groups below 40, and in particular that of the younger age groups, went down considerably.

Examined by the region, the number of those having been unemployed for more than a year without interruption went down in the areas of all Employment and Economic Development Centres in 2006. The year before, the number of long-term unemployed had gone down in the areas of nine and up in the areas of six Centres. The greatest reductions in the number of the long-term unemployed were recorded in the areas of the Employment and Economic Development Centres of Southwest Finland (-20.6%), Satakunta (-13.4%), Northern Ostrobothnia (-12.5%) and Häme

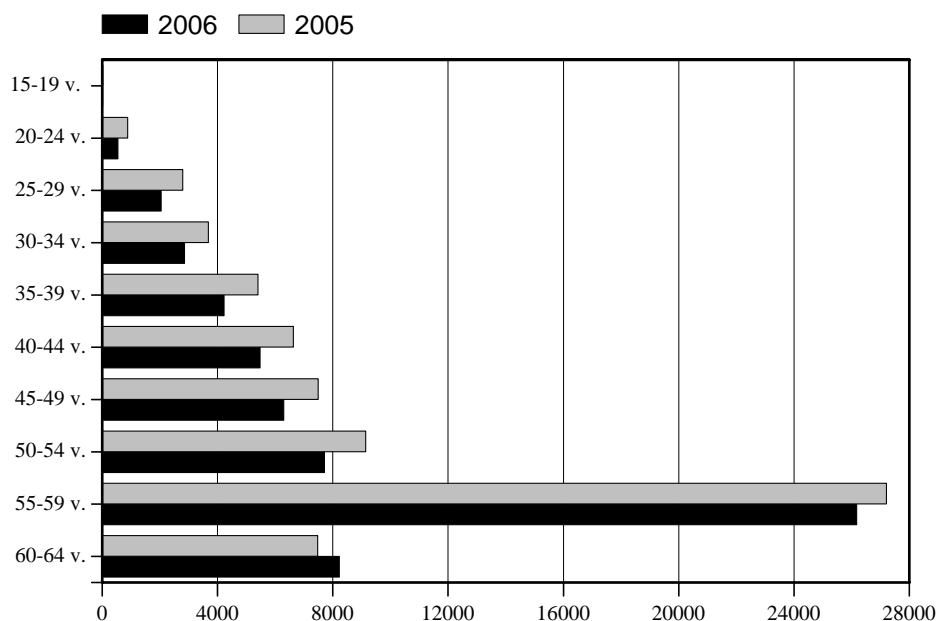
(-12.3%). The highest shares of the long-term unemployed in all the unemployed were recorded by the Centres of Uusimaa (29.5%) and Häme (28.5%) and the lowest in those of Southern Ostrobothnia (19.3%) and Lapland (20.3%).

**Figure 11. The development in the numbers of the long-term unemployed**



Source: Ministry of Labour, Employment Service Statistics

**Figure 12. The number of long-term unemployed by the age group in two latest years**



Source: Ministry of Labour, Employment Service Statistics

### Unemployment of young people and the ageing

The average number of unemployed jobseekers aged less than 25 registered with the Employment Offices was 26,400 in 2006. The number of unemployed young people went down by 4,100 or 13.4%, compared to 2005. The number of young people who were long term-unemployed (an interrupted period of unemployment of more than one year) was less than 600 in 2006. In the period 2003-2006, the number of unemployed jobseekers aged less than 25 has gone down by 9,300, or 26%. The unemployment of young people is also much more short-lived than that of other age groups. In December 2006, the average duration of unemployment for those aged 15-19 was 9 weeks, and for those aged 20-24, it was 12 weeks. The average duration of unemployment for all age groups was 47 weeks (Table 1).

According to Statistics Finland, the unemployment rate of young people (aged 15-24) was 18.7% in 2006. This figure also includes full-time students, of whom 37,000 were jobless. Excluding full-time students, the unemployment rate of young people was 9.4%, or fairly low in international comparisons. The unemployment rates of young people were 17.4% in the EU-27 states and 16.2% in the EU-15 states.

**Table 1. Unemployed jobseekers in the Employment Offices (excluding lay-offs) and those employed by salary-based measures in December 2006**

Age	Unemployed jobseekers	Average duration of unemployment	Share of the long-term unemployed	Employed by salary-based measures *	In labour force training **	Share of age group in the unemployed
	Persons	Weeks	%	Persons	Persons	%
15-19	6 116	9	0	2 732	631	2,6
20-24	19 610	12	2	7 648	3 792	8,3
25-29	21 802	21	8	6 569	3 954	9,2
30-34	20 282	30	12	5 940	3 960	8,6
35-39	22 628	36	16	6 339	4 342	9,6
40-44	25 780	40	18	6 739	4 239	10,9
45-49	26 066	45	21	6 356	3 754	11,0
50-54	28 673	52	24	6 479	2 958	12,1
55-59	50 071	81	50	4 669	1 268	21,1
60-64	15 569	81	53	665	147	6,6
Yli 64	189	375	83	3	14	0,1
<b>Total</b>	<b>236 786</b>	<b>47</b>	<b>25</b>	<b>54 139</b>	<b>29 059</b>	<b>100,0</b>

\*) Also including those in on-the-job training on labour market subsidy

\*\*\*) Including those in ESF co-financed training. Excluding students entered through a group registration (mainly concerns training imparted during lay-offs)

The re-employment in the open labour market of the unemployed aged over 50 has been poor even during the current times of a favourable economic development. The unemployment of the aged only started decreasing slightly in 2006, whereas it previously had been growing ever since 2003. The number of those aged 50 or over who were unemployed jobseekers was an average of 95,000 people in the reporting year, or 5,500 less than the year before. Their share in all unemployed jobseekers was 38%. The unemployment of the aged clearly is more severe and long-term than that of other age groups (Table 1). The decline in unemployment was due not only to the favourable economic trend but also to the pensions reform of 2005 and the increased activation measures of those having received labour market support for extended periods of time.

#### **4 ECONOMIC POLICY MEASURES TO PROMOTE EMPLOYMENT**

##### **4.1. Economic policy and promoting economic growth**

The cornerstones of the Government's economic policy are promoting employment, reinforcing the growth potential of the economy and safeguarding the long-term sustainability of public finances. All these objectives are interconnected. Increasing employment will require sustainable public finances, sustainable and stable public finances will create predictability and trust in the economy, which again will support economic growth.

Increasing the growth potential of the economy is a central element in the Government's economic and employment strategy. The cornerstones of this strategy include enhancing the skills base of economic growth by reforming education and training, increasing the resources of research and product development, and improving the financial utilisation of research and its results. Economic political measures have aimed at improving the functioning of both the labour market and the

markets for goods and capitals and at supporting the development of an internationally competitive enterprising environment. The target of the labour market support reform that entered into force in the beginning of the year was to increase the employment rate, lower the high unemployment and, on the long, term reduce public expenditure on addressing unemployment. The reform increased the incentive provided by the labour market support. A subsidy for those on low wages also entered into force in the beginning of the year.

Growth and employment were promoted by tax cuts and inputs in research and product development, labour policy and infrastructure investments. Income tax cuts were implemented, lowering the tax rates in the last decade by nearly 6 percentage points in all income classes. After the corporate taxation reform, the taxation of enterprises also is internationally competitive and supports investments made in Finland. Employment has indeed increased strongly; the fastest increase of the new millennium in employment was recorded in the reporting year. A total of 43,000 new employment relationships were initiated.

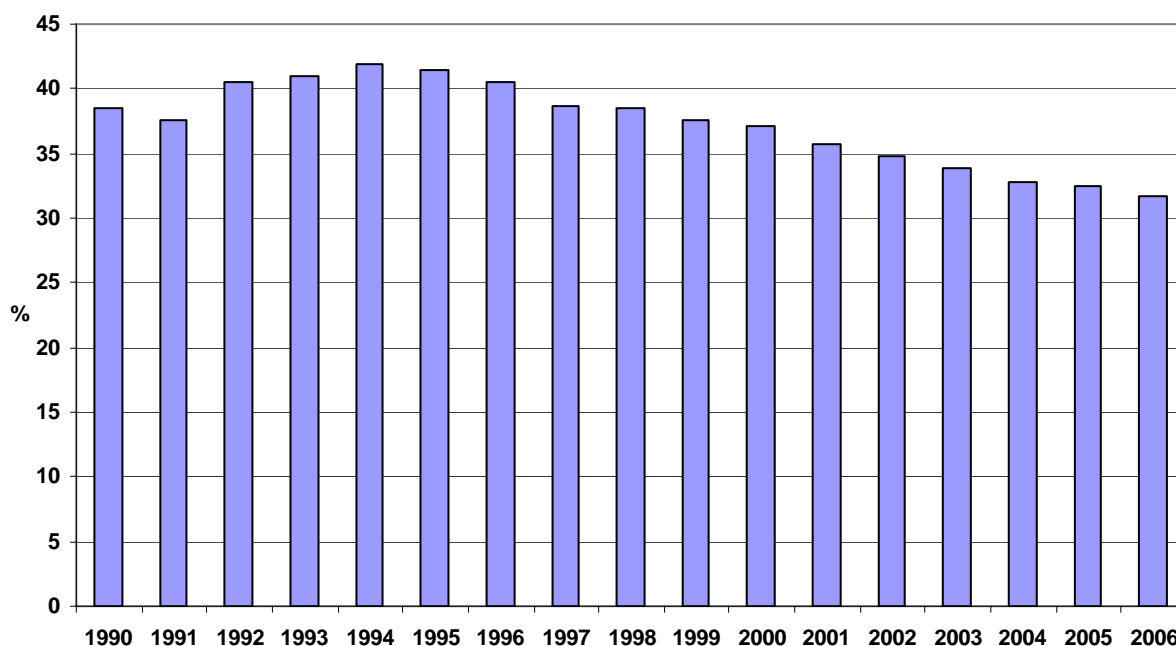
Economic growth has been steadily gathering momentum in recent years. The growth in production speeded up from the less than 2% of 2003 to over 5% in 2006; even though last year's growth figures were boosted by the relatively low starting level of the year before. The share of investments in the GNP increased by approx. one percentage point in the last four years, or to 19% in 2006. The research and development expenditure of the industries, which are comparable to fixed investments, have increased their share in total investments, and they only are less than one fifth lower than the fixed investments of the industries. A determined effort has been made to increase investments in research and development, and the relative level of public research funding is top class in Finland in international comparisons.

The Government's macroeconomic policy aims at a stable, predictable and competitive economic development and structure. An effort was made to achieve this by a financial policy that supports economic growth and employment and is sustainable over long term. Budgetary discipline is a central part of the Government's economic policy and commitment to controlling expenditure. In 2006, the expenditure of public bodies in proportion to the GNP went down to 48½%. The share of taxes and social security contributions decreased to less than 43½% of the GNP. The reform of the municipal and services structure aims at increasing productivity and controlling the increase of municipal expenditure, as well as creating preconditions for developing the guidance of services organised by the municipalities.

## **4.2 Tax policy in promoting employment**

The Government's tax policy aims at increasing the demand for and supply of labour as well as facilitating the growth of skills and productivity. In 2006, the taxation of earned income was cut by EUR 840 million. This tax relief also compensated for the increase in health insurance payments of the insured workers resulting from the reform of health insurance funding. The State's progressive income tax scale was lightened, and in addition, a new earned income deduction was introduced in State taxation, so that tax revenue losses resulting from the 2006 and 2007 tax cuts will only burden the State. The earned income tax cut of 2006 was part of the tax relief package for 2005-2007 agreed in connection with the incomes policy settlement of 2004, whereby one income class is removed from the State's income tax scale, resulting in a four-tiered scale. All in all, the taxation of earned income will have been cut by some EUR 2.9 billion during the Government term. Domestic ownership and entrepreneurship were supported by abolishing the wealth tax from the beginning of 2006.

**Tax rate of wage income in 1990-2006, %**  
Average income (approx. EUR 33, 500 annually), purchasing power of the income level standardised



The demand for household and care work was supported in 2006 by doubling the maximum tax deduction for household services from EUR 1,150 to 2,300 for these types of services. As regards renovations and repairs, the maximum amount remained unchanged.

From the beginning of the year 2006, a particular low-wage subsidy entered into force, which is paid to the employer to support the employment of aged workers on low salaries. This measure aims at increasing the demand for labour for workers who have a considerable risk of being afflicted by the vicious circle of long-term unemployment. The maximum of this subsidy is EUR 220 monthly for each employee. When the employer is deducting withholding taxes, they are allowed to not remit to the Tax Administration a sum corresponding with the subsidy. This way, the employer receives the subsidy immediately when paying out salaries. According to preliminary data, some EUR 90 million of this subsidy was taken up in 2006. The number of employers using this subsidy varied between approx. 6,000 and over 9,000 monthly. The low wage subsidy will be in force in 2006-2010.

A decision was also made on Finland's participation in the EU VAT experiment concerning labour-intensive sectors in 2007-2010. A lower value-added tax rate of 8% will be applied to small repair services and hairdressing services.

### **4.3 Income policy and the development of labour costs**

The increasing of labour costs slowed down in 2006. The pay level of wage and salary earners increased by 3%, or slower by one percentage point than the year before. Pay rises in accordance with the incomes policy settlement for 2006 were only implemented in the beginning of June, and their effect on costs was 2.1%. The effects on costs included a general rise of 1.4% and an

additional increase of 0.4% for the unions as well as an average equality increase of 0.3%. The incomes policy agreement concluded in December 2004 will be valid until the end of September 2007. No new pay rises will be implemented during the final months of the agreement. Despite problems in the availability of labour, the drift development remained moderate in the reporting year.

The negotiating process of each sector that was included in the incomes policy settlements for the first time continued during the year 2006. The objective of this process was to achieve sector-specific measures to develop employment contracts in the private and public sector and to promote employment, productivity, functioning workplace-specific solutions and good practices. The central organisations prepared an analysis of the situation as regards sectoral measures based on information obtained from the contracting parties in March 2006.

As a consequence of the rapid increase in productivity and moderate pay increases in boom conditions, the labour costs per product unit started declining at the level of the whole national economy for the first time in nearly a decade. Measured in terms of proportional unit wage costs, the competitiveness in costs of the manufacturing industry improved, exceeding the long-term average for the whole sector of manufacturing industry in 2006.

#### **4.4 Longer term measures to support employment**

As regards the preconditions for economic growth and the financing of the welfare state alike, Finland is moving on towards a new phase due to the changing age structure of the population. The working age population will start declining from the year 2010. As the labour force dwindles, the growth of production will mainly rely on an increase in the productivity of labour.

While the economic growth slows down, pressures to increase public expenditure will accumulate. The greatest challenges will lie in financing pensions and care services for the elderly. The fastest-moving phase of the growth in pension expenses is starting at the moment, as the large age classes are gradually retiring. The bulk of the increase in care expenditure will be felt in 10-20 years. The number of ageing population will increase in Finland over the next few decades. On the other hand, Finland is also rather well prepared for the consequent funding and expenditure pressures. The Government debt has been reduced in opportune time by means of a disciplined financial policy. The Government has prepared for an increase in pension expenditure by partial transfers to reserves, and the pensions systems were reformed to ensure their financial sustainability. The latest comprehensive pensions reform was launched gradually from the beginning of 2005. This reform will enhance the sustainability of the pension system financing e.g. by adjusting the pensions to the changing life expectancies and by using "pension bonuses" to motivate aged workers to extend their careers for longer than before. The employment security system was also reformed in a manner that supports employment. To increase the supply of labour, the minimum age required for additional days of unemployment security was increased and disincentive pitfalls in the system were removed. In the perspective of great long-term challenges, measures boosting the supply of labour and increasing the employment rate will play a key role. Careers should be extended at both ends of the age distribution. Up till now, the measures taken have mainly targeted the older age classes. Consequently, the employment rates of ageing employee groups have been clearly on the rise. Careers can also be extended in their early parts by shortening the periods of study and applying for education and training. School drop-outs threatened by lack of access to the labour market and exclusion comprise a difficult special group. The integration of this group in the labour market (for example by expanding the apprenticeship training system) is a great challenge. The more we can increase employment, the better the dependency ratio will be, and the lower the social security and

pension contributions. Over the long term, there still are pressures to increase the employee pension contributions.

An active immigration policy and successful integration of the immigrants in the Finnish society will help to increase the offer of labour. In the last few years, the net amount of immigration to Finland has been approx. 10,000 people annually.

## **5 THE GOVERNMENT'S INTERADMINISTRATIVE EMPLOYMENT AND ENTREPRENEURSHIP POLICY PROGRAMMES**

### **5.1 Policy Programme for Employment**

The Employment Programme is one of the four Policy Programmes contained in Prime Minister Matti Vanhanen's Government Programme. By managing this programme, the Government has reinforced its political steering in matters concerning several Ministries and made the Council of State's interadministrative drafting process more efficient. The main objective of the Employment Policy Programme was to lower structural unemployment and to increase the offer of labour force. Other objectives included ensuring the availability of skilled labour, encouraging workers to stay on in the labour market longer and increasing the productivity of labour. The programme was implemented during the Government term through four strategic sub-projects, which were:

- reforming public employment services
- activation of the labour market support
- labour political activation programmes and training
- extending careers.

The Employment Programme was managed by Minister of Labour, Ms Tarja Filatov, who was assisted in this task by the Programme Manager. A Ministerial Working Group was set up to develop the programme and support decision-making. In the co-operating Ministries, persons responsible for the preparation, implementation and monitoring of the Employment Policy Programme were appointed, who comprised the Steering Group of the Programme. In addition, a network of project co-ordinators was in place between the Ministries.

Dialogue between the labour market organisations took place within tripartite bodies of the various Ministries as well as Tupo 2 Working Group and its monitoring group set up towards the end of the Employment Programme period.

The projects of the Employment Programme were implemented as confirmed in the Government's strategy documents, and the competent Ministries assumed responsibility for their implementation. The implementation of the programme was monitored using the Ministries' joint statistical key figures. The active co-operation of the network formed by project co-ordinators in the implementation and monitoring the impacts of the project will also be essential after the programming period.

### **Alleviating structural unemployment**

Structural unemployment is in the Employment Policy Programme measured by the number of jobseekers who are difficult to employ. Structural unemployment started declining towards the end of 2004, and this positive development gathered momentum in 2006. In December 2006, there were

some 139,000 difficult-to-employ jobseekers, which was 24,200 less than the year before. During the whole programming period, structural unemployment has gone down by some 35,000 people.

Both the increased demand for labour and the implementation of the two primary projects of the Employment Programme (setting up Labour Force Services Centres and the activation reform of the labour market support) contributed to the lowering of structural unemployment. Since the beginning of the year 2006, the financing responsibilities of the State and municipalities were changed to provide the municipalities an incentive to organise active employment measures for persons having received labour market support for more than 500 days as passive support. For long-term recipients of labour market support, a special active period was introduced, during which intensified measures to promote employment are targeted at them by the Employment Office. At the same time, the conditions for taking part in active measures for jobseekers were made more stringent, and the service system for the unemployed was developed in the form of Labour Force Services Centres jointly maintained by the State and the municipality. The changes made in the funding and conditions of labour market support and in the service system for the unemployed form a package of measures that addresses structural unemployment.

Despite the favourable development, the number of jobseekers who are difficult to employ remains high. This is why the operating capacities of the Labour Force Services Centres should in the future be supported by building up the so-called intermediate labour market, which would offer a wider range of subsidised jobs and activation placements for those who are difficult to employ. The intermediate labour market would first and foremost act as a pathway to the open labour market, but it could also offer a long-term active support solution for some of the unemployed. During the reporting year, a drafting process was launched in the Ministry of Labour to develop the intermediate labour market following the proposal of the so-called Tupo 2 Working Group included in the Employment Programme.

### **Recruitment problems and the availability of labour**

Problems in the availability of labour increased in 2006. According to interviews with employers, the share of places of business that experienced a shortage of labour varied between 8-10% in 2000-2005. The share of places of business having experienced recruitment problems of various degrees was between 25-28%. In 2006, the share of places of business experiencing a labour shortage went up to 12% and the share of those experiencing recruitment problems up to 32%. Vacancies registered with the Employment Offices have so far been filled fairly well, even if their number has clearly increased.

The Employment Policy Programme addressed the problems of availability of labour by a reform of the Employment Offices' service model, in which employment exchange and other labour force services supporting employment in the open labour market were improved. Adult education resources were focused on working life oriented training and education and training related advice and guidance for adults. An effort was made to direct publicly funded adult education at groups who are under-represented in adult education, such as those with a low standard of basic education and ageing workers. In the future, increasing working life oriented adult education and anticipatory work at the regional and local levels will remain central priorities.

Over the longer term, the availability of labour will be supported by measures contained in the Employment Programme under the sphere of responsibility of the educational administration, which will support the accelerated progress of young people from education and training to working life.

These aim at lowering the age of starting university studies and graduation, reducing the incidence of dropping out of education and improving the throughput of education.

### **Employment of the aged**

During the reporting year, the expected retirement age of 50-year-olds was 61½ years. This expectation has been extended by nearly a year during the current decade. The average employment rate of the ageing, or the age group 55-64, was 54.6% in 2006. The Finnish rate is the fourth highest of the old EU member states. The ageing already are part of the labour force slightly more often than young people, as the employment rate of those aged less than 30 was 52.9% in 2006. The extending of careers is explained by the favourable economic trend, pension reforms, measures to develop working life and the scarcity of labour. The Finnish National Age Programme and the working life development programmes that continued its work also received international recognition in 2006 for improving the coping at work, working conditions and capacities of being employed of the ageing.

In the future, increasing the employment rates of those aged 55 or over will require additional inputs in the qualitative development of working life in line with the needs of the ageing workers. The Employment Policy Programme has co-ordinated working life development programmes implemented by the various administrations to improve the quality and productivity of workplaces. For the needs of the forthcoming Government period, programme preparation has been launched in co-operation by several Ministries and the labour market organisations in order to improve work organisations, skills, management and innovation capacities.

### **The employment of the young and the Educational and Social Guarantee for young people**

As the labour resources decline, the relative position of young people in the labour market has improved. According to job exchange statistics, the number of unemployed jobseekers during the whole Government period had gone down by an average of 20% by December 2006, whereas this figure for young people was 27%. At the end of December 2006, the number of young people who had been unemployed for an uninterrupted period of more than one year was 440. During the year, a total of 110,000 young people were unemployed jobseekers, for 80% of whom the unemployment ended within three months.

The Educational and Social Guarantee for young people that is part of the Employment Policy Programme addresses access to education, training and employment by young people. The Educational Guarantee ensures that by 2008, a minimum of 96% of young people finishing comprehensive school will start in a general upper secondary school, vocational education institutes or additional basic education schooling in the same year. The share of those continuing with their studies increased to 95.1% in 2005.

The Employment Offices will make an effort to intervene in the exclusion development of those aged less than 25 no later than after three months of unemployment relying on the means of the Social Guarantee for young people. The implementation of the Social Guarantee started in the beginning of 2005, and its coverage has gradually been increased. In 2006, 30,700 young people exceeded the limit of three months' unemployment. The implementation rate of the Social Guarantee increased to an average of 70% in 2006, as the Employment Offices agreed on measures for 21,600 young people within the first three months of unemployment.

## **5.2 The entrepreneurship policy programme and developing the operating environment of companies**

As part of its economic and industrial policies, the Government implemented a policy programme for entrepreneurship. The aim was to ensure a stable and predictable development of the companies' operating environment and to make sure that the resources available for promoting entrepreneurship in the various sectors of administration are efficiently used. The programme highlighted the significance of companies and entrepreneurs as the builders of economic growth and employment. The entrepreneurship policy programme supported the implementation of the Government's employment targets.

The policy programme for entrepreneurship focuses on practical projects to support entrepreneurship. The sub-programmes of the policy programme for entrepreneurship were implemented through individual projects. As the measures implemented within the framework of the policy programme progressed, the sub-programmes were also updated to correspond with the contents of the new projects. The progress of the sub-programmes of the policy programme were monitored in a table, an updated version of which was accessible at the policy programme's website. The sub-programmes of the policy programme for entrepreneurship in 2003-2004 included:

- 1 Entrepreneurship education and counselling
- 2 Setting up, growth and internationalisation of companies
- 3 Taxes and payments affecting enterprising activities
- 4 Entrepreneurship of regions
- 5 Regulations applicable to companies and the functioning of markets.

From the year 2005 on, the five sub-sections of the policy programme for entrepreneurship corresponded with the various phases of an enterprise's lifespan, consisting of the following:

- 1 Promoting the launching of entrepreneurial activities
- 2 Improving the preconditions for growth enterprising
- 3 Promoting the generation and ownership changes of companies
- 4 Developing business services while reinforcing skills and innovativeness
- 5 Predictability of the regulatory environment, functioning of markets and reform of public sector service production.

Significant policy measures implemented as part of the Government's entrepreneurship policy programme included improving the financing of start-ups, bringing service enterprising within the scope of funding from Finnvera Oyj, reforming business services, improving technology funding and services for SMEs, improvements in the unemployment and social security of entrepreneurs, measures relevant to entrepreneur education and sizeable tax cuts and changes in the taxation system. In addition, e-government has been promoted and bureaucracy met by companies reduced. The start-up grant reform implemented by the Labour Administration had significant impacts on the willingness to set up new enterprises during this Government term.

Other significant projects in terms of starting enterprising activities included facilitating the commercial activities of universities, a reform of the Companies Act, and promotion of entrepreneurial activities by women, residents of rural areas and immigrants. In order to support growth enterprising, the seed funding of start-up innovation companies was developed, studies were conducted on growth enterprising and a separate growth enterprise service was set up. The generation and ownership changes of companies were facilitated by giving tax breaks for generation changes. The regulatory environment and functioning of markets was promoted e.g. by mapping the regulatory environment of companies, developing the assessment of legislation's effects on

companies, drafting an overall reform of the Audit Act, making the production methods of public services more versatile, implementing a reform of the Act on Restrictions of Competition and by reforming the Debt Arrangement Act for private persons.

Within the framework of the policy programme for entrepreneurship, women's enterprising activities were promoted e.g. by means of drafting and implementing measures proposed by the relevant Working Group studying the development of women's enterprising activities. Progress has been made in many of the measures proposed by the Working Group to promote women's enterprising, and their practical implementation is under way. Some of the proposals have not been put into practice, however (e.g. regional resource centres and provincial development groups of women's enterprising).

The measures adopted for implementation within the Entrepreneurship Policy programme in 2003-2006 have to a great extent already been completed, or a clear implementation plan exists for them for the remainder of the Government term. The Policy Programme also contains projects whose completion will be postponed till the next Government term. In the administrative sector of the Ministry of Trade and Industry, a large-scale reform of public business services was launched. In addition, some of the targets set in the programme were partly not reached, for example as regards growth enterprising. The time of introduction of the tax account system was also postponed.

According to a preliminary estimate, there were as many as over 240,000 companies at the end of 2006. In the light of current information, in other words, the net increase in the number of companies during the Government term so far would be around 12,000. On the other hand, the number of growth enterprises is modest in Finland, with just over 2% of companies ending up in the path of rapid growth.

There are more than 5,000 *entrepreneurs* of a foreign nationality (excl. agriculture and forestry) in Finland, and some 5,600 *companies* owned totally or at least in half by foreign immigrants are operating in the country. In 2000-2005, the number of these entrepreneurs nearly doubled (an increase of 90%). What is significant is that the enterprising activity rate of foreigners already exceeded that of the Finnish population towards the end of the 1990's.

The share of companies owned (totally or at least in half) by foreign immigrants is some 2.4% of the total company base in the country. The companies employ approx. 17,000 people, and their turnover reaches some EUR 3 billion. The greatest number of companies whose owners are of a foreign background are found in the sector of trade and a multitude of services.

In 2005, there was a record-breaking figure of 72,500 woman entrepreneurs active in Finland (excl. primary production). The enterprising activity rate of women, or the share of entrepreneurs of those who are employed, is approx. 6.3%. The corresponding share for men is 11.8%. Finland has the highest share of woman entrepreneurs in EU member states<sup>2</sup>. The share of work involving services and sales is great in the professions of woman entrepreneurs in Finland. Examined by sector, the share of woman entrepreneurs is great in Finland in personal services and property maintenance services. The share of woman entrepreneurs with a third-level education in Finland is slightly higher than the EU average.

The Finnish woman entrepreneurs are relatively old, as the share of women entrepreneurs aged less than 50 is lower than the EU average. The ageing situation of entrepreneurs is similar when

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<sup>2</sup> Labour force report of Eurostat (2004) (excl. agriculture).

accounting for all entrepreneurs. This is why a growing need for generation changes will be expected in companies in the next few years. Considering the great share of family companies in those employed by enterprising activities<sup>3</sup> the impacts on employment can be considerable, unless the success of generation changes is not adequately ensured by various measures.

## **6 LABOUR AND IMMIGRATION POLICY AND PROMOTING THE FUNCTIONING OF THE LABOUR MARKET**

### **6.1 Employment services**

#### **6.1.1 Scope of the employment services**

The purpose of employment services is to promote employment of labour as effectively and appropriately as possible by providing an employer with an employee who is the most suitable for the job and the best available and an employee with work that he/she is able to do best. (Act on the Public Employment Service 1295/2002, Chapter 4 Section 1).

During the year 2006, the Employment Offices had 746,500 persons registered as jobseekers in their books, down about 36,500 from the previous year. Approximately one half of these were looking for jobs as their fixed-term employment contract had come to an end. The number of registered jobseekers has gone down continuously since 1995. In the same period, the use of the on-line employment services has expanded considerably. Of the jobseekers, 530,600 were unemployed and 59,500 on an unemployment pension. In 2005, 557,000 were unemployed and 59,500 on unemployment pensions. Slightly more than one half of the unemployed jobseekers were women, and approximately 20% were under the age of 25. 587,200 jobseekers found jobs in the open labour market.

In 2006, a total of 885,200 periods of unemployment came to an end for various reasons. Each individual person can only be included in this figure once. Of the periods of unemployment, 55% (485,000) ended with employment in the open labour market, 18% (160,400) with a placement in a labour political measure (incl. labour force training), 10.5% left the labour force (incl. independent education and training as well as unemployment pensions) and for 16.5 %, the reason is not known. More than one half (52%) of the periods of unemployment ended before they had lasted for one month.

The total number of the long-term unemployed who had been jobless for a minimum of 12 months without interruption was 126,000 in 2006, or 24% of the unemployed. The number of the long-term unemployed was approx. 11,000 people less than in 2005. 45% of the long-term unemployed were women. During the year, the unemployment of 55,600 jobseekers became long-term unemployment, or had lasted for a minimum of 12 months. In the same period, the long-term unemployment of 65,400 jobseekers ended. Of these long-term unemployed, 12% found jobs in the open labour market and a total of 33% were placed in labour political measures or started labour force training. The remaining 54% ended up outside the labour force (incl. unemployment pensions), or the reason for the ending of the unemployment is not known. During the year, 11,100 long-term unemployed went on unemployment pensions, and 15,000 unemployment pensions ended.

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<sup>3</sup> According to the Ministry of Trade and Industry's report on family companies (16/2005), family companies employ approx. one half of the employed in the private sector.

The number of new vacancies registered with the Employment Offices was on average 38,800 monthly. In 2006, the Employment Offices had a total of 488,500 vacancies, or 74,500 more than the year before. Of these, approx. 79% were private sector (387,000) and 21% (101,500) public sector jobs. Nearly 5% of the vacancies were provision-based or involved enterprising. Examined by the main sectors, the greatest number of vacancies were found in property maintenance and business services, which accounted for 162,900 or 33% of all vacancies. The number of vacancies in social and personal services (public administration, education and training, social and health services) was 110,500 (23%), that in the industries 50,200 (10%), other social and personal services 42,300 (9%) and trade 39,000 (8%).

44% of the vacancies were permanent, or at least one year in duration. Around 29% of the jobs were temporary in nature, lasting for less than three months. Consequently, the share of fixed-term jobs that lasted for less than a year was 56%. Of the vacancies, 442,400 or 91% were filled. 40% of these (178,800) were filled by a candidate found by the Employment Office. Excluding jobs with an application period and provision-based jobs, the average period of filling a vacancy was 21 days, and 91% were filled by the starting date agreed with the employer. For 53% of the jobs, a starting date had been agreed.

### **6.1.2 The Employment Offices' employment services process**

#### **Services Centres**

In order to lower long-term unemployment and to increase the employment rate, a structural reform of the public employment services was implemented in 2004-2006, consisting of two sub-projects. These included 1) setting up Labour Force Services Centres and 2) a reform of the Employment Offices' customer service model. The employment exchange services and services for those difficult to employ were separated by concentrating the services and resources for those most difficult to employ in Labour Force Services Centres, 39 of which were established in 2004-2006. These Services Centres offer special services primarily for persons who have been unemployed for extended periods and whose employment is hindered by limitations in their ability to work and function. In 2006, some 600 full-time employees of the Labour Administration, municipalities and the Social Insurance Institution were working in the Services Centres. In addition, they had some 100 part-time municipal employees. The Services Centres had an average of 19,900 jobseeker customers in 2006, of whom 12,100 were unemployed. In the State Budget for 2006, EUR 16.1 million was reserved for the operating expenditure of the Services Centres, of which EUR 15.6 million were used. Services complementing the public employment services were purchased for the value of EUR 5.39 million.

#### **Jobseeking centres**

A project to reform the Employment Offices' service model for individual customers was completed in the reporting year. Its implementation was ensured by such as guidance visits paid to all project offices. The objective of these visits was to make sure that the reformed service model would be implemented in customer service following the national policies.

By the end of the year, 45 Jobseeking centres were operating in the Employment Offices. The Jobseeking centre is an elemental part of the Employment Office's service model. It supports the early phase of the jobseeking and guides the jobseekers in their independent search for jobs. The objective of the Jobseeking Centres is to act as a channel for distributing labour market information and finding labour force, and to coach jobseeker customers in their independent search for work,

this way reinforcing the services directed at the open labour market and their productivity. The Jobseeking centre is mainly used by unemployed jobseekers, but also those already at work and those applying for education and training can profit from its services. The continuous, close-knit co-operation of the Jobseeking centre with employers in such as recruitment events promotes the functioning of the labour market. The customer evaluations of the Jobseeking centres' work vary between good and extremely good.

### Profiling and referrals

In the reporting year, the jobseeker profiling model was developed to support labour force advisors. The Labour Institute of Economic Research developed the profiling model using the experiences of employment services in different countries as well as data collected on unemployed jobseekers in the information system of the Employment Offices. The purpose of the statistical profiling of the unemployed was to predict right at the beginning of a period of unemployment the jobseeker's risk of being affected by long-term unemployment. The profiling supports an intensive initial phase in the provision of employment services and works as a tool for the labour force advisor when deciding which of the unemployed need particular support in their jobseeking. The pilot experiment of profiling was launched in December, and the method will be gradually introduced by March 2007.

In connection with the jobseeking interview, the jobseeker's needs for services are assessed and recorded in the Employment Office's information system. The purpose of this procedure is to speed up the placement of jobseekers in the open labour market, and to help the Employment Offices to perceive the need for services of their clientele and to plan the services and operating methods. In 2006, 34% of the jobseekers were considered in need of services that develop working life skills, and 26% were determined to be in need of informative services. The share of jobseekers needing to develop their working life skills went up and the share of those needing informative services down compared to the year before. The other categories assessed by their need for services are considerably smaller. In the reporting year, inputs were made in improving the effectiveness of the employment services by developing the referral to work practice and increasing the number of referrals. The number of referrals made was 41,500. They contributed to filling 39,800 vacancies, or 9% of the vacancies filled.

### Jobseeking plans

A jobseeking plan is prepared in co-operation between the jobseeker and an Employment Office official. This plan records the jobseeker's need for services and includes an agreement on services and measures promoting employment. The jobseeking plan shall be drawn up with an unemployed jobseeker as soon as possible after he or she becomes unemployed.

A total of 382,600 jobseeking related plans were prepared in the reporting year. This figure also includes employment programmes associated with change security. 176,200 individual jobseeking plans were prepared, which exceeds the previous year's figures by 85,000. Their share of all plans is 46%. An unemployed jobseeker, who together with the Employment Office official has prepared an individual plan, has the duty to implement the measures aiming at employment listed in the plan in order to maintain his or her right to employment security. In case a person aged less than 25 had been continuously unemployed for more than 6 months, a jobseeking plan was prepared for 93% of these unemployed young persons.

## Jobseeking plans for jobseekers

	nr in 2006	%	nr in 2005	%	nr in 2004	%
Jobseeking plans	124 035	33	121 317	47	128 399	56
Integration plans	8 043	2	5 523	2	5 292	2
Activation plans	38 899	10	27 052	10	23 576	10
Individual jobseeking plans	176 210	46	91 035	35	64 570	28
Updated individual jobseeking plans	20 390	5	8 999	3	6 699	3
Employment programmes	15 040	4	6 856	3	-	-
Total of plans prepared	382 617	100	260 782	100	228 536	100

In the reporting year, policies for renewing jobseeking plans were drafted. In line with a resolution adopted by the Parliament, the aim of this is to harmonise the terminology of the plans and make the jobseeking plan into a concrete action plan supporting the jobseeker's search for work. The follow-up of the measures agreed on in the plan will also be improved. Towards the end of the year, an evaluation of the quality of jobseeking plans started in the Employment and Economic Development Centres and Employment Offices, as in a number of connections, attention had been focused on deficiencies discovered in the plans.

## Jobseeking coaching

Coaching in jobseeking is an employment service offered to individual customers mainly as a group service. Its purpose is to impart to the jobseekers information on the labour market and employment situation in their commuting zone. They can get familiar with the recruitment practices of employers and map their own vocational competence and strengths during the coaching. They can also receive help in practical steps needed to apply for a suitable job, and evaluate and specify their jobseeking plans.

Around 47,900 jobseekers started in jobseeking coaching provided as a group service in the reporting year, 40,900 of whom were unemployed. 19,900 unemployed jobseekers started in jobseeking coaching implemented as a group service, and 21,000 unemployed jobseekers took part in coaching as part of labour force training. The average duration of jobseeking coaching (26 days) remained unchanged since the year before.

## On-line services and Työlinja helpline - the Labour Administration's national contact centre

The Labour Administration is actively developing on-line services for both employers and those searching for jobs, education and training. In 2006, the vacancies service of Labour Administration's website showed the information of 382,200 jobs. This was 83% of all vacancies registered with the Employment Offices.

The employers can register a vacancy with the Employment Office through the Internet either using an open on-line form or one requiring authentication. In 2006, more than 180,000 vacancies were registered on-line, or nearly 40% of all jobs registered with the Employment Offices. If an employer concludes an agreement concerning on-line customership with an Employment Office, they receive a user ID and can save a vacancy directly to the Employment Office's database. The employer can also change their advertisement or remove it using the on-line service. The on-line customers reported 108,443 vacancies through the Internet. The Cities of Helsinki, Espoo and Vantaa have a direct transmission of job advertisements in place; in other words, vacancies in these cities are automatically copied from the systems of the Cities to the information system of the Employment Office and from there to the Internet.

Jobseekers can receive notification of vacancies of interest to them directly by e-mail. In 2006, an

average of 11,000 subscriptions to this service were valid simultaneously, and some 27.7 million messages concerning vacancies were sent to jobseekers by e-mail. The mol.fi job search facility was developed in the reporting year to allow the reception of data by a mobile phone. This service was introduced in February 2007.

Jobseekers can also register with an Employment Office on line. This service can be used both by strong authentication or without authentication, in which case the jobseeker's identification is ascertained in the jobseeking interview. In either case, the jobseeker's information is electronically transmitted to the Employment Office's customer service system. Those applying for unemployment security need to register with the Employment Office in person. In 2006, 44,200 new jobseekers registered on line, which is 72% of all new jobseekers. The use of the on-line service became more wide-spread during the year, and in the autumn the utilisation rate was as high as 80%.

In early December in the reporting year, a jobseeker's e-service package titled "My search" (Oma työhaku) based on strong authentication was introduced. In addition to registering as jobseekers, the citizens can use this service to look up their jobseeking data in the Employment Office's customer service system, update their basic information and e.g. end their search. During the first three weeks of its availability in December 2006, this service was used more than 4,200 times.

All those looking for jobs can post their own jobseeking ads in CV-netti (CV net). This service is based on strong authentication. Towards the end of the year, registered users of the services numbered around 18,000. The CV-vahti service designed for employers was introduced in summer 2006, with less than 300 confirmed subscriptions by the end of the year. The CV-vahti service sent out a total of approx. 700 daily e-mail messages concerning candidates matching the employer's criteria.

It is also possible to apply on-line for labour force training. This service was introduced in February 2004, and a total of 149,400 applications have already been sent through it (by 21 February 2007). This services has been based on strong authentication. In December 2006, the possibility of also applying for training without strong authentication was added to the service, in which case the application will only be in force after a personal visit to the Employment Office. A total of 60,900 applications were received through this service in 2006. Roughly one third of all applications for labour force training were received on line.

The labour administration's national contact centre (Työlinja) provides jobseekers with information about vacancies, labour market training and employment office services. Jobseekers can use the helpline to report changes in their job search information. There are separate service numbers for employers, work permit counselling, unemployment security and change security advice. The Työlinja service also updates the YLE teletext pages that contain information on such as vacancies and available labour market training. The physical location of Työlinja is in Mikkeli, but the service is also managed in seven Employment Offices. In 2006 Työlinja received

**Table 2. A summary of the employment services customers and central activities during the year (A), the average employment situation (B) and Labour Administration resources at the end of the year (C) in 1998-2006**

	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>A Activities during the year</b>									
Total of jobseeker customers <sup>1</sup>	921 700	891 000	849 300	816 500	810 400	808 800	804 600	783 000	746 500
- Unemployed (excl. laid off)	705 600	667 500	628 600	593 500	578 600	572 500	571 000	557 000	530 600
- On unemployment pensions	55 400	59 100	61 600	65 600	65 600	64 500	62 400	59 400	59 500
- Other jobseekers	160 700	164 400	159 100	157 400	166 200	171 800	171 200	166 600	156 400
Total vacancies	254 700	264 600	302 000	318 900	327 600	338 300	344 800	414 000	488 500
- Vacancies filled	233 200	244 200	280 800	296 800	303 700	312 000	315 700	376 200	442 400
- Vacancies filled with a candidate from E Office	135 100	136 600	149 500	154 000	153 300	153 000	141 300	160 900	178 800
Average time of filling the vacancies (days)	20	18	19	20	23	23	23	23	24
Those starting in labour force training during the year	111 100	119 200	89 100	76 800	76 200	75 500	79 500	74 200	77 600
Those starting in subsidised employment during the year	105 700	88 900	78 400	68 600	67 900	65 000	63 900	60 600	67 300
<b>B Average situation</b>									
Total of jobseeker customers	610 000	586 300	551 500	525 600	523 500	523 400	524 300	505 200	476 700
- Unemployed jobseekers	372 400	348 100	321 100	302 200	294 000	288 800	288 400	275 300	249 500
- On unemployment pensions	44 900	48 000	50 900	52 700	54 700	53 000	50 700	47 600	45 800
- Other jobseekers	189 700	190 200	179 500	170 700	174 800	181 600	185 200	182 300	181 400
Share of unemployed jobseekers in the labour force, %	14,7	13,9	12,6	11,7	11,3	11,1	11,1	10,6	9,5
Unemployed according to the Labour Force Survey	285 000	261 000	253 000	238 000	237 000	235 000	229 000	220 000	204 000
Unemployment rate, %	11,4	10,2	9,8	9,1	9,1	9,0	8,8	8,4	7,7
Vacancies monthly	35 000	34 500	39 500	43 400	45 800	48 800	48 800	59 900	70 100
- Of these new vacancies monthly	19 900	20 900	24 100	25 300	26 000	26 600	27 400	32 900	38 800
In labour force training	41 400	38 100	30 900	26 100	26 300	29 900	30 700	29 200	29 400
In subsidised employment	57 000	51 500	43 000	38 400	38 300	39 800	39 800	38 500	38 100
<b>C Resources</b>									
Total number of staff <sup>2</sup>	3 810	4 033	3 940	3 874	4 023	4 089	4 181	4 295	4 305
- Ministry of Labour	323	337	341	346	352	340	337	334	337
- Labour Districts/Labour Depts of Empl. and ED Centres	501	540	441	385	395	413	410	437	464
- Employment Offices	2 919	3 063	3 070 <sup>4</sup>	3 069	3 200	3 256	3 351	3 433	3 422
- customer service staff	2 361	2 502	2 482	2 503	2 602	2 644	2 725	2 817	2 797
- Labour Institute	7	9	9	8	7	7	10	10	10
- Reception Centres	60	84	79	66	69	75	73	81	72

1. Jobseekers having registered with the Employment Office: division between the unemployed, those on unemployment pensions and others is not accurate,

as one person can be classified in several groups during the year.

2. Full-time staff in an employment relationship at the end of the year; excluding those hired on employment funds, numbering 560 at the end of 2006

246 000 calls. Työlinja also handles feedback from online services and responds to e-mails from customers. In 2006, Työlinja processed 45,700 e-mail messages. Majority of the e-mails concerned vacancies reported through the Internet to be registered by the employment services.

### **Regional mobility and discretionary mobility benefits**

Discretionary mobility benefits facilitate the regional mobility of labour force and support applying for jobs and going to work outside one's own commuting zone. Discretionary mobility benefits that can be granted to jobseekers include 1) reimbursements of travel expenses 2) labour market support paid as travel expenses and 3) compensation for removal costs introduced in the beginning of the year 2007.

For a jobseeker who is unemployed or threatened by unemployment, compensation for travel expenses can be granted as a mobility benefit for travel within Finland but outside the commuting zone of the municipality of residence, which the jobseeker undertakes in order to get acquainted with a workplace, conclude an employment relationship or to move to a new job. Travel expense reimbursements were in the reporting year granted to 15,200 people, or approx. 500 more than the year before. The highest numbers of mobility benefit recipients were found in the areas of the Employment and Economic Development Centres of Northern Ostrobothnia and Lapland, and the lowest in those of Häme and Satakunta. When examined by professional group, the greatest number of mobility benefit recipients was recorded in the area of unclassified work, and in the fields of technology, natural sciences and social sciences. The group of unclassified work includes such as those recently graduated, school pupils and students, for whom benefits are granted for summer jobs during the holiday times of educational institutes. More than one half of the mobility benefits were granted to jobseekers under the age of 30.

The mobility benefit system was reformed since 1 January 2007 by including in it a discretionary removal assistance of up to EUR 700. The removal assistance compensates for the costs arising from moving the household goods. The compensation for removal costs can be granted to a jobseeker who moves outside his or her own commuting zone for work, who has been dismissed for financial or production-related reasons and who is entitled to an employment programme under change security, or to a jobseeker who is entitled to labour market support.

Labour market support can be paid as a travel subsidy for a person who takes on a full-time job outside his or her own commuting zone. The travel subsidy is intended for unemployed persons who would not otherwise be able to accept a job outside their commuting zone for financial reasons. In 2006, a travel subsidy was granted to some 1,100 persons. The take-up of the travel subsidy increased from the previous year. Subsidies could also be granted for those moving to work outside the commuting zone on a pay subsidy, in case they have been unemployed for six months.

In 2006, it was only possible to receive the travel subsidy for a maximum of two months from the beginning of an employment relationship lasting for at least six months. The conditions for granting the subsidy were changed from 1 August 2006 by shortening the minimum duration of the employment relationship from the earlier six months to two months. In order to facilitate regional mobility, the preconditions for granting the travel subsidy were again changed from 1 January 2007, so that the subsidy can now be paid for no more than four months after the starting of the employment relationship, however for no longer than the duration of the employment relationship.

### **6.1.3 EURES employment services for jobseekers and employers**

The EURES (European Employment Services) service funded by the European Commission is co-ordinated in Finland by the Ministry of Labour. The EURES network of public labour administrations covers all EU and EEA countries. EURES advises jobseekers who wish to work abroad and employers who wish to hire foreign employees. The EURES advisors form the core of the network and number nearly 700 in the EU and EEA countries. A total of 23 advisors work in the largest Employment Offices in Finland. The total funding for these activities amounted to EUR 533,400 in 2006, of which the Ministry of Labour's share was EUR 339,900 and that of Torniojoki Valley cross-border project EUR 193,500. This project aims at facilitating the mobility of labour in this cross-border area.

The Commission designated the year 2006 the European Year of Workers' Mobility, the aim of which was to inform the citizens about their possibilities of working in another member state. The Finnish EURES services organised a number of events relevant to mobility during the theme year. These included job fairs that were organised in September simultaneously at more than 300 locations in various parts of Europe. In Finland, these fairs took place e.g. in Helsinki, Kouvola, Jyväskylä and Turku. A fair was always organised in Haparanda in co-operation with the Swedish authorities.

More than one thousand jobs were provided for Finnish jobseekers through special recruitment projects, mainly in the tourism and hotel and restaurant sectors. The EURES advisors were contacted nearly 100,000 times by jobseekers and employers during the reporting year. The expiry of the Transition Period Act and recruitment problems in the metal industry in particular increased the interest of Finnish employers in the EURES services. During the year 2006, the EURES advisors together with Finnish employers took actively part in jobs fairs in various parts of Europe, in particular Poland and Slovakia, to provide information about Finland as a country to work in and to mediate workers for the Finnish sectors suffering from a shortage of labour.

### **6.1.4 Employer services and recruitment problems**

#### **Safeguarding the availability of skilled labour and developing contacts with employers**

In 2006, a project was launched to enhance the role of the employer services as part of the service package offered by the Employment Office. In order to ensure the availability of skilled labour, measures will be initiated that will e.g. help to make the selection of services offered by the Employment Offices to employers more clear-cut, enhance their link with the services for jobseekers and reinforce the goal-setting and co-ordination of the employer service.

Goal-oriented visits to employers have been established as part of the employer contacts of the Employment Offices. They aim at a more detailed mapping of the employer customers' needs of services, increasing awareness of the Employment Office's services and receiving new recruitment assignments. In the reporting year, the Employment Offices visited employers some 21,000 times, and 8,800 of these visits lead to an assignment, either in terms of reporting a vacancy or another assignment entrusted to the Employment Office. An anticipatory survey concerning labour and training needs was conducted in connection with nearly 3,300 employer visits. These efforts to map the labour and training needs and other anticipatory activities yield the Employment Offices information on the employers' recruitment needs in the near future.

## **Recruitment of labour force and recruitment problems**

The Ministry of Labour annually contracts Statistics Finland to conduct telephone survey with employers concerning the recruitment of labour force and recruitment problems. Of all places of business that filled a vacancy in 2006, 43% had also used the Employment Office as a channel for finding labour when looking for workers outside the place of business.

Recruitment problems and the labour shortage became slightly more wide-spread during 2006, in which period some 32% of places of business that looked for labour force experienced problems with the recruitment, and 12% totally or in part failed to find the labour force their sought. The Employment Offices had an average of 2,500 vacancies monthly in 2006 that involved recruitment problems. The number of vacancies presenting problems went down by some 100 compared to the year before.

### **6.1.5 Payable special services for employers**

Payable special services (personnel hire and Personnel Solutions) for employer customers complement the range of employer services offered by the Employment Offices. Pursuant to basis of payment regulations, these are priced on commercial terms. Their production must be cost-effective and profitable.

Pursuant to Chapter 4, Section 6.1 of the Act on the Public Employment Service (1295/2002), Personnel Solutions based on individual assignments refer to: 1) search and interviewing services of candidates relevant to finding employees and evaluating their suitability 2) re-placement training associated with personnel cutbacks and 3) services relevant to work community development. By decision of the Ministry of Labour, Personnel Services were offered by 14 Employment Offices in 2006. In the reporting year, 1,200 assignments were completed, the services were used by 550 companies and the profits were approx. EUR 1,876,000. The companies were very happy with the standard of the services.

Personnel hire refers to organising temporary work as an Employment Office service, so that the Employment Office as the employer agrees on the use of a jobseeker having registered for personnel hire against payment in temporary work under the management and supervision of another employer (the customer company). The aim is to support the employment of jobseekers and respond to the companies' demand for temporary labour, thus improving the functioning of the labour market. By decision of the Ministry of Labour, six Employment Offices engaged in personnel hire. In the reporting year, some 1,900 employer were hired. The services were used by approx. 500 companies. The profits for the year 2006 were approx. EUR 11,435,000. Approx. 15% of the employees hired received a permanent job as a consequence of the hired labour relationship. The average length of a hired labour employment relationship was 90 days.

The needs to develop the payable special services were studied during the reporting year. The Ministry of Labour appointed an officer charged with drafting and putting forward proposals concerning the operational and administrative needs to develop payable special services.

### **6.1.6 Implementation of the change security operating model**

The operating model of re-employment and change security was introduced as part of the incomes policy settlement in 2005. The change security operating model aims at facilitating the re-employment of employees dismissed on production-related and financial grounds by making the co-

operation between the employers, employees and Labour Administration more close-knit in cases of redundancies and by offering the dismissed employees a versatile range of public labour force services as early as possible during the period of notice.

The change security includes employment programmes prepared together with Employment Offices and increased unemployment security (employment programme additional benefit) for persons taking part in measures agreed in the employment programme. For the employer, change security means more responsibility for information in situations involving change security, and close co-operation with the employment office in terms of planning the services offered in such cases. In 2006, employment plans were drawn up for 15,040 persons within the scope of change security. The greatest numbers of employment programmes were prepared in Uusimaa (2,880), Häme (1,718) and Northern Ostrobothnia (1,598). The share of women in the unemployed for whom an employment programme was prepared was 53%.

In addition to active support for jobseeking, labour force training also plays a central role in promoting the employment of persons within the scope of change security. In 2006, a total of 313,400 student working days of change security training were purchased. A total of 4,605 people were targeted by the change security training. Some EUR 10,154,000 was spent on implementing the training. A total of 8,714 people took part in information events organised by the Labour Administration, payable re-employment training was organised in 68 companies and joint purchase training in 13 companies.

During the year, dismissals involving more than 10 persons took place in 392 companies, in which 11,036 people were made redundant for production-related and financial reasons. The greatest numbers of dismissed employees were recorded in Uusimaa (2,590), Southwest Finland (1,508), Southeast Finland (1,346) and Northern Ostrobothnia (888). Examined by the sector, the greatest number of people were made redundant in the manufacturing of pulp, paper and paper products (2,366), manufacturing of foodstuffs and beverages (994), manufacturing of rubber and plastic products (949), manufacturing of electrical machinery and equipment (912), manufacturing of metal products (724) and retailing (671).

A follow-up study of the change security operating model was launched in the reporting year, which will help to evaluate the implementation of and possible needs to develop the change security. This study will be completed in the summer 2007.

## **6.2 Vocational development services**

The purpose of vocational development services is to improve the skills and motivation of the Labour Administration's customers and to facilitate their inclusion in the labour market by offering labour force training, vocational guidance and career planning services, vocational rehabilitation services as well as information and advice on working life, education and training. The aim of the vocational development services is to influence in particular the availability of skilled labour and prevention of exclusion.

### **6.2.1 Labour political adult education**

Labour political adult education is organised pursuant to the Act on the Public Employment Service (1295/2002) and Government Decree (1344/2002). The objective is to improve the vocational skills and possibilities of finding or keeping a job of the adult population and to promote the availability of skilled labour. The training mainly encompasses vocational training for adults, which the Labour

Administration purchases from adult education centres, other vocational training institutes, universities and other suppliers of education and training services. The Labour Administration determines the need for training, takes care of competitive bidding for procurements, purchases the training and selects the students. The majority of the training is purchased by the Labour Departments of the Employment and Economic Development Centres. The Ministry of Labour prepares regular reports on the recruitment problems of labour and labour shortages. The results of these reports are submitted to the Labour Departments of the Employment and Economic Development Centres for use in the planning of labour force training. Similar reports prepared by other bodies, such as the employers' organisations, are also utilised in the planning.

The primary goal of *vocational labour force training* is to improve the participants' possibilities of staying on at work or returning to the labour market. The training is an attempt both to respond to the challenges of finding skilled labour and to fight structural unemployment. The creation of new jobs is promoted by various types of entrepreneur training programmes. Joint purchase training funded jointly with the employers and tailored to the needs of companies aims at responding to recruitment problems and preventing unemployment in situations of structural change. The labour force training mostly concerns continued or further training for vocational qualifications previously acquired either by study or at work. The alternatives of vocational labour force training extend from basic vocational studies all the way to studies preparing for or complementing a university degree. Majority of the training leads to a vocational diploma or part of a diploma.

The primary goal of *preparatory labour force training* is not immediate employment, but it is used to guide jobseekers to select suitable vocational training alternatives, improve the employment capacities of such groups as the long-term unemployed, ageing, immigrants and disabled and to prevent exclusion. The preparatory labour force training is divided into four main areas. 1) Immigrant training mainly involves statutory integration training, which is imparted to immigrants having moved to Finland with the aim of promoting their integration in the Finnish society. 2) Orientation training is intended for persons who are unsure of their vocational orientation and/or whose capacities for applying for a place in vocational training and employment in the open labour market remain poor. 3) Linguistic training is intended for persons who have adequate vocational capacities for employment, but whose inclusion in the labour market can be promoted by acquiring a proficiency in a foreign language e. g. for being posted abroad. 4) Training in basic computer skills (e.g. Computer Driving License training) is intended for people lacking general IT skills. In 2006, 43% of the allocations spent on preparatory labour force training were used on immigrant training, 46% on orientation training, 10% on basic computer skills training and 1% on linguistic training.

Labour force training always aims at personalising the training. This is ensured by imposing in the invitations to tender sent out to the training providers a duty to prepare personal study plans for the students in line with the recommendations of the Educational Administration. In this connection, skills learnt previously independently of the way they were acquired should be recognised as far as this is possible without a demonstration examination. In 2006, one new guideline on labour political adult education was issued. This guideline brought together all guidelines that were previously in force as well as the Ministry of Labour's letters that were guidelines in their nature concerning the procurement and arrangement of labour political adult education.

### **The volume and targeting of training**

The essential appropriations for implementing the labour policy are collected under a single item in the State Budget (34.06.51). Within the scope of this item, the Employment and Economic

Development Centres have the possibility of targeting the appropriations allocated to them at various measures according to the needs of their areas. The objective of this was to make the use of appropriations more flexible and efficient. In their plans for using the appropriations, the Employment and Economic Development Centres allocated a total of EUR 201,165,000 to labour force training purchases. The share of vocational training was EUR 152,333,000 and that of preparatory labour force training EUR 48,831,000. For students' social benefits, EUR 130,804,000 were made available. The average price of vocational labour force training purchased in 2006 was EUR 36.1/student working day. However, the price of vocational labour force training varies significantly depending on the professional field. At its most expensive, the training cost nearly EUR 80/student day (operator training for crane and earth construction machinery). At its least expensive, the training cost less than EUR 20/student day (e.g. training in the sector of trade). Similarly, the average price of preparatory labour force training was EUR 26.8/student day. EUR 15,100,000 were reserved for the implementation of the employment and change security operating model under the incomes policy agreement concluded for 2005-2007. An estimated EUR 10 million of this appropriation was used to procure less than 313,000 student days.

In the budget for 2006, it was estimated that an average of 27,330 people would take part in labour political adult education every month (excluding ESF funding). The final actual figure was 26,300 people. In order to reduce long-term unemployment and prevent exclusion, labour force training has also been targeted at those who have been unemployed for long periods, the disabled and the aged. See Table 3 for background information on those having started training. In 2006, a total of 69,354 people started in nationally funded labour force training (in 2005, a total of 64,280). The number of those who started grew by some 5,100 people, or by 8% from the year before.

There were no significant changes in the structure of those starting in labour force training. Over the longer term, however, there has been a reasonably significant change in their structure. The share of those who had been unemployed, for example, has started increasing in the last few years. There has been a corresponding downwards swing in the number of those who were at work, even if their number grew somewhat from 2005. On the other hand, the shares of those who were outside the labour force and threatened by unemployment have been increasing for some time. The trend marked by a decline in the share of the long-term unemployed ended in 2006, and their share started increasing slightly. The share of the disabled, too, continued to increase slightly. Similarly, the share of those aged over 50 grew somewhat. The share of foreigners in those who started in training has been growing steadily in recent years. Of those who started in 1999, 9.5% were foreigners. In 2006, the corresponding share was 18.3% (17.3% in 2005). A total of 53% of those having started in nationally funded training took part in vocational and 47% in non-vocational training, or training preparing them for working life.

**Table 3. The labour market position of those who started in nationally funded labour political adult education in 2005-2006 before training**  
(excluding those included in group notifications and training funded from ESF measures)

Those who started in training	2005		2006	
	Persons	%	Persons	%
Unemployed	49,374	76.8	53,620	77.3
Laid off	1,346	2.1	706	1.0
Threatened by unemployment	3,393	5.3	3,829	5.5
At work	2,658	4.1	2,720	3.9
Outside labour force	5,322	8.3	6,330	9.1
Not known	2,187	3.4	2,149	3.1
Total of those having started in training	64,280	100.0	69,354	100.0
Women	33,380	51.9	36,613	52.8
Long-term unemployed	5,707	8.9	6,499	9.4
Disabled	5,718	8.9	6,599	9.5
Aged over 50	8,954	13.9	10,781	15.5
Foreigners (incl. ESF)	12,871	17.3	14,186	18.3

The share of industrial professions in all those having started vocational training was 31%. The share of professions in the field of administration and office work was 16%, that of health care and social work as well as the construction industry was 12%. Measured by the volume of appropriations spent on purchasing training, the most significant professional groups in labour force training were engineering and construction metal work (the most central professions within this group were welder and machine tool operator), health care and nursing (the most central professions were practical nurse, instrument technician, nurse's aid and departmental secretary), housing construction (the most central professions were carpenter and construction worker) and road transports (the most central professions were articulated vehicle operator and bus driver). The share of these four professional groups in the appropriations used to purchase vocational labour force training was slightly over 48% in 2006. Of these fields, the effectiveness in case of engineering and construction metal work, health care and nursing and road transport was clearly better than the average.

### **Joint purchase training**

The number of all student working days purchased in 2006 was 6.6 million (Table 4) (the final actual figures not available). The number of days purchased increased by approx. 600,000 from the year before. The number of student working days procured as joint purchases with employers went up slightly.

**Table 4. Number of student working days purchased in 1997-2006 by procurement type, 1,000 student working days (excluding ESF training)**

Year	Labour Admin.		joint purchase		total swd	%
	swd	%	swd	%		
1997	7,723	94.9	418	5.1	8,141	100
1998	6,416	92.9	491	7.1	6,907	100
1999	6,112	92.7	478	7.3	6,590	100
2000	5,580	92.4	459	7.6	6,039	100
2001	4,729	89.3	564	10.7	5,293	100
2002	5,060	90.8	511	9.2	5,571	100
2003	5,932	92.7	468	7.3	6,400	100
2004	6,643	94.8	363	5.2	7,006	100
2005	5,655	94.2	349	5.8	6,004	100
2006	6,245	94.1	389	5.9	6,633	100

### **Training for labour force at work**

Training for labour force at work can also be arranged as labour force training, in case there is a labour political justification for this. Training has been used in development projects aiming to safeguard the possibilities of staying at work for ageing labour force. The staff of companies has also been trained in projects to promote rotation. Exchange training refers to a training model where one or several employees of the workplace go to training, while an unemployed person is trained to perform the same or different tasks in their place at the workplace. Labour force training has also been arranged for the staff as an alternative for a lay-off, or for example when new technologies have been introduced. The labour force training can also be linked to larger enterprise development projects.

### **Student and customer feedback and development of effectiveness**

The share of those who felt that vocational training was good or excellent increased from the 71.0% of the year before to 71.8%. 78.6% of those who replied felt that preparatory labour force training was good or excellent (77.8% in 2005). In the State Budget for 2006, the effectiveness target of vocational labour force training had been set at a maximum of 38% of those having received training remaining unemployed three months after the training. This target was reached, as only 35.0% of those who completed vocational labour force training were unemployed three months after the training. The results improved for the third year running (in 2003: 43.9% were unemployed). The share of the unemployed was 25.7% in health care and nursing, 27.5% in road transports, 29.0% in engineering and construction metal work and 39.9% in housing construction. (For more information on employment after training, please see Chapter 6.9).

### **6.2.2 Vocational guidance and career planning services**

Vocational guidance and career planning services help to answer questions relevant to the choice of vocation, vocational development and finding employment. Nearly 31,500 customer guidance processes were completed in the Employment Offices in 2006, in addition to which more than 5,300 customers were served by updating their guidance. The Labour Force Services Centres offered guidance services to more than 800 customers. The number of customers remained almost unchanged from the 2005 levels, despite the reduction in the psychologist resources (224 man-years).

In the customer structure of personal guidance, the emphasis was increasingly on adults aged over 25 (65%). This is particularly true for ageing customers aged over 45, whose share (19.9%) went up the most. The share of young people without vocational skills (17.7%) - excluding students - went up slightly, but the share of comprehensive school and general upper secondary school students (10.2%) continued to decline slightly. The share of the unemployed (46.2%) went down slightly, and the share of those at work (20.7%) went up correspondingly. The share of disabled customers (18.2%) was down from the year before, but one out of four guidance customers continued to have medical restrictions that needed to be taken into account when preparing plans.

Over 69,000 guidance interviews were held, or an average of 2.3 for each individual customer. Various measures, such as work try-outs and medical examinations (a total of 7,800) were used to support the guidance clearly more often than in 2005. The number of customer case conferences with various parties (18,300) and opinions issued on customers (1,100) remained nearly unchanged. Less than one half (42%) of the customers prepared a training plan for themselves supported by the guidance services, and nearly one quarter (23%) ended up with a plan associated with work. Similarly, a plan improving their labour market position was prepared for less than a quarter (23%). For the remainder, the guidance concluded with applying for a pension (3.7%), dropping out (5.4%) or other reason (2.8%). The number of users of the AVO career guidance programme (55,700) increased by 20% compared to the year before. During the reporting year, a report was also prepared on the functioning of the vocational guidance service.

### **6.2.3 Vocational rehabilitation**

As vocational rehabilitation, the Labour Administration arranges services and support measures promoting vocational planning, development, employment and staying on at work for disabled persons. The number of disabled jobseekers was 67,000, or 0.5% less than the year before. Some 93,000 periods of unemployment of disabled unemployed jobseekers ended, of which nearly 60,000 ended mainly with a work placement or starting education or training. 44,000 periods of unemployment ended with a placement in the open labour market.

In order to support the capacities for working and taking part in training and to support the placement in jobs of disabled jobseekers, a total of some 14,000 support measures were organised, including examinations of state of health and capacity to work, rehabilitation examinations, consultations with experts, work try-outs at the workplace, work and training try-outs and preparative training for working life in Work Clinics and other training units. Nearly 8,000 of similar support measures of the vocational guidance and career planning services were organised. The number of disabled customers having received vocational guidance and career planning services was some 6,000. The special expenditure on placements at work and vocational guidance was EUR 8.2 million.

In the report submitted by the Council of State to the Parliament on the policy on the disabled 2006, development measures of public labour force services were studied to promote the inclusion of the disabled in the labour market. As a result of this report and the drafting of the action plan on the policy for the disabled, the Ministry of Labour started preparing an action plan for the development of rehabilitation and placement at work measures for the handicapped and disabled.

Under the ELMA project that was part of the Employment Programme, some 5,400 examinations of ability to work were conducted to establish the possibilities of the long-term unemployed to receive a pension. During the reporting year 2006, some 1,400 long-term unemployed received a favourable decision to an application for an unemployment pension. Approx. EUR 3.1 million were spent on

these examinations. The Labour Administration's vocational rehabilitation pilot project continued, and the Labour Administration produced a total of approx. 760 payable vocational rehabilitation services in order to support the occupational rehabilitation of the customers of pension providers and the Finnish Insurance Rehabilitation Association commissioned by these parties.

#### **6.2.4 Training and vocational information services**

The training and vocational information services provided by the Employment Offices offer education and training advice and information on various professions and vocations, education and training alternatives that are available and financing of studies. The objective is to give the customers adequate information to make decisions on applying for training or vocational development. The advice on training also plays an important role in promoting lifelong learning. In addition to one-to-one training advice, information on training and vocations can be received by taking part in training information groups and/or as a self-service by perusing the materials in the reading room (some of which also are available for lending) and electronic applications (e.g. the on-line adult education information).

The training and vocational information services recorded a total of 266,090 advisory events in 2006, or 44,500 less than the year before (change -14.3%). The training advisors also led 3,200 group information events with 51,300 participants (slightly down from the year before). The national training advice helpline, Koulutuslinja, started operating as a permanent service from the beginning of 2006. This helpline was developed as part of the policy programme for employment to improve the availability of training and working life information.

### **6.3 The employment subsidy system, labour market support activation measures and employment-based investments**

#### **6.3.1 The employment subsidy system**

##### **Introduction**

The employment subsidy system was reformed from the beginning of 2006. The new system consists of a pay subsidy and an employment subsidy paid to the employee. In line with the Government Programme, the reform aims at improving the quality and effectiveness of the employment provided by combining it with on-the-job learning and training. The employment of the unemployed in the private sector is being promoted by increasingly directing labour political activation measures to small and medium enterprises.

A condition for granting a pay subsidy is that there are deficiencies in the competence or vocational skills of the person to be employed on the subsidy, or his or her productivity in the task that is offered is estimated to be lower because of his/her long period of unemployment, disability or another reason. The objective of work arranged through a pay subsidy is to improve the vocational skills, competence and labour market position of the unemployed jobseeker and to promote the access of those having been unemployed for extended periods to the open labour market. A pay subsidy voucher is also used, which the unemployed can use to support their independent search for a job.

The pay subsidy for employers in the municipal and private sectors consists of a basic subsidy, which equals the basic daily allowance of the unemployment security (in 2006, the basic subsidy was approx. €3.5 a day and an average of €505 a month, when the basic allowance was paid for

five days a week and an average of 21.5 days a month) and a discretionary additional part (a maximum of 90% of the basic subsidy). The basic subsidy is financed from item 34.06.51 of the Budget (Employment, training or special measures) or item 34.06.52 (Labour market support). The basic subsidy is financed from the labour market support funds, if the beneficiary has been receiving labour market support for 130-499 days or is difficult to employ. The additional part is always financed from item 34.06.51. A pay subsidy is in principle paid for no more than ten months. For the disabled, the subsidy can be paid for two years at a time. The subsidy can also be granted for two years for persons having received unemployment security for more than 500 days, but for the second year, the basic subsidy only will be payable.

A condition for granting the additional part usually is that the deficiencies in the competence and vocational skills of the person to be employed on the subsidy and the consequent lowering of productivity in terms of the task that is offered and compared to other employees performing it have been verified in an examination of his/her competence and vocational skills and an assessment of his/her need for services. Another condition for granting the additional part to a company is that the company is committed to using the subsidy for improving the competence and vocational skills of the employee through training or other measures. The additional part can be granted without an examination of the competence or vocational skills or other examination of the lowered productivity, or for the part of the companies, without the requirement to arrange training, when the employer hires a person who is difficult to employ or disabled, when the employer enters into an apprenticeship agreement and, in case of an employer other than a company or a social enterprise, when the employer hires a person who is long-term unemployed.

### **The take-up of employment subsidies**

In 2006, an average of 36,770 people were within the scope of measures funded from appropriations for national employment subsidies, of which the share of the Kainuu governance experiment area was 1,370. 570 people less took part in the measures than in 2005. The average number of those employed on a subsidy paid to the employer was 29,560 people, and the share of other employment subsidies (start-up grants, preparatory training for working life and part-time supplementary benefit) was 7,210 people. These figures do not include those taking part in ESF projects, or 1,280 people. Below, the area of the Kainuu governance experiment is included in the figures for national measures. The appropriations concerning the Kainuu governance experiment for employment subsidies, project assistance, grants for independent initiative and employment-based investments are found in the main title of the Ministry of the Interior's administration.

### **Young people**

Youth employment has gone down significantly in recent years. During the year, an average of 3,820 young people were taking part in national measures, 2,790 of these in the private sector and 960 in municipalities. The levels of employment measures for young people have gone down by approx. 500 people compared to the year before. This figure does not include the young long-term unemployed, as they are included in the group of the long-term unemployed in the statistics. The employment subsidy system has supported the employment of graduates, as well as basic and additional vocational training based on apprenticeship. A pay subsidy for an apprenticeship is payable to an employer who concludes an apprenticeship agreement with an unemployed young person. The pay subsidy will be paid in addition to the normal state subsidy for an apprenticeship. In 2006, approx. 3,070 pay subsidy decisions for apprenticeship training were made, which is 700 less than the year before.

## **The long-term unemployed**

The average number of the long-term unemployed in national measures was approx. 19,080 people, of whom 5,870 in the municipal sector, 870 in the State and 12,340 in the private sector. This was an increase of some 700 people from the year before. In these figures, long-term unemployment is defined in a wider sense than uninterrupted long-term unemployment (cf. Chapter I Section 7.1 paragraph 5 of the Act on the Public Employment Service).

In connection with the reform of the employment subsidy system, the combined subsidy as a separate support form was discontinued. In the reporting year, this was replaced by a pay subsidy for those difficult to employ (a basic subsidy of EUR 23.50/day paid out of the labour market appropriations to the employer and an additional part of no more than EUR 21.15/day, or the basic subsidy only out of labour market support appropriations). The pay subsidy for those difficult to employ was used to prevent the exclusion from the labour market of those entitled to labour market support who had been unemployed for extremely long periods. This subsidy was paid to the employers of persons who had been unemployed for more than 500 days and who were recipients of labour market support. The subsidy could only be granted for a maximum of 24 months, in which case the labour market support only was paid in the second year. The companies were able to employ subsidy recipients in employment relationships for a fixed term.

The pay subsidies for those difficult to employ were used to employ an average of 16,780 people in 2006, in which figure the share of pay subsidies associated with apprenticeships was 90 people and the share of those participating in ESF projects was 420 people. This figure also includes those hired on labour market support alone. Of the total number, some 4,500 were hired in the municipal sector, 8,350 in the so-called third sector, 3,350 by companies and 460 by households. In total, this number went up by an estimated 900 people compared to the year before. As regards those hired by companies, the number went up by an estimated 200 people

## **The disabled**

As regards the hiring of a disabled person, the employment subsidy system was reformed so that a subsidy can be immediately re-granted after the previous time limit of two years, in case the grounds for granting it are still valid. In 2006, the average number of disabled persons taking part in the measures was 2,220, of whom an average of 840 were in the municipal sector, 160 in the State and 1,220 in the private sector. This figure represented an increase of 80 people to the year before.

## **Prevention of long-term unemployment**

The duration of a person's unemployment does not restrict the use of employment subsidies. In practice, an extended period of unemployment increases the need for using support measures. An estimated 10,640 people who were not long-term unemployed, young or disabled or who were aged 55-59 and had become unemployed in 2000 or after were taking part in the measures.

In order to prevent extended periods of unemployment, the reform of the employment subsidy system made it possible to grant a pay subsidy from the labour market support appropriations to an employer who employs a person who has been receiving labour market support for 130-499 days. The number of people in this group employed in the reporting year was an average of 715.

## **Regional considerations**

Industrial policy measures creating permanent jobs are essential in balancing out regional differences in employment. However, as adequate results have not been achieved by these means, it is also necessary to resort to employment subsidy measures intended as temporary.

The use of employment subsidies based on regional considerations mainly targets the areas of four Employment and Economic Development Centres in the East and North. Chapter 7 Section 6 of the Act on the Public Employment Service imposes a duty to ensure the regional balance of employment so that the unemployment in no labour market area essentially exceeds the average national level. In the 2006 Budget, as the criterion for exceeding the national level was determined 1.8 times the national figures. According to justifications of the State Budget, however, the use of employment subsidies can be started once the unemployment rate is 1.6 times greater than the national average. An average of 1,490 people took part in measures based on regional obligations.

During the year 2006, the unemployment rate of some 20 labour market areas exceeded 1.8 times the national rate. Based on the regional obligations, employment subsidy measures were in practice mainly implemented in those labour market areas where the employment rate was 1.6 times the national average. The regional differences in unemployment figures increased slightly from the year before.

## **Examination by measure**

The appropriations for active labour political measures in the Budget were collected under a single item 34.06.51 (employment, training and special measures). In their basic structure, the appropriations under this item are divided into three sections, or the labour force training appropriation, employment subsidy appropriation and an appropriation for special measures of public employment services. The use of this item was made more flexible to make it easier to take in consideration regional needs in the use of the appropriation. This is why the plan for using the appropriation may change during the year from the one put forward in the State Budget.

**Table 5. Those who started in on-the-job training/preparatory training for working life on employment subsidies and labour market support in 2006**

Employment subsidies	Started in measures		
	Total	Women	Share of women %
<b>State</b>	<b>3,648</b>	<b>1,787</b>	<b>49.0 %</b>
<b>Municipalities</b>	<b>18,007</b>	<b>11,580</b>	<b>64.3 %</b>
- Apprenticeship	540	394	73.0 %
- Other pay subsidy	17,467	11,186	64.0 %
- of which those difficult to employ	7,522	4,196	55.8 %
<b>Private sector pay subsidies<sup>(1)</sup></b>	<b>27,647</b>	<b>13,950</b>	<b>50.5 %</b>
- Apprenticeship	2,526	1,110	43.9 %
- Other pay subsidy	25,121	12,840	51.1 %
- of which those difficult to employ	18,478	9,386	50.8 %
<b>Other employment subsidies for private sector</b>	<b>17,970</b>	<b>11,350</b>	<b>63.2 %</b>
- Start-up grants for the unemployed	4,214	2,029	48.1 %
- Start-up grants for others than unemployed	3,807	1,732	45.5 %
- Preparatory training for working life	7,512	5,429	72.3 %
- Placement on part-time supplementary benefit	2,437	2,160	88.6 %
<b>Total of measures</b>	<b>67,272</b>	<b>38,667</b>	<b>57.5 %</b>
Combined subsidy (labour market subsidy only)*	507	305	60.2 %
<b>On-the-job/preparatory tr. on l market support</b>	<b>48,561</b>	<b>29,328</b>	<b>60.4 %</b>
<b>Total of all measures</b>	<b>116,340</b>	<b>68,300</b>	<b>58.7 %</b>

<sup>1)</sup> In addition to limited liability companies and other enterprises, private sector comprises e.g. co-operatives, foundations and so-called third-sector associations as well as households.

In the reporting year, an average of 1,830 people taking part in employment subsidy system measures worked in State agencies and institutions, an average of 9 960 people were employed on an employment subsidy in the municipal sector, 17,770 on that for the private sector and 7,210 people on other employment subsidies of the private sector (start-up grants, preparatory training for working life and part-time supplementary benefit).

The number of those hired on a subsidy was 260 people more in State agencies and institutions than what was estimated in the State Budget (in the actual figures, the share of the Kainuu governance experiment, or some 170 people, was deducted). The municipal and private sectors hired some 6,000 people less on the pay subsidy than what was estimated in the State Budget (the share of Kainuu governance experiment, or some 1,000 people, was deducted from the actual figures). The number of people taking part in other employment subsidy measures in the private sector, on the other hand, was 1,800 more than estimated in the State Budget. The share of women in those employed on an employment subsidy was 57.5%. In the municipal sector, the share of women was the highest, or 64.3%, in the employment subsidies in the private sector 50.5%, in other employment subsidies 63.2 % and in the State sector 49%.

**Table 6. A summary of the take-up of the employment subsidy system in 2005 and 2006 (nationally funded measures)**

Measure	Appropriations committed by decisions million euro <sup>3</sup>		Average number of people employed	
	2005	2006	2005	2006
<b>State</b>	<b>41.235<sup>1</sup></b>		<b>1 880</b>	<b>1 830</b>
- Young people	1.29	1.42	60	70
- Long-term unemployed	15.49	16.58	790	870
- Disabled	4.51	3.6	200	160
<b>Municipalities</b>	<b>59.557<sup>1</sup></b>		<b>9 240</b>	<b>9 960</b>
- Young people	5.96	5.17	1 030	960
- Long-term unemployed	31.98	31.39	5 720	5 870
- Disabled	6.38	6.09	890	840
- <i>Measures</i>				
- Apprenticeship subsidy	5.23	5.08	1 010	840
- Other pay subsidy	55.33	50.26	9 400	9 120
- of which those difficult to employ	14.07	16.89	3 730	4 360
<b>Private sector</b>	<b>129.810<sup>1</sup></b>		<b>25 080</b>	<b>24 980</b>
- Young people	18.41	18.41	3 210	2 790
- Long-term unemployed	50.37	50.37	11 860	12 340
- Disabled	6.78	6.78	1 050	1 220
<b>Private sector pay subsidy</b>	<b>81.16</b>		<b>18 350</b>	<b>17 770</b>
- Apprenticeship subsidy	18.8	17.72	3 490	3 000
- Other pay subsidy	62.36	66.28	14 860	14 770
- of which those difficult to employ	42.8	45.05	11 340	11 900
<b>Other employment subsidies for private sector</b>	<b>53.69</b>		<b>6 730</b>	<b>7 210</b>
- Start-up grants for the unemployed	20.7	12.65	2 570	2 210
- Start-up grants for others than unemployed	7.86	12.97	1 030	1 780
- Preparatory training for working life	15.47	17.23	1 540	1 780
- Placement on part-time supplementary benefit	9.66	8.74	1 590	1 440
<b>Total of measures</b>	<b>230.602<sup>1</sup></b>		<b>36 200<sup>2</sup></b>	<b>36 770<sup>2</sup></b>
- Young people	25.66	23.34	4 300	3 820
- Long-term unemployed	97.84	100.93	18 370	19 080
- Disabled	17.66	18.06	2 140	2 220

1) Final accounts (item 34.06.51). The classification by target group is based on committed appropriations. The total for target groups does not add up to the appropriation use of the whole sector.

2) The volume figures include the Employment and Economic Development Centre of Kainuu in its entirety.

3) The Table does not contain appropriations granted from labour market support funds, as these cannot be classified as required for the purposes of this Table in all parts. The appropriation use was some EUR 108 million, of which the share of start-up grants was EUR 2.66 million.

The number of those starting work on an employment subsidy in companies was approx. 14,250 people in 2006, which was 43% of all those starting in the private sector and 28% of all those

starting on an employment subsidy. Of these, 2,200 people were on an apprenticeship, 5,050 difficult to employ and 7,000 others. In addition, approx. 17,700 people, or 36% of all those who started in this group, started on-the-job training/preparatory training for working life on an employment subsidy in companies. Examined by the sector, the highest number of those starting in companies worked in trade, or 9,100 people, while 5,220 people started in the industries and 4,620 in health care and other social services.

### **Start-up grants**

Unemployed jobseekers can receive a start-up grant to secure their subsistence during the period they are estimated to require for starting up their business and becoming established. The conditions for granting this support include that the applicant has experience of enterprising or training required in entrepreneurial activities, which can also be arranged while the grant is running, the start-up company has the prerequisites for operating profitably, enterprising activities were not started before the decision to grant a subsidy was made, the enterprise would be unlikely to start without a subsidy granted to the applicant, and that the subsidy does not distort competition.

Since the beginning of 2005, the conditions for giving start-up grants were made less stringent in an experiment for a fixed term, in which the target group of the grant was expanded, allowing the grant to be paid not only to unemployed jobseekers but also those at work or outside the labour market wishing to become entrepreneurs. The duration of the start-up grant experiment will be three years as regards the expansion of the target group. The start-up grant is available for a maximum of 10 months. The start-up grant is given for two periods, the first of which is a maximum of six months in duration, and the second a maximum of four months. The decision concerning the second part is conditional. The additional funding is not granted if the business activities have not been launched in accordance with the business plan or if the entrepreneur already receives a sufficient income from the business at this stage. Since 2006, the basic support for beneficiaries of labour market support receiving a start-up grant is paid from item 34.06.52 (Labour market support).

The number of decisions on start-up grants clearly increased during the reporting year. Around 8,000 new entrepreneurs started on a start-up grant, some 3,800 of whom were not unemployed at the time. The year before, the number of start-ups was some 6,900 people. As regards the unemployed, the number of those launching activities on a start-up grant increased by more than 100. The volume of the measure went up during the reporting year by nearly 400 people. Of those who were not unemployed, approx. 2,750 were in an employment relationship, some 100 of these being threatened by unemployment. Some 160 were studying and the rest were not part of the labour force. For the results of a study on the start-up grant and employment after receiving a start-up grant, please refer to Chapter 6.9.

### **6.3.2 Employment political project support and assistance for independent initiative**

Employment political project support can be granted to municipalities, federations of municipalities, and other organisations and foundations to promote employment in projects generating new employment opportunities for unemployed jobseekers and implementing other measures to promote their employment. Project support can also be granted for other regional and local projects to develop employment and labour force development. A key priority area is finding new employment opportunities and activation measures, especially with the help of the third sector, for those who are unemployed and under risk of exclusion from the labour market. A special target group consists of difficult-to-employ recipients of labour market support who have been unemployed for at least 500 days (about two years).

Project support is granted towards the pay of project managers and leaders and other administrative expenses. Project support is granted by the Employment and Economic Development Centre in whose area the project is implemented. In case the project is implemented within the operating area of several Employment and Economic Development Centres, the support is granted by the Centre in whose area the project is mainly implemented. In case of national projects, the support is granted by the Ministry of Labour.

In 2006, project support was granted to 327 actors, the majority of which (approx. 65%) were registered associations. An appropriation of EUR 18.196 million in total was reserved for this purpose. In 2006, a total of EUR 16.966 million was granted in project support, of which EUR 12.088 million went to associations and EUR 1.502 million to municipalities, and the remainder was allocated to other organisations and foundations. A total of EUR 656,000 of employment political project support was spent on setting up and establishing the activities of social enterprises and study and mapping projects of social enterprises.

Financial assistance for independent initiative granted to support the initiative of the unemployed can be used to support work based on the independent initiative of associations, new co-operatives and organisations and other employment-promoting activities as well as training to support these. In order to receive assistance for independent initiative, the organisations have to compile an operating plan for activating the unemployed and maintaining and developing their labour market capacities. The beneficiary of the assistance also has to provide the Economic and Employment Development Centre with a written report on the realisation of the measures included in the plan at the end of each aid period.

Assistance for independent initiative can be granted to a co-operative in which at least three out of four of the members are unemployed jobseekers at the time of its establishment. The maximum amount of the assistance for independent initiative is 75% of the realised total of eligible costs. The maximum amount of the assistance thus equals the employment political project support. Assistance for independent initiative for a new co-operative can be granted for no more than six months after the establishment of the co-operative. The purpose of the assistance is not to support the actual business activities of the co-operative but to help the unemployed in the initial phase of the activities to market their skills and find job opportunities.

The assistance can be granted to cover the rental expenses for meeting places and facilities incurred by the body, arranging training events, the expenses of marketing the skills and work performances of the unemployed, and the salary costs of the activity leader. In addition, assistance can also be granted to new co-operatives for the establishment costs required for registration but not for the actual commercial activities.

In 2006, assistance for independent initiative was granted to 140 actors, of which 115 were associations of the unemployed, 8 co-operatives set up by the unemployed and 17 other bodies. An appropriation of EUR 3.250 million in total had been reserved for this purpose. A total of approx. EUR 3.179 million of the appropriation was granted. Associations of the unemployed received some EUR 2.750 million in assistance, work co-operatives EUR 0.06 million and other communities EUR 0.361 million.

### 6.3.3 Labour market support activation measures

#### Reform of the labour market support

The objective of the labour market support reform implemented in the beginning of 2006 is: 1) increasing the employment rate, safeguarding future labour force needs and lowering structural unemployment, 2) cutting the total public expenditure on addressing unemployment at least over the longer term and 3) creating a more efficient, motivating and balanced system of social support benefits and active programmes. The objective of the labour market support reform was to intervene in both the flows and costs of unemployment. This reform applies to all recipients of labour market support who are unemployed jobseekers. The follow-up data for the labour market support reform is mainly available from the period 1 January -31 October 2006. (The beneficiaries of integration support are not included in the recipients of labour market support.)

Recipients of labour market support

	2005	Jan - Oct 2005	Difference 2006	2005-2006	
Recipients on average	149 436	150 052	140 096	- 9 956	- 6.6 %
- based on unemployment	111 194	112 779	99 177	- 12 602	- 11.3 %
- for dur. of active m.	38 242		40 919	+ 2 677	+ 7.0 %
- activation degree	25,6 %		29,2 %		

As preventing extended periods of unemployment is an essential part of the labour market support reform, the system will also monitor the number of those labour market support recipients who have been receiving the support for a 250-499-day period of unemployment, and the number of those whose unemployment benefit has been replaced by labour market support and who have received labour market support based on unemployment for less than 180 days. The number of people in the first mentioned category was on average 8,302 at the end of each month in 2005, and in January - October 2006 an average of 7,409 (-10.8%). The number of people in the latter category was on average 4,830 in 2005, and 8,535 (approx. +76.7%) in January - September 2006.

During the new active period, which starts at the latest when labour market support has been paid for a minimum of 500 days of unemployment, or when the maximum period for receiving the unemployment benefit has elapsed and labour market support has been paid for 180 days of unemployment, intensified services will be offered. A new active period can also be started earlier than this, in case the jobseeker is in need of intensified services.

When drafting the labour market support reform, the goal was set at increasing at the municipal level the activation rate of labour market support recipients who have received labour market support for a minimum of 500 days based on unemployment by 50% in three years compared to the initial levels of 2003. In 2003, an average of 18,614 persons were within the scope of active measures, and the activation rate was 19.2%. The activation rate has increased nationally more rapidly than projected. Both the increased number of participants in active measures and the decreased number of labour market support recipients helped to bring the activation rate up. In January - October 2006, some 13,470 (60%) of those taking part in active measures were in subsidised work, some 3,440 (15%) in labour force training, some 2,850 (13%) in preparatory training for working life, some 2,220 (10%) in rehabilitating work activities and some 390 (2%) in other measures.

	2005	Jan - Oct		Difference	
		2005	2006	2005-2006	
Recipients who had a min. of 500 days of unemp. ben. based on unemployment	93 946	94 319	84 420	- 9 899	- 10,5 %
- based on unemployment	75 475	75 827	62 050	- 13 777	- 18,2 %
- for the d. of act meas.	18 472	18 492	22 370	+ 3 878	+ 21,0 %
- activation rate	19,7 %		26,5 %		
Those moving on from daily allowance to I market support with a min of 180-499 days of pass supp	10 598		10 575	- 23	- 0,2 %
- based on unemployment	7 411		8 049	+ 638	+ 8,6 %
- for duration of active measures	3 187		2 526	- 661	- 20,7 %
- activation rate	30,1 %		23,9 %		

For those unemployed persons having received labour market support for a minimum of 500 days, the labour market support during unemployment will be funded in equal halves by the State and the municipalities. For other parts, the State will alone be responsible for funding the labour market support. This expenditure totalled EUR 469,306,000 in January-December 2005 and EUR 384,027,000 in January-December 2006 (-18.2%). The calculated share of the municipalities in this expenditure was EUR 234,653,000 in 2005 and a total of EUR 192,014,000 in 2006, reducing the share of the municipalities by approx. EUR 42.6 million.

### **On-the-job training/preparatory training for working life on labour market support**

Young people without vocational training who are entitled to labour market support can be referred to on-the-job training to increase their familiarity with working life, promote their possibilities of finding a job and to improve their vocational skills. An unemployed jobseeker not meeting the above criteria can on his/her consent be referred to preparatory training for working life by the Employment Office to support his/her return to working life, to promote his/her possibilities of finding a job and to improve his/her vocational skills.

In 2006, an average of 12,080 persons were in on-the-job training or preparatory training for working life on labour market support, some 290 of them on EU co-financing. Some two thirds were in preparatory training for working life and one third in on-the-job training. In the reporting year, their number increased by 310 people. A total of 48,560 people started on-the-job training or preparatory training for working life on labour market support, 55% of whom were aged under 25. The proportion of young people has decreased over the past year. Women accounted for approx. 60% of those who started training.

### **6.3.4 Employment-based investments**

Employment based investment appropriations were allocated in the 2006 Budget under item 34.06.64 (employment-based transfers for investments). The appropriations for this item can be used on investment subsidies and Employment Programme projects. Under this item, the value of new commitments could not exceed EUR 28.218 million. The expenditure item was allocated a variable annual appropriation of EUR 27.371 million to cover the costs arising from exercising the authority, with EUR 15.266 intended for investment subsidies and EUR 12.105 for the employment promotion programme. In addition, commitments could be made in 2006 for the part of the authorisation that was not used in 2005. In 2006, the total amount of the authorisation was approx.

EUR 42.46 million, including the authorisation that was unused in 2005. The majority of decisions on supporting investments are made by the regional government.

### **Investment subsidies**

The appropriation intended for investment subsidies can be used to partially fund employment-based investments by the municipalities, municipal federations and other organisations. The appropriation is used to fund projects that promote new, permanent jobs and that provide impetus for employment. In 2006, an estimated EUR 13.9 million of the authority to grant subsidies was committed to investment subsidies. It is estimated that approx. 500 permanent jobs were created. The construction-period contribution to employment is estimated at around 600 man-years. Subsidies have accounted for an average of 25% of the approved cost estimates of State-subsidised projects. Appropriations have helped launch investments totalling about EUR 56 million.

Assistance can also be allocated from this appropriation to projects pursuant to the Act on Aid to Business, in case the authorities in the administrative sector of the Ministry of Trade and Industry give a favourable opinion on the project.

### **Employment promotion programme**

In order to boost employment, some of the appropriations intended for investments can be granted to fund State agencies engaging in construction work. The aim of the appropriations is to speed up projects that are significant for the management of employment. An estimated EUR 17.3 million were committed to investments under the employment promotion programme. It is estimated that the employment promotion programme created employment for an average of 350 people in 2006. The majority of the labour force was in practice permanent staff of the contractors or agencies. The greatest amounts of appropriations were granted to the Road Administration at EUR 6.0 million, the Finnish Forest and Park Service EUR 3.1 million and EUR 1.9 million for the National Board of Antiquities.

### **Social enterprises**

The Act on Social Enterprises entered into force on 1 January 2004. A social enterprise differs from other enterprises in that a minimum of 30% of the staff must be disabled or disabled and long-term unemployed, and that the enterprise is recorded in a register of social enterprises maintained by the Ministry of Labour. Social enterprises are in the same position as other enterprises as regards financing subsidies, excluding the pay subsidy paid out of employment appropriations and employment political project support. Social enterprises are granted pay subsidies for the employment of the long-term unemployed and disabled for a longer period than other companies. Project support can only be granted for a social enterprise.

At the end of 2006, there were a total of 75 companies in the register of social enterprises. The number of staff in the 43 enterprises registered in 2006 totalled 102 at the time of registration, of whom 50 were disabled and 4 long-term unemployed. All in all, social enterprises employed a total of 400 people, of whom 180 were disabled or long-term unemployed.

The implementation of the Act on Social Enterprises is co-ordinated by the steering group set up for this purpose by the Ministry of Labour. The Ministry of Labour financed the national support and advisory service for social enterprises established by the Vates Foundation. The establishment of

social enterprises was also promoted through projects of social economy and social enterprises under the EU's EQUAL programme.

When passing the Act on Social Enterprises, the Parliament attached to it a clause that required the Government to submit a report on the implementation and functioning of the Act to the Parliament in early 2006. The Ministry of Labour submitted the report required by this clause in June. The report was based on the observations of the above-mentioned steering group and the results of a study commissioned from a third-party research institute.

The Working Life and Equality Committee gave its opinion on the Ministry of Labour's report in September. In this opinion, the Committee put forward such as the following proposals to improve the functioning and effectiveness of the Act: the pay subsidies remitted to social enterprises for employing disabled and long-term unemployed persons should be increased, the predictability of the number and duration of pay subsidy decisions should be improved, access to financing should be made easier for social enterprises, project support must be developed, social criteria should also be applied in public procurements, the social enterprises should be given the possibility of receiving a remuneration for finding a new position for an employee, the recognisability of social enterprises should be increased and the target group of those to be employed should be expanded.

At the end of December, the Government submitted its Bills based on the Parliament's opinion to the Parliament. In February, the Parliament adopted the amendments to the Act on Social Enterprises and the Act on the Public Employment Service. In addition, certain amendments to Decrees entered into force from the beginning of the year 2007 that promote the functioning of social enterprises.

## **6.4 The European Social Fund**

### **6.4.1 Implementation**

The European Social Fund supports employment, skills, entrepreneurship and equality in the member states of the European Union. In the Structural Funds period 2000-2006, the ESF-funded Objective 3 Programme and the Community Initiative Programme Equal were being implemented in Finland. In addition, the ESF takes part in the implementation of Objective 1 and 2 Programmes. These programmes are product development tools used in the national employment, education and economic policies.

The Ministry of Labour, Ministry of Education, Ministry of Trade and Industry, the Ministry of Social Affairs and Health and the Ministry of Interior are involved in the Finnish ESF activities. The Ministry of Labour acts as the ESF payment authority in all Objective Programmes, and additionally as the management authority of the Objective 3 Programme and the Equal Community Initiative.

### **6.4.2 The implementation of strategic priorities of the ESF framework in 2006**

The ESF framework directs ESF activities under the Objective 1, 2 and 3 Programmes, as well as under the Equal community initiative programme. The framework consists of strategic priorities and horizontal emphases for the programming period 2000-2006. Under Objective 1 and 2 Programmes and the Equal Programme, the framework guides ESF-funded activities in addition to regional strategic priorities. The strategic priorities include:

1 Making use of the demand for labour and promoting employability,

- 2 Promoting equality and equal opportunities in working life
- 3 Improving the quality and effectiveness of education and training, supporting professional mobility and reinforcing the relationship between training and working life, and
- 4 Developing the skills capital to support entrepreneurship, the renewal of working life and making use of research results and technology.

### **6.4.3 Programme outcomes in 2006**

#### **Objective 3 Programme**

Working life oriented precision training projects in order to recruit new employees were particularly successful. Preconditions for success include a flexible and customer-oriented use of labour political measures and individual solutions. The training has met the needs of the employers, and it was possible to apply on-the-job guidance in the training.

Under this programme, a number workshop and work coaching centre type projects were launched, mainly involving young people but in certain regions also more mature adults. The municipalities played a significant role in these projects as implementors and/or finance providers. The activities improved the working life capacities of the participants. In addition, projects aiming at activating people to take part in vocational training and reducing the incidence of dropping out were funded. In locations participating in the projects, the incidence of dropping out indeed was lower than average. As a result of projects targeting young people, the actors get a better overall picture of the offer and shortages of services for young people, and it was possible to offer increasing amounts of training and employment opportunities for young people across the municipal boundaries.

The aim of training projects tailored to the needs of companies is to develop staff skills and to ensure that personnel development would be implanted as a permanent part of the companies' activities. The projects addressed the coping at work of the personnel and improving their skills. Particular challenges are posed by involving precisely the kind of SME's in the activities where traditionally little or no personnel development activities have been organised.

Job rotation training was implemented e.g. in the sectors of trade and administration, as well as in the public sector in health care and care for the elderly. In addition, projects were implemented that were specifically designed with the needs and possibilities of people aged 40 or over in mind. The projects set out to anticipate the general changes taking place in the operating environment and to create models for attempting to respond to challenges arising from structural change for example in case of micro and SME entrepreneurs. Similarly, the employment possibilities of immigrants were improved e.g. through skills analyses, and the ability of organisations to act as multicultural work communities was enhanced.

In entrepreneurship, supporting generation change is an important theme, and attention was also focused on networking between entrepreneurs as well as sufficient support services. For new entrepreneurs in a situation of ownership change, such as a model for generating a personal pathway to entrepreneurship and ensuring a successful change of ownership is offered. As a training tool, apprenticeships aiming at diplomas are used: the objective is a vocational or special vocational qualification of an entrepreneur or a Specialist Qualification in Management. Additionally, customised special training services supporting a successful change of ownership are implemented together with the co-operation network. The projects supporting entrepreneurship focus on developing advisory and consulting services for start-ups and regional advisory work. Attention was

also focused on promoting women's entrepreneurial activities, successfully facilitating such as the capacities of rural women to act as entrepreneurs in the countryside.

### **Equal community programme**

Of the implementation principles of the Equal programme, partnership as a model guiding the activities was particularly well realised at the programme level. In partnership organisations, regional partnerships are a more common form than the sectoral partnership model. In regional partnerships, the concentrated partnership model is often emphasised. One of the central objectives of the development partnerships was to empower those in a disadvantaged labour market position.

### **Objective 1 programmes**

Under the Objective 1 Programmes for Eastern and Northern Finland, 98% of the ESF funds of the programmes are committed by project approvals. The payment applications for projects will continue until 30 June 2008.

In the reporting year, 20,236 people took part in projects under the Programme for Eastern Finland, and 10,958 people in those for Northern Finland. The measures mainly targeted people who were at work. According to reports submitted by the projects, 662 new jobs were created within the Programme area of Eastern Finland and 397 in Northern Finland in the reporting year. The number of new companies established as a result of the measures was reported at 579 in Eastern Finland and 91 in Northern Finland.

### **Objective 2 programmes**

By the end of the reporting year, decisions to grant assistance were made corresponding to 96% of the ESF funds for the Objective 2 Programme in Western Finland. In the Programme for Southern Finland, similarly, 99% of the ESF funds were committed by project approvals. Payment applications for these projects will continue until the end of June 2008.

In the reporting year, 13,608 people took part in the projects under the Programme for Western Finland and 12,586 people in those for Southern Finland. The measures mainly targeted people who were at work. According to reports submitted by the projects, 547 new jobs were created within the Programme area of Western Finland and 763 within that of Southern Finland. The number of new companies established as a result of the measures was reported at 340 in Western Finland and 495 in Southern Finland.

### **6.4.4 The resources and impacts of ESF measures**

In addition to the Ministry of Labour, ESF measures are also implemented by the Ministry of Education, Ministry of Trade and Industry, the Ministry of Social Affairs and Health and the Ministry of the Interior. In the reporting year of 2006, a total of 144,900 started in ESF projects, of whom 17,600 were unemployed. The number of participants in ESF co-financed labour force training was an average of 3,400. In addition, an average of 1,300 people took part in employment measures. ESF co-financed measures for those at work and entrepreneurs were usually short in duration. In the reporting year, ESF co-financed activities supported the creation of 6,349 new jobs and 3,719 new enterprises.

## 6.4.5 Closure of programming period 2000-2006

**Table 7. Indicator data of ESF programmes in 2000-2005, including the projects of all administrative sectors**

	Objective 3	Objective 1 Eastern Finland	Northern Finland	Objective 2 Western Finland	Southern Finland	Equal	Total
Number of approvals (excl. technical assistance)	1,983	617	474	477	340	176	4,067
Persons starting in a measure	401,195	136,047	65,354	81,678	59,572	33,810	777,656
- of whom women	214,246	75,425	33,953	42,537	29,223	13,761	409,145
Share of the unemployed in those who started	77,561	21,152	9,462	9,272	6,862	4,029	128,338
- of whom women	40,860	11,063	4,613	5,098	3,810	2,375	67,819
New jobs	15,071	3,643	1,497	3,714	1,439	458	25,822
- of whom women	6,613	1,510	644	1,494	575	235	11,071
New enterprises	6,248	1,504	470	1,375	352	83	10,032
- of which set up by women	2,930	609	206	548	87	35	4,415

**Table 8. Indicator data of ESF programmes in the reporting year 2006\*, including the projects of all administrative sectors**

	Objective 3	Objective 1 Eastern Finland	Northern Finland	Objective 2 Western Finland	Southern Finland	Equal	Total
Number of approvals (excl. technical assistance)	214	108	73	99	33	18	545
Persons starting in a measure	71,301	20,236	10,958	13,608	12,586	16,229	144,918
- of whom women	37,408	10,440	5,749	6,061	6,581	6,872	73,111
Share of unemployed in those who started	10,580	2,721	1,553	784	1,037	908	17,583
- of whom women	5,393	1,383	771	367	594	561	9,069
New jobs	3,876	662	397	547	763	104	6,349
- of whom women	1,636	274	198	204	296	66	2,674
New enterprises	2,169	579	91	340	495	45	3,719
- of which set up by women	1,000	226	45	102	191	22	1,586

\* Data reflects the situation as of 13 February 2007

This data is preliminary until the closure of the monitoring period 2/2006 (30 June 2007).

**Table 9. Commitments and payment requests by programme in 2000-2005 and reporting year 2006**

<b>TIED</b>	2000-2005		2006	
	ESF	State	ESF	State
Obj 2 Pr for Eastern Finland	150,171,600	115,931,031	36,894,170	30,595,425
Obj 1 Pr for Northern Finland	71,455,815	57,880,717	19,661,225	18,246,900
Obj 2 Pr for Western Finland	54,045,891	63,895,923	13,139,645	15,822,685
Obj 2 Pr for Southern Finland	38,919,717	43,764,038	9,122,393	11,060,429
Objective 3 programme	333,147,248	409,603,959	86,302,359	113,829,987
Equal community programme	45,370,866	42,248,260	23,937,165	21,870,301
<b>Total</b>	<b>693,111,137</b>	<b>733,323,928</b>	<b>189,056,956</b>	<b>211,425,728</b>

<b>PAID</b>	2000-2005		2006	
	ESF	State	ESF	State
Obj 1 Pr for Eastern Finland	119,898,385	92,288,341	25,646,742	20,229,456
Obj 1 Pr for Northern Finland	54,496,450	42,967,744	12,640,723	10,378,402
Obj 2 Pr for Western Finland	38,657,664	44,329,526	10,343,672	12,083,969
Obj 2 Pr for Southern Finland	28,646,045	31,974,128	6,450,907	7,146,045
Objective 3 programme	257,767,316	313,721,971	56,261,646	69,633,405
Equal community programme	32,571,192	30,245,111	13,034,402	12,039,224
<b>Total</b>	<b>532,037,052</b>	<b>555,526,821</b>	<b>124,378,092</b>	<b>131,510,500</b>

The year 2006 was the last year of actually granting authorities for programming period 2000-2006, whereas measures funded from the programmes will continue until 2008. In order to ensure the full use of programming period resources, the authorities having been freed up during the programming period for various reasons were re-budgeted in the budget for 2007. The State Budget will still allow the making of new project decisions under the closing programmes in 2007. In summer 2006, the European Commission issued guidelines for the closure of the programming period. Based on these, guidelines concerning the closure of ESF programmes were issued, completed with national guidelines.

#### **6.4.6 Preparation of the forthcoming Structural Funds Period 2007-2013**

During the Structural Funds period 2007-2013, the whole country will be covered by the EU's Regional competitiveness and employment objective. The ESF Operational Programme for Continental Finland is nationwide and covers the whole country. The ESF Operational Programme is divided into national and regional sections. The regional sections will be implemented in the NUTS II level regions (Southern Finland, Western Finland, Eastern Finland and Northern Finland). Within the national section of the ESF programme, funding will focus on large national entities that complement national policies. The regional sections of the ESF programme are based on the ESF's national strategic priorities and the development needs of the regions, and they were prepared for each NUTS II region separately.

The ESF programme supports the achievement of the Community's social inclusion objectives laid down in the Lisbon strategy and the European Employment Strategy as well as the implementation of the relevant National Reform Programmes. The target of the programme is to concentrate on the most important challenges of the labour, educational and industrial policies, so that ESF measures will complement and bring added value to the national activities.

Grouped by theme, the priorities of the programme are the following: 1) development of work organisations, the employed workforce and businesses as well as increasing entrepreneurship, 2)

promotion of employment and remaining in the labour market as well as prevention of exclusion, 3) development of the competence, innovation and service systems needed to promote the functioning of the labour market, 4) transnational and interregional co-operation in ESF activities.

The Government adopted on 1 February 2006 its proposal to the EU Commission concerning the European Social Fund Programming Document for 2007-2013. The Commission is expected to approve the programme in April 2007. Formally, the eligibility of measures under the new ESF programme starts in the beginning of the year 2007. The ESF financial framework of the programme is EUR 615.4 million. In addition, national public funding to the amount of EUR 798.7 million was reserved for the implementation of the programme.

#### **6.4.7 Investments of the European Regional Development Fund**

The ERDF projects of the Ministry of Labour in the period 2000-2006 set out to develop the operating preconditions and regional structures of enterprising activities and promote the uptake of new technologies. The majority of the some 300 ERDF projects aimed to improve the infrastructure of the region.

Slightly over one half of the projects were located in Western Finland, one fifth in Southern Finland, 15% in Eastern Finland and 13% in Northern Finland. The projects in Eastern and Northern Finland were larger than the average, however, as nearly one half of the financing targeted these areas. The greatest part of project funding in Western Finland was spent on developing the regional structure and living environment. The majority of projects in Southern Finland, too, set out to improve the infrastructure- the funds were spent on such as strategically important transport projects and improving the accessibility of tourist attractions. Some 10% of the projects aim at increasing the operating preconditions of companies.

In Eastern Finland, three out of five projects concentrated on developing the operations and improving the operating environment of companies. The main emphasis in supporting companies was to activate entrepreneurship and develop infrastructures promoting tourism. The majority of projects in Northern Finland concentrated on improving the operating environment of companies. In practice, the operating preconditions of companies were improved by building and developing infrastructures serving the business life and by reinforcing the co-operation between companies and research and educational institutes.

In 2006, the Labour Administration had a total authority of EUR 16.3 million of ERDF and national co-financing from the State at its disposal, of which EUR 1.5 million was State co-financing for the Interreg community initiative and Neighbourhood programmes. A total of 27 new investment projects were launched or decisions to continue projects that started in the earlier years were made in 2006. The total amount of ERDF and State funding granted was nearly EUR 30 million, which also includes the uncommitted authorities transferred to the year 2006. As a result of the projects, some 500-600 new jobs were created annually. Four out of five of these new jobs were located in Southern or Western Finland. Additionally, ERDF projects have helped to preserve an estimated 100-150 jobs annually, and some 10 new enterprises were established.

## **6.5 Quality and development of working life**

### **6.5.1 Developing working life in a tripartite process**

Labour and social legislation as well as employment and labour political programmes are drafted following a tripartite principle derived from the ILO conventions. The concrete work is performed by tripartite committees and working groups, in which not only representatives of the authorities but also those of central organisations representing both private and public sector wage and salary earners and employers are taking part. In most cases, the Federation of Finnish Enterprises also is involved in the work. The tripartite principle also applies to the preparation of EU labour legislation, so that Finland's opinions are drafted by an official preparation body for EU affairs.

In order to develop the tripartite labour and educational policy, a specific Council for Labour Affairs and Education has been working since the beginning of 2004. The task of this Council is to discuss in a wider sense the challenges and strategies of labour policy, and the challenges of the educational policy that are central to working life. The Ministers of Labour and Education act as the chairpersons of the Council, and its members include representatives of the other Ministries as well as all central labour market organisations.

In the reporting year 2006, a fairly comprehensive incomes policy agreement was in force for 2005-2007. Four labour disputes within the scope of the reporting duty imposed in the Act on Mediation in Labour Disputes were arbitrated. These only included 2 lockouts.

### **6.5.2 The Working Life Barometer**

The annual Working Life Barometer of the Ministry of Labour describes the quality and trends of working life. In the Working Life Barometer for 2006, the wage and salary earners gave their workplace the average mark of 8.0 (on a scale of 4-10) consisting of four different dimensions. The general average has remained nearly unchanged for three years. The evaluation was based on 1) equal treatment at the workplace, 2) job security, 3) the employee's resources in proportion to the requirement levels and 4) encouragement, innovativeness and trust. The highest points, which also had increased from the year before, of all the four dimensions were scored by job security (9.0). The expectations concerning employment clearly became more positive during the year. The majority of those who took part still felt that the meaningfulness of work had developed in a negative direction, a central reason for which is likely to be the general uncertainty arising from globalisation.

The quality of working life was considered at least satisfactory in all sectors. Despite of this, signs of polarisation can be discerned. The difference between the municipal sector and other sectors in particular had grown. Even if the wage and salary earners' attitudes to the change in working life mainly were rather positive, one clear discord emerged, which is the meaningfulness of work. A considerably large majority feels that the direction of change in the meaningfulness of work has been negative rather than positive. In 2006, the situation improved somewhat compared to previous years. This negative attitude arises from such as the increasing general uncertainty, the fears of the wage and salary earners and the future threats experienced by them.

The wage and salary earners' ability to work in proportion to the requirements of the work is slowly dwindling, as the average age of the labour force increases. In 2006, some 85% of the wage and salary earners at work assessed their own ability to work as good, and only 15% felt that their ability to work was poor. The greatest number of those feeling that their ability to work was poor

was found in the municipal sector. Absences due to sickness went down in 2006 in proportion to the whole body of wage and salary earners, but the absences clearly got longer. The number of those who did not miss a single day during the year is higher than before. At the same time, the number of those with extremely long absences due to sickness has gone up. The average number of absences due to sickness were 8.9 days per worker in 2006. The average duration of absences due to sickness was 15.3 days. The absences due to sickness mostly were less than 4 days in duration.

The increase of physical and mental stress at work has been slowing down from the mid-1990's. In 2006, approx. one out of two wage and salary earners felt that their work was mentally stressful, and about one out of three found their work physically stressful. In the municipal sector, nearly 80% felt their work was mentally and less than one half physically stressful. More than one half of wage and salary earners at work would like to work less, or work less hard.

Occupational safety or vocational skills of the employees were developed at roughly eight workplaces out of ten by means of the so-called health promotion activities. Development aiming at improving the productivity, quality and other such issues at the workplace took place at 47% of the workplaces in 2006.

Approx. one half of the wage and salary earners took part in training provided by the employer in 2006, the average duration of which was 5.4 days.

Such as the pay and working time systems were developed at workplaces. At the moment, the greatest number of pay systems are being reformed in the public sector workplaces. The assessment of the difficulty of tasks is increasingly becoming more wide-spread especially in the State sector (86% of workplaces). In the private sector, 60-80% have a positive attitude to their own pay system. Of those working in the municipal sector, only 24-33% feel that their pay system is competitive, rewards for the right things or provides an incentive. Six out of ten workers have a working time system at their disposal in which working hours exceeding the normal working time are recorded and can be taken off as free time later.

At an increasing number of workplaces, others than just Finnish people are working. This share has been increasing steadily, and it was 34% in 2006. The majority of wage and salary earners who are not Finnish in their ethnic background work in the private sector, especially in the industries. In 2006, more immigrants than before have also been hired for jobs in the State sector.

### **6.5.3 The Workplace Development Programme (Tykes)**

The Workplace Development Programme (Tykes) started in the beginning of 2004, and it will continue until the end of 2009. This programme combines experiences derived from earlier programmes, aiming to convert them into a practical tool for Finnish workplaces. The objective of this programme is to increasingly focus on the development of work organisations in the strategic operations of the Labour Administration.

The aim is to develop the operating methods of workplaces so that they can themselves - in co-operation between the management and staff - solve their problems and find solutions to their development needs. During the programming period, the mainstreaming of good practices through creating learning networks will also be emphasised.

Positive impacts on productivity and well-being should be reached in at least 70% of the projects. The impacts of the programme will focus on activating development work at the workplace level,

improving co-operation between the management and personnel, improving the quality of activities and products, increasing work productivity and improving the opportunities of the personnel to use and develop their vocational skills. The number of development projects is expected to reach about 1,000 during the programming period, and the number of participants is anticipated to total some 250,000, about one half of whom are women. A total of EUR 11.6 million was allocated for the Tykes programme in 2006.

A total of 512 projects began during 2004-2006, with the industrial and municipal sectors accounting for one-third and the private sector for one fourth of these. Up to date, the number of participants in the programmes has been 94,000. In the future, the programme will emphasise particularly the utilisation of the outcomes from concluded projects. The results of an interim evaluation of the Tykes Programme will be completed in March 2007.

#### **6.5.4 Other measures to develop working life**

##### **Private labour hire**

The Ministry of Labour has been collecting information on private hire of labour from companies engaged in the hire and exchange of labour in Finland since 1999. The data collected in the reporting year concerned the year 2005. A total of 274 companies engaged in the hire and exchange of labour and all 20 offices of the Labour Administration offering payable labour force recruitment and hire services returned the questionnaire.

The accuracy of data collection has been improved year by year, and the sample has been made more precise. This is why the data for the last few years is not fully comparable with the figures for the earlier years. In addition, due to the nature of this business, changes having taken place in the sector and the difficulties of definition and drawing lines, these figures should be considered indicative.

The practice of labour hire has increased rapidly in Finland. In 2005, the use of hired labour continued to become more common faster than before. According to the survey results, a total of 102,800 hired labour employees were working in companies engaged in the hire and exchange of labour in Finland in 2005. This figure also includes the payable labour force recruitment and hire services provided by the Labour Administration. Compared to the year before, the number of hired labour workers had increased by 58%. Hired labour was used by 20,800 companies, which is an increase of 50% to the year before. The share of hired labour in the employed has increased from the 2% in the beginning of the millennium to 4.2%. Hired labour is used the most in the hotel and restaurant sector and in industrial work. Hired employees had an average of four employment relationships during the year 2005. The average duration of their employment relationships was 81 days.

Of the workers who were employed as hired labour, slightly over 7%, or 7,300 people, got a job in the customer company after working as hired a hired employee. The number of people being taken on by the company after working as hired labour had more than doubled from the 2002 figures in 2005.

These figures do not include the hired labour mediated from EU member states, to whom the free mobility of services is applicable. Due to the EU enlargement, the number of hired labour workers posted in Finland has gone up considerably. No precise figures on the number of these workers are available.

## **Promotion of e-work and telework**

*The Council of State's decision on principle concerning e-work and telework* adopted in October 2006 outlines measures to promote e-work and telework. The central aim of the decision in principle is to improve the quality and productivity of the working life and to promote environmentally and socially sustainable ways of working and travelling. Additional aims include improving the regional policies associated with technical infrastructures and those of services, the natural environment, local competence and networking. The decision is based on the Government Programme and the recommendations of the e-work co-operation group. The drafting involved nearly all Ministries and labour market organisations. E-work and telework influence the quality and organisation of working life. The priorities contained in the decision in principle concern in particular the management and technical and other preconditions of e-work. The decision singles out the type of co-operation needed and responsible parties required.

## **Job alternation**

The job alternation system was introduced from the beginning of 1996. Due to forecasts concerning the availability of labour and conflicting views on the development of the job alternation system, the Act on the Job Alternation Leave Experiment was passed for a fixed term. Slightly over 115,500 persons had taken job alternation leave in the period extending from 1996 till the end of 2006. In 2006, the number of those on job alternation leave was a total of 14,044, with a monthly average of 7,350. The number of users increased by more than 2,000 in 2006 compared to the year before. The average duration of the leave is some 7 months.

The job alternation system was created at a time when the employment situation was clearly worse than today. Today the labour shortage already undermines the possibilities of employees in some sectors of taking job alternation leave, as substitutes are not readily available.

In order to estimate the current status of the issue, the Ministry of Labour commissioned a study in 2005 looking at the use and impacts of job alternation leave in the perspective of those taking leave, the substitutes and the employers. According to this study, the wage and salary earners and the unemployed persons hired as their substitutes felt that they clearly benefited from the job alternation system. The alternation leave helps wage and salary earners to cope better at work, and working as a substitute improved the capacities of finding jobs of the unemployed. According to the employers' experiences, too, the benefits of the alternation exceeded the disadvantages. According to the study, coping at work was highlighted in reasons for taking leave. It was felt that working as a substitute had a significant impact on subsequent employment, personal well-being and self-confidence.

The new Act on Job Alternation Leave that entered into force in the beginning of 2003 requires a work history of at least 10 years. As a result of this requirement of a longer work history, the takeup of job alternation leave by those aged less than 30 has come to an almost complete standstill, and that of the age group 30-34 has been diminished by a half.

The share of women in leave-takers and substitutes is approx. 70%. Those taking leave are an average 10 years older than their substitutes. The average age of the substitutes has been 22-24 years for the whole duration of the job alternation leave system, but the average age of those taking leave has gone up from 42 to 47 years. One half of those taking leave work for municipalities, one third in companies and one tenth in the State sector. The sectors most frequently represented by those taking

leave are the health and social services, public administration, industries, transports, data communications and education.

For the duration of the job alternation leave, an alternation allowance is payable, which is 70 or 80% of the daily allowance of the unemployment benefit depending on the employee's work history. The alternation allowances are funded similarly to the unemployment security daily allowances. As pay security, the amount equalling the proportional share of the person's full earnings-related daily allowance is paid as the State's contribution to each alternation allowance. The share of the unemployment benefit society in each alternation allowance is 5.5%. The remainder is funded by the Unemployment Insurance Fund. In 2006, the share of the State was 42%, that of the Unemployment Insurance Fund 52.6% and that of unemployment benefit societies 5.5%.

### **Personnel funds**

The number of personnel funds increased further in 2006 with the setting up of four new funds. At the end of the year, the Ministry of Labour's register included 50 funds and some 116,000 members. The number of members decreased by some 4,000 people during the year, which was mainly due to the decrease in the number of workers employed by companies with funds. In 2006, a record-breaking amount of EUR 77.2 million of profit bonuses was paid out, which is more than at any other time in the history of the funds. This sum exceeded the previous year's figures by EUR 12.4 million. During 1990-2005, EUR 575 million in profit bonuses had accumulated in the funds. The total member capital of all the funds was EUR 382 million in the accounting period ended in 2006.

### **Report on the use of employment relationships for a fixed term**

In June 2006, the Ministry of Labour set up a tripartite *Working Group to report on employment relationships for a fixed term and the conditions for using them*. At the background of establishing this Working Group was the report submitted in December 2005 by Reporter Kirsti Palanko-Laaka, whom the Ministry of Labour had appointed to report on the use of fixed term employment and proposals to develop the legislation. The task of the Working Group was to examine if it would be possible, based on the proposals in Palanko-Laaka's report or independently of these, to draft measures that would reduce any problems associated with fixed term employment, without however restricting the justified use of fixed-term employment relationships. The Working Group looked at the conditions for concluding employment relationships for a fixed term both in the light of national legislation and case law and of Finland's international obligations. In addition, the Working Group studied the provisions in the collective agreements on fixed-term contracts as well as the guidelines issued by the social partners on the conditions of using them. This report also concerned hired labour employment relationships as regards the justification for the fixed term of their contracts. The Working Group also assessed how the legislation on employment relationships for a fixed term responds to the challenges of the labour market. The Working Group submitted its report in February 2007. It proposed making the supervision of fixed-term contracts more efficient (e.g. by making non-compliance with the employer's duty of information concerning the central terms and conditions of the employment relationship a criminal offence and by making the means of supervision of the occupational safety authorities more specific). Based on the proposals of the Working Group, the Ministry of Labour set up a new Working Group to look at the issues relevant to hired labour.

## Other projects

The Ministry of Labour's information project set up a new information service for foreigners. This is in the form of a website that introduces foreigners to the rules of the Finnish working life ([www.mol.fi/finnwork](http://www.mol.fi/finnwork)). The website contains accessible information for employers hiring foreigners and for foreigners coming to work or already living in Finland on such as the rules of working life, permits needed for working and the Finnish work culture, concluding of employment contracts, minimum pay, taxation and social security. The site contains basic information on these themes and links to sources and parties providing more detailed information and advice. The languages featured are Finnish, Swedish, English, Estonian and Russian. The objective is to promote the functioning of the labour market and the awareness of foreigners of the above-mentioned themes.

The tripartite Working Group of the Ministry of Labour also looked at *the problems areas in the labour legislation skills of small employers* with less than ten employees and the functioning of the current advisory organisations in the perspective of small employers as well as establishing how small employers find information and solve in practice any labour legislation issues and problems that they encounter. A study on this matter was launched within the Working Group. According to the information gathered by the Working Group, most of the questions asked by the small employers concerned pay, annual leaves, working hours and concluding and terminating an employment relationship. Up to 85% of the questions can be solved by one telephone call. Issues relevant to terminating an employment relationship were the most difficult ones to find information on and solve. According to studies, the advisory services on employment relationship matters work well, but awareness of their existence should be increased.

Additionally, the Ministry of Labour established an unofficial tripartite negotiating group in September 2006 to look at *the implementation of the Directive on cross-border mergers of companies with share capital* as regards personnel representation. This Directive must be implemented by no later than 15 December 2007.

## 6.6 Immigration political measures

### 6.6.1 Introduction

The Council of State adopted an Immigration Policy Programme in October 2006. Its main priority is promoting labour immigration. An effort is being made to increase the immigration of persons coming from abroad to work in Finland in order to replace the labour force leaving the market due to ageing.

Other central themes of the Immigration Policy Programme include making the guidance of the integration system more efficient, improving ethnic relations between population groups and taking care of commitments associated with humanitarian immigration. The Immigration Policy Programme is complemented by the Council of State's decision in principle adopted by the Government for the Policy Programme on Expatriate Finns for 2006-2011. This programme specifies policies and measures to enhance the interaction between expatriate Finns and Finland for the purpose of also improving the expatriates' possibilities of returning to Finland.

An advisory body on the integration of immigrants and reception of asylum seekers was set up in connection with the Ministry of Labour to improve the opportunities of involvement and co-operation between the Ministries, municipalities and NGO's. At the local level, co-operation

between the municipalities and Employment Offices was made more efficient both generally and as regards the integration of individual immigrants. The Employment and Economic Development Centres have established Committees on Immigration Affairs to make regional co-operation more efficient.

A total of EUR 79.3 million in appropriations was spent on the reception of refugees and asylum-seekers in 2006. The corresponding amount for the previous year was EUR 81.1 million. The EUR 1.8 million reduction in this expenditure was due to the lowering of the costs arising from asylum seekers.

### **6.6.2 The structure of immigration**

According to preliminary figures, some 13,500 citizens of foreign nations moved to Finland in 2006. This figure for the year before was 12,700. At the end of the year, there were some 122,000 foreign nationals living permanently in the country, representing 2.3% of the whole population. An estimated 55,000 of these are part of the labour force. There were an estimated 35,000 foreign employees working in the country for a fixed term. Some 7,000 employee's permits of residence were granted to citizens of non-EU/EEA countries.

A total of 633 returnees came to Finland from the ex-Soviet area, mainly from Russia and Estonia; of these 460 were in the working age, or aged between 15 and 64. The refugee quota for 2006 was 750, of which some 100 places were not filled during year. Of the 547 quota refugees having entered the country, the largest groups were from Myanmar, Afghanistan and Iran. A total of 1,093 people within the scope of refugee reception were located in various parts of Finland in 46 municipalities. This includes quota refugees, united families and asylum seekers having received a favourable decision. Of these 678 were in the working age.

### **6.6.3 Integration and employment of immigrants**

During the first three years following their immigration, the immigrants are entitled to an integration plan, in case they are unemployed jobseekers entitled to labour market support and/or receiving social support. The idea is that during their integration period, immigrants can acquire language skills and other social skills needed in the Finnish working life. Integration support is paid to an immigrant implementing his or her plan, consisting of labour market support and social support granted as necessary. Under the amendment to the Integration Act that entered into force in the beginning of the year, the plan period can be extended by no more than two years in special cases. An extension can be granted for becoming literate or completing the curriculum of basic education. The age, disability or illness of the immigrant, a child protection measure or a maternity or paternity leave can entitle to an extension of this period.

During the year 2006, integration support was paid to a total of 10,800 immigrants. An integration plan was prepared for the first time for 4,281 people, of whom nearly 60% were women and 1,114 aged less than 25. A total of some 9,300 integrating immigrants were within labour political measures.

At the end of immigration training, the immigrants are encouraged to participate in the intermediate level examination of the National Certificate of Language Proficiency in Finnish. A total of 632 immigrants took the examination in 2006, 88% of whom achieved the required level of proficiency.

**Those within the scope of integration support and their participation in labour political measures and positioning at the open labour market in 2002-2006:**

<b>Year</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Within the scope of integration support during the year	9,096	10,000	10,445	10,600	10,800
Integration plans prepared for the first time during the year	3,807	3,058	3,048	3,506	4,281
<b>Total of people within labour political measures:</b>	<b>7,152</b>	<b>8,248</b>	<b>8,727</b>	<b>8,912</b>	<b>9,300</b>
<b>Measures directed at them:</b>					
- labour political training	6,610	6,589	5,785	5,817	6,015
- training that corresponds to labour political training	1,526	2,522	3,571	3,851	4,363
- in measures financed by the ESF (training, rehabilitation, work practice)	712	617	416	488	451
- in work practice or preparatory training for working life	1,478	1,743	2,166	2,217	2,322
- participating in career guidance or rehabilitation measures	78	54	42	34	24
<b>Jobs found at the open labour market</b>	<b>4,046</b>	<b>5,033</b>	<b>5,504</b>	<b>6,363</b>	<b>7,616</b>

During the reporting year, the Employment Offices had an average of 28,600 foreign jobseekers in their books, 14,000 of whom were unemployed. Their estimated unemployment rate at the end of the year was 26%. The corresponding figure for the year before was 28 %. By nationality, the largest groups of job-seekers were the citizens of Russia and Estonia, who accounted for approx. 43% of all foreign job-seekers. The improved employment situation of immigrants is particularly evident in the regions of Uusimaa, Tampere Region, Southwest Finland and Ostrobothnia.

The employment exchange and other events for foreign jobseekers were divided as follows:

Employed at the open labour market	14,600
Placed through measures	12,500
Started in labour force training	15,100
Started in other training	2,200

There was a backlog of some 9,400 Ingerian Finnish returnees including the family members in Russia and Estonia. For those in the queue, re-entry orientation for returnees and language proficiency examinations were arranged in the area of St. Petersburg, Karelia and Estonia. In co-operation with municipalities and employers, the immigration flow was channelled to match local labour market needs.

#### **6.6.4 Interpretation and translation services**

In case a person registering or having registered as a jobseeker is a foreigner, interpretation or translation services shall be used when imparting information as provided in the Administrative Procedure Act. Interpretation and translation services shall be used in particular when drawing up and revising integration plans for immigrants. Since the year 2003, funds for interpretation and translation services have been included in the operating expenditure of Employment Offices under item 34.06.21. Employment Offices have also responded to the increasing range of languages spoken by the customers by hiring personnel with linguistic skills for the initial phase services in the largest Offices.

Interpretation services are available in such as the municipal interpretation centres, 8 of which are located in various parts of the country. These centres offer services in nearly 70 different languages. Private companies and freelance translators also offer their services. In recent years, investments

have been made in remote interpretation by video link or telephone. Its share of all interpretations today is some 20%. Remote interpretation brings about savings in travel costs and times, increasing efficiency.

### **6.6.5 Foreigners working in Finland**

The permit system concerning labour immigration is based on the Aliens Act that entered into force on 1 May 2004. Pursuant to the Aliens Act, a foreigner as a rule needs an employee's permit of residence in order to work in Finland.

An employee's permit of residence is issued in two steps: it includes the partial decision of the Employment Office and the residence permit decision of the Directorate of Immigration or the Police Department of the population register district. Firstly, the Employment Office assesses the availability of suitable labour force for the work in question at the labour market within a reasonable time. In addition, the Employment Office will assess the adequacy of the working conditions, the employer's capacities to act as an employer and the adequacy of the foreigner's livelihood. After a favourable partial decision has been made, the Directorate of Immigration grants the first permit of residence and the police a continued permit, unless there are reasons for not granting a permit associated with public order and safety, or the application is regarded as an attempt to circumvent the provisions of the Aliens Act.

In some cases, the Aliens Act enables foreigners to work without the consideration of labour availability. The consideration of the availability of labour does not concern such as those working in the top or medium-level management of a company or as special experts, professional athletes and coaches, professional artists, professional journalists, those working for an international organisation, or seasonal workers in agriculture.

In 2006, the Employment Offices issued a total of some 7,000 partial decisions to the citizens of so-called third countries. The highest number of partial decisions were issued to chefs, cooks, cold store managers, truck and articulated vehicle drivers, cleaners, and horticultural and agricultural workers. Almost one half of the employees were Russian. The second largest groups were Ukrainians, Chinese, Turks, Thais, Bulgarians, and Romanians.

The validity of the two-year Transition Period Act introduced in Finland in connection with the EU enlargement ended on 30 April 2006. This Act restricted the free mobility of labour from the new member states. Approximately 6,000 approval decisions pursuant to the Transition Period Act were made. Most of these concerned Estonian workers. The Act did not apply to labour force entering the country through foreign hired labour companies, and this is why discontinuing the transition period during the latter half of the year did not essentially increase the number of jobseekers coming from the new EU countries.

The Act on Registering the Employment of Certain European Union Citizens entered into force on 5 June 2006. The registration of information applies to the citizens of the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Slovenia and Slovakia. In 2006, the number of cases in which the information on the employment of EU citizens was registered was a total of some 1,000 according to the Register of Foreigners. Since the beginning of January 2007, this possibility also applied to Bulgarian and Romanian citizens.

The employee's permit of residence matters were concentrated in three work permit units since 5 June 2006. The Work Permit Unit of Uusimaa still processes applications received in the area of the

Employment and Economic Development Centre of Uusimaa. The Employment Office of Tampere takes care of applications in the Province of Western Finland. The Employment Office of Lappeenranta, on the other hand, makes decisions on applications from the Provinces of Eastern Finland, Oulu and Lapland and Southern Finland (excluding applications submitted from the area of the Uusimaa Employment and Economic Development Centre). In the Åland Islands, employee's work permit matters pursuant to the Aliens Act will be processed by the Employment Office of the Åland Islands.

The Aliens Act was amended in 2006 in order to promote the entry of students from the so-called third countries and their placement in the Finnish labour market. After completing a degree or qualification, foreign students have the possibility of applying for a six-month residence permit for the purpose of seeking employment. After finding a job, the foreigner can apply for a permit of residence, the granting of which is not subject to a discretionary decision concerning the availability of labour.

### **Reception of asylum-seekers**

In 2006, 2,316 people sought asylum in Finland. This number was down by 35% from 2005, in which year the number of asylum seekers was 3,574. The five largest groups of asylum seekers came from Bulgaria 462, Iraq 224, Serbia and Montenegro 208, Russia 176 and Belarus 98. The number of minors who sought asylum without a guardian was 107 in 2006. This figure for 2005 was 218.

During the year, fifteen reception centres were in operation, three of which were maintained by the State, ten by municipalities and two by the Finnish Red Cross. The reception activities provided some 2,300 beds in the beginning of the year. During the spring, the accommodation capacity of the reception centres was adjusted to the decreased numbers of asylum seekers entering the country and the Ministry of Labour's performance target of a 70% utilisation rate by cutting the number of places down to approx. 1,900, and in September the decision was made to close down two of the reception centres from the beginning of 2007 and one by the summer of 2008.

In the reception centre of Metsälä in Helsinki, a holding unit for asylum seekers and other foreigners taken in custody pursuant to the Aliens Act provides 40 places. In addition to providing accommodation, the Metsälä reception centre functioned as an information point for asylum-seekers living in private accommodation in the capital area.

The reception of minor asylum-seekers entering the country without a guardian was arranged in community homes and subsidised housing in conjunction with the reception centres. The accommodation capacity of the community homes was adjusted to the decreased numbers of arrivals by making the decision to close down the community home in Perniö by the end of March 2007.

In December 2006, the Parliament adopted provisions to be included in the Integration Act on an assistance system offering services and support measures to victims of human trafficking. This amendment entered into force on 1 January 2007. For victims of human trafficking, services and support measures can be arranged, which can include legal aid and other advice, crisis counselling, social and health services, interpretation services and other support services, accommodation or housing, social support and other necessary care as well as support for a safe return.

## **Safeguarding ethnic equality and diversity**

The Ministry of Labour's Equality Plan concerning discrimination on various grounds was completed in December 2005, and its first follow-up study was conducted at the end of the year 2006. The equality website administrated by the Ministry of Labour ([www.yhdenvertaisuus.fi](http://www.yhdenvertaisuus.fi)) brings together tools, materials and examples that support equality planning. Information and training activities concerning equality were continued further in 2006, and a study on the implementation of the Non-Discrimination Act was commissioned.

The Ministry is involved in a number of European equality projects and co-ordinates a national information campaign with a wide base as well as the preparation and implementation of the European Year of Equal Opportunities for All in 2007. A proposal for a national system of monitoring discrimination and a handbook on discrimination issues were completed towards the end of 2006.

MoniQ, an ESF co-financed product development project supporting multiculturalism in work communities that had started in April 2003, ended on 31 December 2006. This project collected, modelled and mainstreamed nationally good experiences of immigrant projects in which the diversity of work communities and the employment and integration in the Finnish society of immigrants was successfully promoted.

The Advisory Board for Ethnic Relations (ETNO) produced a proposal for anti-racism work performed by the Advisory Boards and for the development of the Ambassador of Good Will activities. In addition, Working Groups on dialogue between religions and cultures, ethnic relations in the capital area and good practices in working life were active within the Board. Three regional Advisory Boards for Ethnic Relations have each promoted good ethnic relations in their areas. The first Forum of Ethnic Relations was organised in January 2006.

### **The European Refugee Fund (ERF)**

The Ministry of Labour manages the European Refugee Fund (ERF) in Finland. ERF resources are intended to promote and develop the reception of refugees and the asylum procedure, the integration of refugees and their voluntary repatriation. The Fund allocates financing to the member states according to the numbers of asylum seekers and refugees they have received in the previous three years.

The second programming period of the Fund, which started in 2005, will continue until the year 2007. The general aim will in particular be to support the implementation of community legislation in the member states in order to develop a single European asylum procedure. The national priorities in Finland will also include supporting the initial integration and empowerment of refugees. Finland's share of the ERF was EUR 765,446 in 2006. Financing was granted to a total of 13 projects that promote the reception and integration of refugees. These projects are being implemented by municipalities and organisations.

## **6.7 Amendments to labour and immigration political legislation**

### **Amendments to labour legislation**

The new Act on the Contractor's Obligation and Liability When Work Is Contracted Out (1233/2006, the *Contractors' Liability Act*) entered into force in the beginning of the year 2007. The

aim of the Contractor's Liability Act is to contribute to preventing the negative effects of the grey economy and unhealthy competition on companies. The Act applies to situations where outside labour is being used, either hired labour or subcontracting. Pursuant to this Act, the Contractor has the obligation to establish the contracting partner's capacities of fulfilling their statutory obligations. This also helps to ensure that subcontractors and companies hiring out labour comply with employer's obligations. This way, the obligations imposed in the Act also aim at implementing the minimum conditions in the employment relationships of subcontractor's employees and hired employees.

The Contractor's Liability Act applies to work performed in Finland and also to work performed on a vessel under the Finnish flag, even when the vessel is not in the Finnish territorial waters, in case the employee follows the vessel. The Act is, first of all, applied to a contractor *using hired labour employees*. The hired employee's employer may operate either in Finland or abroad. The Act is also applicable in certain *employment situations based on a sub-contracting agreement* under conditions specified in the Act, in case the value of the sub-contracting work is a minimum of EUR 7,500.

The purpose of the contractor's liability is to ensure that the contractor has as correct information as possible on whether the contracting party is reliable and whether they intend to act as provided in the legislation. The contractor must have this information before concluding a contract, and the employer of a hired employee and the contracting partner in a sub-contracting agreement has the duty to give it to the contractor.

The contractor's liabilities include establishing that the company is entered in the preliminary tax register, employers' register and VAT register. They also include demanding an extract from the Trade Register, certificate or report of tax payment, certificates of having taken out pension insurances and information on the collective agreement or central working conditions applicable to the work. This information must also be obtained in case of foreign companies. The information must not date back to more than three months. In certain situations prescribed in the Act, obtaining this information is not necessary.

As a penalty for violating these obligations, the Occupational Safety and Health Office of the Occupational Safety and Health Inspectorate, which supervises compliance with the Act, can impose a fine amounting to no less than EUR 1,500 and no more than EUR 15,000. The amount of the fine is determined by the seriousness of the violation.

*The Act on Crew Listings* (1360/2006) entered into force in the beginning of the year 2007. This Act repealed the Maritime Inspection Act and amended the Seamen's Act by the Act (1361/2006) regarding such as the sections concerning the format of the employment contract and the entitlement of shop stewards to be informed. The Act imposes on the Master a duty to ensure that a ship's crew list is maintained on the vessel, on the shipowners the duty to give reports concerning the time of service at sea of seamen employed by them in the Seamen's Register maintained by the Finnish Maritime Administration and the seaman's right to receive information on the data recorded in the Seamen's Register.

*The entitlements to family leaves* were improved from the beginning of August 2006 by amending the Employment Contracts Act by Act (533/2006) and the Seamen's Act by Act (534/2006). The amendments concerned extending the entitlement to child care leave of adoptive parents, the entitlement to temporary child-care leave of a parent not living with the child, as well as the entitlement to partial child care leave of parents of children who are handicapped or affected by a long-term illness. The aim of these amendments was e.g. to facilitate the reconciliation of work and

family life by the parents. The entitlement of an adopted parent to child-care leave was extended so that the child-care leave applies to the parent of a child below the school age until two years have elapsed from the adoption. Previously, the entitlement to child care leave ended once the child turned three. A guardian not living in the same household with their child is now entitled to temporary child care leave in case his or her child aged under 10 becomes ill unexpectedly. The entitlement of parents with a handicapped child or one afflicted by a long-term illness to part-time child-care leave was extended so that this entitlement continues until the child in need of particular care turns 18. In addition, the notification times of family leaves were shortened so that the notification time for leaves no more than 12 working days in duration was shortened to one month.

By Acts (364-365/2006), the regulations that entered into force in the beginning of June 2006 on the right of the pay security authority to exchange information needed for the processing of a pay security case with the authorities administrating pay security matters in another European Union member state or the Community were added to the *Pay Security Act and Seamen's Pay Security Act*.

In order to promote the introduction and expansion of the working time bank system, by Acts (1257-1258) regulations were added to the Pay Security Act and the Seamen's Pay Security Act safeguarding the payment of working time bank claims as pay security up to an amount equalling six months' pay for the employee. These amendments entered into force in the beginning of 2007. In *the Act on Personnel Representation in a European Company* (SE), provisions on personnel representation in a European co-operative society (SCE) were added by Act (663/2006). These amendments entered into force on 18 August 2006.

### **Government proposal on co-operation within undertakings**

In June 2006, the tripartite Committee of the Ministry of Labour submitted a report concerning the new Act on Co-operation Within Undertakings and Act on Co-operation Within Finnish and Community-Scale Groups of Undertakings. Based on the Committee report, the Government submitted to the Parliament a Bill on Co-operation Within Undertakings and certain associated laws (HE 254/2006 vp) in November 2006, which proposes the passing of the above-mentioned Acts.

According to the proposal, the Co-operation Act would only apply to companies with a minimum of 20 employees rather than the previous limit of 30 employees. The parties in the co-operation are the employer and the personnel of the enterprise. The Co-operation Act would specify the personnel groups and their representatives, which would mainly be the shop steward or the elected representative intended in the Employment Contracts Act. In certain cases, a specific co-operation representative could be elected. This would bring some 2,800 new companies and 66,000 employees within the scope of the co-operation procedures. The Co-operation Act currently applies to companies with no less than 30 employees. It is proposed that the scope of application of the Co-operation Act would also be extended to cover all corporations and foundations, irrespective of whether their activities are intended to be profit-making or not, or of who funds them.

It is proposed that indemnification in cases where an employee's contract has been terminated or reduced to a part-time one, or the employee has been laid off, without complying with the provisions of the Act would be a specific amount in Euro. This would result in increased equality between the employees, as in the indemnification paid because of the same procedural error of the employer, the salary of the employee would not be taken in consideration. The employee would still also receive other indemnification for an illegal dismissal.

According to the proposal, the company should every year prepare a personnel plan and training targets, which would be discussed in co-operation. These should show not only the development of the structure and numbers of employees but also the principles of using various forms of employment relationships and an estimate of changes in the vocational skills requirements of the employees and their reasons, as well as annual training targets based on this estimate. The implementation of this plan and targets should be monitored in co-operation. A small company would not be expected to draw up as comprehensive a personnel plan as larger companies. The employer shall inform the representatives of the personnel groups of the numbers of temporary and part-time employees in the company on a quarterly basis.

The Bill would enhance the joint processing of external labour use at the workplace. In addition to matters included in the duty of information, pursuant to a new provision the employer should produce an annual report on the use of external labour force. This report should cover subcontracting work performed at the employer's facilities or sites. In case the use of external labour force in the form of subcontracting and hired labour has an impact on the personnel, these should be discussed in the co-operation procedure.

It is proposed that the provisions on the period of negotiations would be simplified in the new Act. The employer should submit a proposal concerning negotiations and any information on the matter in good time to enable the employees or the representatives of the personnel groups to prepare for the negotiations, and also to discuss these among themselves and with the employees they represent. In situations of reductions in the labour force, the proposal should still be submitted five days before starting the negotiations. The minimum negotiating period in dismissals and lay-offs of workers and making employment relationships part-time would be extended from 7 to 14 days, in case the dismissals concern less than 10 employees. In case they concern no less than 10 employees, the time period for negotiations will remain at six weeks. In case the company had 20-29 employees, the negotiating period would still be 14 days also in these cases. Additionally, it is proposed that a new form of safeguarding measures would be added to certain cases of neglecting the duty to inform.

The new Act on Co-operation Within Finnish and Community-Scale Groups of Undertakings would apply to co-operation within both national and international groups within the European Economic Area. These proposals observe international regulations binding Finland, in particular the EU Directive on Informing and Consulting Employees and the European Work Council Directive. It is also proposed that the secrecy provision of the Act will be made more accurate to observe EU Directives. The Parliament had not finished debating the Bill by the end of 2006.

### **Amendments to the Employment Service Act**

The preconditions for granting pay subsidies to companies were made less stringent. After the amendment, a pay subsidy can be granted based on an employment contract for a fixed term, in case the period of unemployment of the person to be hired on the subsidy has lasted for a minimum of six months. The previous requirement was that the employee to be hired on the subsidy was long-term unemployed. This amendment entered into force in the beginning of August 2006.

From the beginning of 2005, the Employment Offices have within the scope of a two-year start-up grant experiment also been able to grant start-up grants for others than just unemployed jobseekers wishing to become entrepreneurs. The experiment was extended by one year, so that start-up grants

can within the experiment still be granted in 2007 and paid for no longer than until the end of the year 2008.

In order to support regional mobility, change security was extended by means of a discretionary removal subsidy, which can be granted not only to those who are within the scope of change security but also those entitled to labour market support. By the removal subsidy, removal costs due to taking a job in another commuting zone are compensated up to EUR 700. In order to facilitate regional mobility, it is possible to continue paying the labour market support as a travel subsidy for a full-time job taken outside the commuting zone. The conditions for granting a travel subsidy were made less stringent by shortening the minimum duration of work entitling to the subsidy from six to two months and by extending the maximum duration of the subsidy from two to four months. The travel subsidy was expanded, making it on certain conditions also available as compensation for costs arising from taking a job on a pay subsidy. These changes entered into force from the beginning of the year 2007, excluding the shortening of the period of work that is the condition for receiving a travel subsidy, which entered into force in the beginning of August 2006. On the authority to issue decrees provided for in the Act on the Public Employment Service, the entitlement of municipalities, associations and foundations as well as social enterprises to place an employee in tasks performed for another organiser of work (so-called re-placement) was extended by a Decree of the Council of State. This amendment to the Decree entered into force in the beginning of 2007.

### **Simplification of the financing assistance system**

The State's financing assistance system, under which project and activation assistance from employment appropriations can be granted to municipalities, municipal federations, other bodies, foundations, social enterprises and new co-operatives, was simplified and clarified by changing the Council of State Decree concerning the use of certain employment appropriations. This amendment to the Decree entered into force in the beginning of 2007. Employment political project support and assistance for independent initiative were combined into a labour political assistance, which essentially corresponds with the previous support and assistance. The new assistance makes it possible to better than before support services and wide-ranging service packages arranged for those who have been unemployed for extended periods.

The purpose of use of the assistance was extended to cover establishing the ability to work and function of the unemployed and their preconditions for finding employment as well as the development of new services. The maximum amount of assistance for social enterprises was increased to 75%. The maximum assistance granted to municipalities and municipal federations is 50%. On certain conditions, the costs of employment activities targeting the long-term unemployed and difficult to employ groups can be compensated in full, similarly to the payroll costs of a leader of an association for the unemployed.

The maximum duration of the assistance to be granted was as a rule extended to five years. Similarly, the party granting the assistance was given the right to set conditions in the decision to grant assistance that are necessary for implementing the purpose of the assistance. The granting and payment procedures of the assistance were made more flexible by waiving the requirement of a particular security from the beneficiary of the assistance when paid as an advance.

## **Amendment of the Unemployment Security Act**

The duty to co-operate associated with receiving the unemployment benefit and the validity of jobseeking was changed so that the jobseeker is during the period of unemployment expected to start implementing his/her jobseeking plan, activation plan, integration plan or employment programme as soon as one has been drawn up with him/her. Previously, the duty to co-operate only started after a five months' uninterrupted period of unemployment. The Act entered into force on 1 August 2006.

The Unemployment Security Act was amended to make a partial sickness benefit comparable to a sickness benefit. A person will be considered disabled while receiving a partial sickness benefit. On the other hand, the period of determining the time at work condition is extended as regards the time for which the beneficiary receives the partial sickness benefit, and work performed by the beneficiary while receiving the partial sickness benefit is discounted for the purposes of the time at work condition.

In the unemployment security, receiving certain benefits has been associated with a requirement of a work history, which has been determined as a certain amount of working time insured with a pension insurance. In connection with the reform of the employee pension, the Employment Register became the Earnings Register. This is why the time at work required for receiving these benefits is calculated based on the registered earnings instead of the registered time at work. The new calculation method will be introduced gradually, and the new methods will be only applied to time at work from 2007 on.

The Unemployment Security Act contains provisions on the working time and salary that meet the time at work condition. In a sector without a collective agreement, the earnings from full time work must be a minimum of 40 times the amount of the basic daily allowance. The Act was amended by recording the minimum salary for full time work in it, or EUR 940 a month. As the time at work condition is met with 18 working hours a week, the earnings from work meeting the time at work requirement would thus be a minimum of EUR 423 a month. When earnings pursuant to pension legislation are divided by this minimum wage, the number of working months in the year in question is obtained. This method of calculation applies to the increased earnings-related part and the increased part of the basic daily allowance specified in the Unemployment Security Act. The time at work condition for receiving these is 20 years, and that for the training allowance is 10 years. In addition, the method is applied to the Act on Job Alternation Leave and the Adult Education Act. In job alternation, the work history requirement is 10 years; for the increased allowance, a time at work of 25 years is required. The condition for the adult education subsidy is having worked for five years; the divider used in it is 940. The dividers are adjusted annually by the pay coefficient in the Employment Pension Act.

The appeal system of social support was made clearer. From the beginning of the year 2007, the Unemployment Appeals Board changed its name to the Board for Unemployment Security Appeals. Its competence was expanded so that the Board has the right to make decisions in appeals concerning the decisions of the Social Insurance Institution, an unemployment benefit society or the Education Fund. An oral hearing was made possible also at the request of a private party.

When calculating the extent of the daily allowances, a share corresponding to the unemployment and employment pension contributions paid by the employee is deducted from the total amount of his or her earnings. A separate Statute is issued on the extent of this deduction annually. In 2006,

the amount of this deduction was 4.88%. The deduction for 2007 was confirmed as being equal to that.

The access of entrepreneurs' family members to unemployment security was made easier. A family member of an entrepreneur was regarded as being employed in the enterprising activities until the point of time at which it can be proved that the enterprising was discontinued or it was interrupted for a continuous period of at least four months. The Unemployment Security Act was amended so that no discontinuation or interruption of the enterprising activities is required, in case the work performed by a family member is no longer needed because of the closure of a production line or a similar reason. This provision applies to a family member who did not have control based on ownership or a similar position in his or her own right in the company. The amendment will enter into force in the beginning of October 2007.

### **The Integration Act**

The Act on the Integration of Immigrants and the Reception of Asylum Seekers was amended from 2 January 2006 with the aim of making the integration of immigrants faster and more efficient. The division of labour and sharing of responsibility between the authorities were made more clear-cut at all levels of administration. In December 2006, the Parliament adopted provisions to be included in the Integration Act on the assistance system offered to victims of human trafficking. The amendment entered into force on 1 January 2006.

The Act on Registering the Employment of Certain European Union Citizens entered into force on 5 June 2006. Information on work performed by the citizens of the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Slovenia and Slovakia is registered with the Employment Office..

### **Legislation in drafting stage**

The Ministry of Labour established a tripartite Working Group to look at making job alternation leave permanent and the financing of this system. The deadline for the Group's work was 3 January 2007. The current Act will be valid until the end of 2007, and job alternation leaves agreed during its validity can still be taken during the year 2008. The Ministry of Labour also established a tripartite Working Group to draft regulations on the employer's right to process credit information of the wage and salary earners. The deadline for this Working Group is 31 October 2007.

## **6.8 Resources and support for labour policy and implementation of employment management**

### **6.8.1 Resources for managing employment and organisation of the Labour Administration**

In the 2006 Budget and supplementary budgets, total appropriations of EUR 1.98 billion were allocated to the administrative sector of the Ministry of Labour. This was a reduction of EUR 192 million from the year before, in which the share of labour market support exceeded EUR 186 million. A total of EUR 1.14 billion were budgeted for the expenditure and benefits of active labour policy (excluding the ESF), and EUR 436 million for unemployment period labour market support (passive period). In figures, the appropriations were divided as explained below.

The Government Programme requires that regional authority is increased in the use of labour political instruments in accordance with performance targets determined by the Ministry of Labour and within the framework of the allocated appropriations. In accordance with this principle, the budget structure was changed so that the majority of appropriations for labour political measures

(chapter 34.06) are included under a single item (34.06.51, a fixed appropriation). Total appropriations of EUR 506,502,000 were allocated to this item in the 2006 Budget, and in the second supplementary budget, EUR 15,000,000 were deducted from this item. The most central allocations in this item are the employment subsidy and purchases of labour force training.

The total appropriations and a plan for their use were agreed in performance negotiations with each Employment and Economic Development Centre. The Council of State made a decision on the regional distribution of the appropriations for labour policy on 26 January 2006. During the budget year, the Employment and Economic Development Centres have been able to independently transfer allocations between sub-items of their appropriation use plan, excluding some appropriations that were committed bindingly. The Ministry of Labour makes decisions on changes that concern the total amount, binding appropriations and authority to grant funds.

Appropriations budgeted for the administrative sector of the Ministry of Labour for 2006 in figures (EUR 1,000)

01	Labour Administration	59,824
	- operating expenditure of the Ministry of Labour	22,494
05	Implementation of ESF programmes	223,427
06	Implementation of labour policy	1,577,974
	- operating expenditure of local government	142,826
	- labour market support	778,971
	- other implementation of labour policy	656,177
07	Refugee and immigrant matters	86,127
99	Other expenditure of the administrative sector	28,618
	Total	1,975,970

The development of the Employment Office network continued in 2006. The aim of the Employment Office network reform is to harmonise labour political priorities in regions and to support the development of management and specialisation. The target of the reform is improving productivity by making the operating units larger, which enables a more efficient resource use and safeguarding the availability of services. The reform means that the number of Employment Offices will go down. At the turn of the year, the number of Employment Offices was 102. There were 111 branch offices, offices, services centres, joint services points and jobseeking centres. Measures aiming at merging offices are under way in the regions. At the end of the reporting year, the staff numbers of the Labour Administration were 4,305, while the corresponding figure for the year before was 4,295. In addition, 560 people were employed in the administration on employment funds at the end of the year.

### **6.8.2 Labour political research programme**

The drafting of the Labour Political Research Programme (2003-2007) has progressed in parallel with the Ministry of Labour's strategic process and in interaction between the various teams of the Ministry, labour market organisations, other administrative sectors and research institutes. The research needs were determined on the basis of five priority areas of the current labour policy strategy and the operational strategy of the public employment services.

In 2006, a total of EUR 1.4 million was made available for the Labour Political Research Programme, of which one half was allocated to the needs of labour political studies and the rest to the needs of working life research. Immigration political studies have been implemented within the

framework of the entire programme. So far, more than 100 projects have been launched and implemented, or a decision in principle has been made on them, within the framework of the Labour Political Research Programme since 2003 (see [www.mol.fi/tutkimus- ja kehittäminen/työpoliittinen tutkimusohjelma](http://www.mol.fi/tutkimus- ja kehittäminen/työpoliittinen_tutkimusohjelma)). In order to publicise the research results, seminars and working meetings have been held for the management of the Ministry of Labour, stakeholders and research institute representatives.

The central themes and priorities of labour political research have included the functioning of the labour market and how to improve it, the role of employment services in increasing the effectiveness of labour policy, assessing the effectiveness of labour policy, labour immigration and the capacities of unemployed jobseekers to be employed in the vacancies becoming available.

In the operating year, 13 reports were published in the Labour Political Studies series. Studies on the demand for labour were about the functioning and implementation of the Act on Social Enterprises, deduction for household services, experiment of expanding the use of start-up grants, employment and productivity and the ideas of the employers and their capacities to employ those in a disadvantaged labour market position. As to unemployment security, the studies focused on whether or not unemployment security tends to make the unemployed more passive, and if yes, what is the extent of these effects. Effectiveness studies applying increasingly reliable assessment methods focused on employment political training on one hand and all central labour policy activation methods on the other. Studies looking at the implementation of jobseeking plans and the possibilities of statistically profiling the unemployed supported the development of labour force services. A study was also completed on the ability to work of the unemployed. Regional immigration including commuting was also studied, and its connection to labour market development, e.g. the dwindling labour resources in many regions. For some of the central results, please refer to Chapter 6.9.

Working life studies supported the labour policy's strategic priorities of improving work productivity in a sustainable manner, ensuring the availability of a skilled workforce and increasing entrepreneurship and self-employment. The objective was to produce information for the further development of labour legislation and to evaluate its effectiveness as well as to support the functioning, productivity and quality that promotes well-being at work in work organisations.

In the reporting year, 16 working life studies were published. In the field of studies concerning labour legislation, a report on the labour legislation competence of small employers was completed. Studies were also produced on the effects on the employee's position of relocations of production and provision of services as well as the move from internal market regulation to EU labour law. Of projects targeting skills development, studies on both the labour force training for those at work and on skills capital and productivity in the regions were brought to a conclusion. Similarly, multi-annual projects concerning flexibility in working life and management as well as the corporate social responsibility were completed. Similarly, a research package analysing the effects of proactive operating methods in work organisations was concluded with a study on how wage and salary earners experience the meaningfulness of work. Of immigrant studies, studies focusing on equality in personnel management and customer services associated with the Academy of Finland research programmes and a study on the activities of immigrants as entrepreneurs and wage and salary earners in Turku region were completed. The study on immigrants in the Finnish workplaces continued.

### **6.8.3 The Labour Administration and international co-operation**

#### **The European Union**

The theme of Finland's Presidency of the European Union in the Labour Administration sector was responding to globalisation and the changing population structure while increasing productivity and improving the quality of working life. This theme was discussed in the unofficial meeting of the Labour, Social and Health Ministers in Helsinki on 6-8 July 2006 and the specialist conference "Towards higher productivity and better jobs" held in Espoo on 16-17 October, in which representatives of the OECD and ILO also took part. The theme was also brought up in the social summit focusing on the balance between flexibility and security in the labour market, which was organised at the level of Prime Ministers and Labour and Social Affairs Ministers of the troika countries (Finland, Germany and Portugal) in Lahti on 20 October 2006. As an achievement during the Presidency can be counted the fact that the initiative filed by Finland on improving productivity and quality of work was taken in consideration in the Lisbon report prepared by the Commission for the European Council of spring 2007.

The Council adopted on 1 December 2006 its conclusions on decent work, in which it commits to strengthening competitiveness in a socially sustainable way and to improving productivity by promoting decent work and working life quality. The Council and the European Parliament reached an agreement on the Regulation establishing the Globalisation Adjustment Fund, the operations of which will start towards early 2007. The Fund will support the re-employment of employees losing their jobs due to globalisation.

Finland put forward a proposal to solve the issue of reforming the Working Time Directive so that it would change the European Court of Justice's interpretation of the definition of inactive on-call time and the point of time of allowing compensatory rest periods. Despite the support of a large majority, the Council could not reach an agreement on this issue.

During Finland's EU Presidency, the multi-annual co-operation programme "Progress" of the labour and social affairs sector was finalised and negotiations on it were completed. This programme covers sectors concerning the promotion of employment, social inclusion, non-discrimination, gender equality and development of working conditions (including occupational safety and health and labour legislation). As part of the Structural Funds solution, the Regulation on the European Social Fund was adopted. Multi-annual programmes were also adopted on the integration of immigrants and the European Refugee Fund.

In the ASEM summit of the leaders of Asian and European Union Countries, which took place in Helsinki on 10-11 September 2006, decisions were made on co-operation in such as active labour policy, social dimension of globalisation, productive and decent work, protection of workers and social cohesion in line with the decisions made in the first ASEM meeting of Labour Ministers in the beginning of September 2006.

#### **The International Labour Organisation (ILO)**

The ILO Maritime Labour conference held in Geneva on 7-23 February 2006 adopted the new Consolidated Maritime Labour Convention, which will replace 68 prior ILO conventions and recommendations on maritime labour. Only Convention 71 on seamen's pensions and Convention 185 on seamen's identification cards were excluded from the new Convention.

The 95th ILO working conference in Geneva on 31 May - 16 June 2006 adopted a Convention on Occupational Safety and Health and a recommendation for a promotional framework for occupational safety and health and, as an Annex to it, a resolution on asbestos. This Convention will not cause problems in terms of the Finnish legislation. In addition, the conference adopted a recommendation on employment relationships. This Recommendation is unlikely to cause problems in terms of the Finnish legislation or require special measures.

### **The European Council**

Finland continued its participation in the work of the Intergovernmental Committee supervising the application of the Social Charter of the Council of Europe and the European Committee on Migration (CDMG). Dialogue with the Parliamentary Assembly was continued in the political forum. Finland was represented in an expert group discussing the position of the Roma working under the CDMG as well as a working group on the integration of children. In addition, Finland took part in the preparative work for the European Council conference of Immigration Ministers to be held in Ukraine in 2008. The Ministry of Labour took part in the forum arranged by the European Council in November, the theme of which was achieving cohesion in a multicultural Europe.

### **OECD**

The work to reform the jobs strategy of the OECD countries dating back to 1994 was completed in the middle of 2006. The reformed strategy was published and discussed at the level of Ministries of Labour in the policy forum of Toronto in June 2006. The aims of the renewed strategy included offering operating models for safeguarding the availability of labour as the population ages and promoting the structural adjustment of member states to the changing international division of labour in the increasingly global market. The renewed strategy no longer offers a single approach to improving the performance of the labour market. Country comparisons have shown that a good employment development can be achieved both through a liberal and the Scandinavian labour market model (see 6.9).

The OECD launched a wide-ranging, multi-phase research programme titled the Programme for the International Assessment of Adult Competencies (PIAAC). The idea is to make the PIAAC into a follow-up study of assessing the vocational competence of adults similarly to the PISA.

The Ministry of Labour continued to take part in the OECD's LEED programme, which studies and promotes local level employment projects to create jobs and prevent social exclusion. Finland gathered data on such as the working of community finance and social enterprising for the LEED programme and provided information on the implementation of the Finnish Act on Social Enterprises.

### **Nordic co-operation**

The Nordic Council of Ministers' meeting of Labour Ministers (MR-A) in October 2006 discussed the impacts of EU enlargement on the Nordic labour market based on the second report (Det nordiske arbeidsmarkedet to år etter EU-utvidelsen – Mobilitet, virkninger og utfordringer, <http://www.norden.org/pub/sk/showpub.asp?pubnr=2006:557>) of the Nordic contact group established in 2004. According to this report, the mobility of the citizens of the new member states under free mobility has been less active than expected, and it has not resulted in imbalances in the

Nordic labour market. Labour immigration from the new EU countries to the Nordic countries has since the EU enlargement mainly taken place within the framework of the free provision of services, which has in all Nordic countries given rise to problems associated with the marginal zones of the service relationship forms. The mandate of the contact group was extended until 1 May 2007.

In the reporting year, the name of MR-A was changed to the Council of Ministers for Labour Market and Working Life Policy, and that of the Committee of Senior Officials (ÄK-A) became the Committee of Senior Officials for Working Life. The organisation under the Senior Officials' Committee was renewed by discontinuing the Division for Working Environment and Division for Working Life Research and replacing these by the new Division for Working Environment. The Division for Immigration established in 1985 was also discontinued. A decision was made to focus on labour immigration in the future and to mainstream the relevant issues in the activities of the remaining three divisions.

The Ministry of Labour took part in the conference on "The effects of globalisation on the Nordic Labour Market" held in Oslo on 14 November 2006 and its preparations. The Nordic contact group on absences due to sickness continued its work. In the reporting year, the section on the labour market and working environment sectors was also prepared for the Presidency programme of the Nordic Council of Ministers.

## **UNHCR**

Implementation of the quota refugee policy continued in co-operation with the UN's High Commissioner for Refugees (UNHCR) in order to meet the needs for relocation of refugees. The Ministry of Labour took part in the annual meeting and negotiation process between the UNHCR and the relocation countries on the refugee quota, and the meeting of the implementation committee of the organisation. The Ministry also had close contacts with the organisation's regional office in Stockholm.

## **UN**

In July, the Minister of Labour Ms Filatov led the Finnish delegation in the UN Economic and Social Council ECOSOC meeting, which discussed issues relevant to the global economy, employment, sustainable development and humanitarian aid. Finland addressed the General Assembly of the Council for the EU, as well as a panel on the promotion of decent work in the era of globalisation.

The Ministry of Labour Ms Tarja Filatov led the Finnish delegation in the first UN high-level dialogue focusing on immigration and development, which was held in New York in connection with the UN General Assembly on 14-15 September 2006. The purpose of the dialogue is to discuss ways of increasing the positive impacts of immigration. Finland chaired a round table discussion on the effects of immigration on economic and social development.

## **Co-operation between neighbouring areas**

Similarly to previous years, the Ministry of Labour's co-operation with neighbouring areas was implemented as interregional co-operation. In addition, the regions implemented labour force training for the needs of Finnish companies operating in Russia. The co-operation covered such as the profiling of jobseekers, recruitment of seasonal labour for the picking of garden fruit and the

recruitment of labour mainly for modelling purposes through the Mobility of Labour project from Russia to Finland and Finland to Russia.

Additional themes include the promotion of good ethnic relations in co-operation with the Red Cross in St Petersburg and the University of St Petersburg, and rehabilitation issues of the handicapped and the disabled. In March 2006, the Ministry of Labour organised a seminar on women's enterprising activities in St Petersburg and prepared a manual on this theme in Finnish and Russian. With the labour administration in St Petersburg, a recruitment project was launched aiming at developing the recruitment practices of the Employment Office in St Petersburg so that they would better meet the recruitment needs of foreign companies, including Finnish ones.

## **6.9 Results of periodic evaluations**

### **On the targets of the labour policy**

Public employment services are used to maintain and promote the balance between supply and demand on the labour market, to secure the availability of labour, to prevent unemployment and to provide jobseekers with opportunities to work. The Labour Administration arranges or procures as a public employment service job exchange services, labour political adult education and other vocational development services, as well as promotes the employment of the jobless by means of employment subsidies. Other allowances, subsidies and benefits are also included in the public employment services pursuant to the Act on the Public Employment Service. The Act on Unemployment Security provides for income security during the job search period through the labour market support and unemployment benefit.

### **The renewed OECD jobs strategy<sup>4</sup>**

The OECD jobs strategy was based on an assessment of the member states' labour policies. The original OECD jobs strategy published in 1994 contained recommended measures, the primary purpose of which was to lower the high unemployment rates in the member states. The work to renew this strategy was launched in 2003, and one of its central aims was increasing the employment rate and safeguarding the financing of social welfare services. This work was completed in the summer of 2006. The EU also ended up with very similar conclusions in its own assessments.<sup>5</sup>

The new strategy is built on four pillars. The first pillar of the strategy aims at stable prices, safeguarding the financial position of the public sector and stabilising the economy through macroeconomic policies. The second pillar is about recommendations concerning unemployment security and an active labour policy. Central features of the labour policy include implementing unemployment security without reducing incentive to work. Active measures should be used to speed up the placement in work of those receiving unemployment security. In the labour policy, the benefits should be associated with a moderate use of sanctions. Jobseeking should be supported through employment services, and participation in measures should be made obligatory after a certain period of unemployment. The recommendations of this pillar also include making other social security benefits more work oriented. The third pillar is about barriers in the labour and goods markets disrupting the demand for labour and the fourth about developing the vocational skills and competence of the labour force.

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<sup>4</sup> Employment Outlook: Boosting Jobs and Incomes, OECD, 2006.

<sup>5</sup> See for example Employment in Europe 2006. European Commission, 2006.

## Evaluation results concerning employment services and unemployment security

The Finnish labour political system was reformed in 1998 by introducing e.g. the drawing up of jobseeking plans as a vital part of the employment process. This plan drafted in co-operation between the jobseeker customer and the Employment Office determines the jobseeker's need for services and contains an agreement on measures promoting employment. Since their introduction, the preparation of these plans has been further developed to make them into a concrete action plan supporting jobseeking. In the reporting year, a study <sup>6</sup> was completed aiming to follow up the preparation, implementation and potential updating of the jobseeking plans. The follow-up group included jobseekers who had been unemployed for at least one month in the latter third of the year 2003. According to the results, a jobseeking plan was prepared for about one half of those in the follow-up group within the statutory time limit of five months. Most of the people in this group, however, already had some type of older plan. For one out of five, no plan was prepared even at a later date, although they remained unemployed for extended periods.

In the jobseeking plan, an objective promoting employment is recorded, which may be finding a job in the open labour market, a subsidised job or on-the-job training, labour force training or other studies etc. Within a year of drawing up the plan, about one half of the jobseekers had reached their objective, at least on a temporary basis. This was the most frequently (61%) the case when the aim was set at labour force training. Of those aiming at other studies, less than one out of four reached their target. Even if the most important objective of the plan was reached, it is fairly common for the unemployment to continue or be repeated later. About one third of those in the sample had not been unemployed again in 2005. In general, labour force advisors felt that jobseeking plans were necessary. Of the jobseekers, only a small minority felt that preparing the plan was significant.

A study <sup>7</sup> published in the reporting year simulated through financial models the impacts of various labour market political means, such as incentives to employment, taxes and reductions in the companies' social security payments and changes in the social security benefits on such as the production, employment and unemployment under different types of wage negotiation systems in the Finnish circumstances. According to the results, a general cut in income taxation would not seem to have a great impact on the labour market. Measures focusing on the offer would work more efficiently. These also include measures lowering the pay demands in negotiation situations. According to the model calculations, lowering unemployment security would increase the offer of labour and employment more efficiently than any other measure. This would, however, involve a tough social policy, and measures in line with it would be problematic to the society, as they would polarise subsistence between the various labour market groups.

A study <sup>8</sup> was also published in the reporting year aiming at examining the question of the effects of unemployment security in making the jobseekers more passive based on register materials. In the authors' opinion, the use of register materials to solve this issue is difficult, as the incentive-providing effect of unemployment security can only be studied empirically to the extent the Finnish system has features that allow comparisons between the consequences of differences between or changes in the incentives. The clearest one of these features is the ending of the earnings-based

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<sup>6</sup> Simo Aho, Ilkka Virjo, Hannu Koponen. Työnhakusuunnitelmien toteutumisen seuranta (Monitoring the implementation of jobseeking plans). Labour political study 319. Ministry of Labour 2006.

<sup>7</sup> Kari Alho, Ville Kaitila, Markku Kotilainen. Työllisyys ja tuottavuus. Analyysi talous- ja työllisyyspoliittisten toimien vaikutuksista (Employment and productivity. An analysis of the impacts of various economic and labour political measures). Labour political study 317. Ministry of Labour 2006.

<sup>8</sup> Ilkka Virjo, Simo Aho, Hannu Koponen. Passivoiko työttömyysturva? (Does unemployment security make jobseekers more passive?) Labour political study 303. Ministry of Labour 2006.

unemployment security after a payment period of 500 days and differences in the levels and compensation rates of the security. The aim of this study was to produce more information on the incentive-providing effects of the unemployment security system. The most central question is if unemployment could be reduced by lowering the levels of unemployment security or reducing its duration.

According to the results, however, the effects of the unemployment security in making jobseekers more passive were negligible. Without this effect, open unemployment would be lower by an average of 500 - 1,500 people. Those on higher unemployment security and thus a lower compensation rate usually are re-employed slightly faster than others. The insignificance of the effect could be explained by the fact that the lowering of unemployment security hits those who have been unemployed for extended periods. It is possible that the impact of the lowering would be greater in an earlier stage. It is also conceivable that the limited duration of the security provides an extra incentive for active jobseeking already in a very early stage of the allowance period. The impact making jobseekers more passive observed in the study only concerned income security. Any problems with the incentive provided by the minimum security are more likely to be associated with the matching of various benefits with a small income, and the granting practices.

### The level of labour policy activation measures

In 2006, an average of 86,500 people were placed in labour political measures (Table 10). This equals around 3.3% of the total number of workers. The activation rate, or the number of unemployed jobseekers in measures and the total number of persons in the measures, was 25.7%. A total of 203,900 periods of labour policy measures commenced during 2006 (Table 11).

**Table 10. The level of labour political measures mainly targeting the unemployed in 2004-2006**

Measures	2004 People Annual average	2005 People Annual average	2006 People Annual average
Subsidised employment (until 2005, pay based employment)*	35,000	33,000	36,800
- of which combined subsidy*	12,900	11,700	
Expansion of combined subsidy (labour market support only)*	3,800	4,300	
Labour political adult education*	27,300	25,900	26,200
On-the-job/preparatory training for working life on labour market support*	11,200	11,500	11,800
ESF programmes	4,600	4,800	4,700
Job alternation	5,400	5,200	5,900
Employment-based investments	800**	800**	800**
ERDF employment-based investments	300**	300**	300**
<b>TOTAL</b>	<b>88,400</b>	<b>85,800</b>	<b>86,500</b>

\* Excludes ESF projects

\*\* Estimate

Source: Employment exchange statistics

**Table 11. Those having started in labour political measures (excl. ESF projects) in 1997-2006, people**

Year	Employment subsidies	Labour political training	On-the-job training/preparatory training for working life on labour market support	Substitutes in job alternation system	Total
1997	121,500	134,300	36,100	6,000	297,900
1998	105,700	111,100	38,100	7,000	261,900
1999	88,900	119,200	38,100	8,400	254,600
2000	78,400	89,100	34,600	9,700	211,800
2001	68,600	76,800	33,300	10,400	189,100
2002	67,900	76,200	37,000	9,300	190,400
2003	65,000	75,500	43,500	10,200	194,200
2004	63,900	79,500	46,700	8,500	198,500
2005	60,630	74,200	51,007	8,600	194,500
2006	67,300	77,600	49,100	9,900	203,900

From 2002, on-the-job training on labour market support also includes the extension of the combined subsidy, or those employed on a combined subsidy to whose employers a labour market support alone is paid. Source: Employment exchange statistics

### Labour market position after measures

According to the Ministry of Labour's statistics for 2006, the share of those becoming unemployed after a measure had gone down to 35% for vocational labour force training (target 38%) from the 37.4% of the year before. The share of those taking part in a subsequent measure went up from 18% to 19.2%. After preparatory training for working life, 48% became unemployed again and 29.8% went on to other measures (in 2005, 50.3% and 28.7%). As to work on a pay subsidy (incl. State employment subsidies), the share of those becoming unemployed was 47.1% (target 47%) and those going on to another measure was 15.9% (in 2005, 53.9% and 15.8%).

The Ministry of Labour's statistics does not directly show the share of those having become employed. According to a study<sup>9</sup>, the share of those who were employed three months after the measure had ended was an average of 24% for all labour political measures in 2004. The estimated share of those who became employed in 2005 was 26% (Table 12). The data in Table 12 is based on a combination of register materials and a sample of this data. It was also necessary to correct the material to some extent. This is why the data in the study may differ by some percentage points from the Ministry of Labour's own register information.

After a follow-up period of two years, the share of those who were employed was some 8% higher than after three months. The share of those having become employed was the highest for those who had received a start-up grant for enterprising or were placed in apprenticeship training, and clearly lower than average after a combined subsidy, training on labour market support and other than vocational labour force training. When examined by the region (Table 13), rather significant regional differences can be seen in the employment of those having completed different measures (the group of measures condensed compared to Table 12).

<sup>9</sup> Simo Aho, Hannu Koponen. Työvoimapolitiittisiin toimenpiteisiin osallistuneiden seuranta II. Tutkimus rekisteriaineistosta vuosilta 2002 – 2005. (Follow-up of those taking part in labour political measures II. Study of register material in 2002-2005). Labour Political Study 324. Ministry of Labour 2007.

**Table 12. Status three months after the conclusion of a measure by type of measure in 2004-05 (line percentage points, 2005 partly estimated based on data for 2004)**

Type of measure	year	Status 3 months after a measure				Total c.
		at work	unempl.	meas.	other	
Employment by State	2004	24	59	13	4	403
	2005	24	61	11	3	336
Employment subsidy to a municipality	2004	20	61	11	8	1 253
	2005	22	59	11	9	1 107
Employment subsidy to a private employer	2004	40	40	9	11	536
	2005	42	37	11	11	541
Apprenticeship placement	2004	66	15	6	13	264
	2005	69	12	6	13	288
Start-up grant	2004	69	6	7	18	324
	2005	72	5	4	19	419
Part-time pay supplement	2004	43	42	10	6	293
	2005	49	38	7	6	261
Combined subsidy municipality	2004	13	59	22	7	376
	2005	9	63	23	5	418
Combined subsidy private employer	2004	9	62	20	9	1,313
	2005	10	62	19	9	1,115
500 days LMS (combined support for 1 year paid to employer preceding labour market support)	2004	26	59	8	7	486
	2005	28	54	10	7	536
On-the-job training/ preparatory training	2004	25	35	30	10	494
	2005	31	35	23	11	551
On-the-job training on labour market subsidy	2004	16	35	25	25	2,980
	2005	16	33	25	25	2,949
Vocational labour force training	2004	35	40	17	7	2,685
	2005	36	41	15	8	2,560
Other labour force training	2004	13	53	23	11	1,678
	2005	13	53	22	12	1,611
Jobseeking training	2004	9	53	26	12	201
	2005	14	53	23	10	307
Total	2004	24	45	19	12	13,286
	2005	26	43	18	13	13,042

Source: Aho, Koponen, 2006.

In the preceding ten years, nearly 60% of those who completed a measure in 2002 had taken part in measures at least twice and more than a third even more frequently than this. In the preceding four years, the corresponding shares were 43% and roughly one fifth, and in the preceding two years more than one fifth had taken part in measures at least twice before. The previous participation was particularly common for those for whom the latest measure was employment on a combined subsidy or subsidised work for the State or a municipality.

## Other studies on the effectiveness of the labour policy

As the jobseeker might also have been employed without the measure and the labour political measures may take the place of other employment and production, it is necessary to examine the so-called net effectiveness. In recent years, several studies assessing the (net) effectiveness of the labour policy have been published. A study completed in the reporting year concluded that the positive benefits of labour political training only emerge after a sufficiently long time period has elapsed after starting the training.<sup>10</sup> Another study published in the reporting year<sup>11</sup> showed that vocational labour force training, apprenticeship training and subsidised employment in the private sector are the most effective measures in employment. According to this study, taking into account factors that are not observable (such as the motivation of the participants) reduces the positive end results, which however remain positive. In the light of the studies, subsidised employment did not at least in full replace other employment offered by the company.

**Table 13. Follow-up of measures ended in 1 Oct 2002-30 Sep 2003 by type of measure and the Employment and Economic Development Centre region: share of those who were at work 3 months after the conclusion of the measure, %**

EED Centre region	Placement State/ municip.	Placed in private sector etc.	Combined support, LMS 500 days	On-the- job/prep. training	Vocation. labour f. training	Other labour f. training	Total
Uusimaa	25	58	17	20	36	9	27
Southwest Finland	12	54	11	19	37	13	24
Satakunta	25	64	9	14	30	12	25
Häme	24	54	14	18	35	13	26
Tampere Region	20	59	13	17	25	10	22
Kymi	19	54	13	17	25	10	25
Southern Savo	23	57	9	11	29	8	20
Northern Savo	20	58	9	17	34	13	21
Northern Karelia	14	56	9	17	21	6	19
Central Finland	23	53	13	13	38	14	23
Southern Ostrobothnia	28	59	5	18	31	7	22
Ostrobothnia	29	50	13	12	36	14	23
Northern Ostrobothnia	22	57	11	18	36	15	24
Kainuu	17	39	6	10	44	10	20
Lapland	14	48	10	15	27	14	21
Total	20	55	11	16	33	12	23

Source: Aho, Koponen, 2006.

When passing the Act on Social Enterprises (1351/2003), the Parliament attached to it a clause that required the Government to submit a report on the implementation and functioning of the Act to the Parliament in early 2006. For the purposes of this report, the Ministry of Labour commissioned an external assessment<sup>12</sup>. At the time of the study, the turnover and financial situation of the examined

<sup>10</sup> Merja Kauhanen, Reija Lilja, Eija Savaja. Työvoimapolitiittisen koulutuksen vaikuttavuus kysynnän näkökulmasta (Effectiveness of labour political training in the perspective of demand). Labour political study 313. Ministry of Labour 2006.

<sup>11</sup> Kari Hämäläinen, Juha Tuomala. Työvoimapolitiittisten toimenpiteiden vaikutusten arviointi (Assessing the impacts of labour political measures). Labour political study 315. Ministry of Labour 2006.

<sup>12</sup> Jari Karjalainen, Iikka Kuosa, Atso Andersen, Pekka Pättiniemi. Sosiaalisten yritysten lain toimivuus ja toimeenpano (The functioning and implementation of the Act on Social Enterprises). Labour political study 307. Ministry of Labour 2006.

social enterprises were poor and their indebtedness was at a high level. The project support and pay subsidies granted to social enterprises from employment appropriations did not work ideally. The level of pay subsidies is not always adequate to make up for the lowered work contribution of the employee. There were differences between various Employment Offices in the granting of pay subsidies. In addition, social enterprising was considered risky compared to other enterprising. The recognisability of social enterprises is low so far. In light of the results, supporting social enterprises has not disrupted competition. Despite several critical assessments, the objectives of the Act and the means used to support companies were considered as fundamentally functional. The study was very useful for the purposes of the implemented legislative reform aiming at creating social enterprising.

A study completed towards the end of 2006<sup>13</sup> assessed the results and experiences of the start-up grant experiment started in 2005. In light of this study, the start-up grant was slightly more significant for unemployed persons than for those not unemployed. Nearly two thirds of the non-unemployed beneficiaries of start-up grants felt that they would also have set up their enterprise without the grant. More than one out of two entrepreneurs who had received a start-up grant felt, however, that it had speeded up the establishing of their enterprise or even made it possible; in other words, the significance of the start-up grant as a positive force in setting up new enterprises was more extensive than the entrepreneurs gave it credit for. In addition to financial assistance, the start-up grant was often felt to be an important form of moral support for those wishing to become entrepreneurs, and it was experienced as "faith" shown by the public sector in entrepreneurship.

During the year 2006, the Ministry of Labour implemented a project examining the cost-effectiveness of social inclusion<sup>14</sup>. This project was mainly funded by the DG Employment, Social Affairs and Equal Opportunities of the EU Commission. The reference countries in this project were Finland, Germany, Spain and Estonia. According to the final report, measures targeting careers should be seen as investments in intellectual property, for which a productive value should be calculated. The yield is in this project evaluated as the increase in earned income and, at the same time, tax revenue as well as the proceeds of pension funds. The yield can also be reflected as savings in social and health expenditure. By comparing the costs to the yields, an average period of repayment can be calculated for the measures. According to estimates made in this project, services increasing social inclusion that target those difficult to employ are cost-effective. Calculations based on examples show that the measures of the service package pay themselves back to the society on average in three years. In Finland, services increasing the inclusion of the long-term unemployed are offered by the joint services centres of the Employment Offices, SII and municipalities.

## **7 ROLE OF THE INDUSTRIAL POLICY IN PROMOTING EMPLOYMENT**

### **7.1 Contents and objectives of the industrial policy**

The objective of the Ministry of Trade and Industry's industrial policy is to boost competitiveness and improve the opportunities for efficient industrial activities, which are a precondition for a high standard of living and employment. The success and ability to provide jobs of companies arise from their own and their operating environment's competitiveness. The competitiveness of the operating environment is developed through national and regional measures. These wide-ranging measures

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<sup>13</sup> Pekka Stenholm. Starttirahalla yrittäjyyteen. Kokemuksia starttirahakokeilusta (Enterprising with a start-up grant. Experiences of the start-up grant experiment). Labour political study 320. Ministry of Labour 2006.

<sup>14</sup> Hannu Kauppi. "Does Inclusion Pay?" Evaluating Impacts and Cost-Effectiveness of Active Social Policy and Active Labour Market Policy on Inclusion. Ministry of Labour 2006.

target the skills and innovation activities of companies, functioning of the markets and energy supply and the management of the State's enterprises. The operating environment is being developed by such as reliable competition and consumer policies and by ensuring the availability of energy in a manner that is sustainable and responsible in terms of efficiency, safety and the environment.

Industrial policies are implemented to enhance the competitiveness of the business environment for companies and to facilitate the establishment of new innovative enterprises, improve the regulations applicable to companies and make services provided for businesses more efficient. The financing instruments address market barriers for the growth of viable businesses and creation of new innovations, investment activities and exports, and in particular support the operations of SMEs capable of growing. The implementation of the industrial policy was during the Government period supported by means of the Entrepreneurship Policy Programme.

In international comparisons, the competitiveness of the Finnish economy is considered good. According to EU and OECD reports, the barriers to enterprising in our country are at a lower level than the European average. On the other hand, these positive evaluations are not reflected in such as the per capita GNP, as the standard of living in Finland has for years only been at the average level of developed countries: measured by the GNP adjusted by purchasing power, the position of Finland has for an extended period varied between 15 and 17.

The creation and growth of enterprises in Finland is supported by a positive enterprising atmosphere, high standard of education, advanced equality, highly developed research and innovation environment, functioning infrastructure and large-scale public support and advisory systems for businesses. The competitiveness of the Finnish industries is relatively good. Despite this, there are relatively few start-ups and growing businesses in Finland. Factors slowing down the growth of entrepreneurship include a relatively low motivation for enterprising, small domestic market, lack of successful entrepreneur role models and shortages in business skills, risks associated with enterprising and the fear of failure. There are significant shortages especially in the willingness to grow and growth enterprising skills of companies. The proportional share of private service industries in both the production and employment is low by international standards.

The technology and innovation policies promote the competitiveness and renewal of industrial life in order to safeguard economic growth and social welfare. The aim is that Finland should be able to offer companies an innovation environment which is of a high international quality and which also draws foreign companies and their research and product development functions to our country. Innovation policy was the main theme of Finland's EU Presidency in the EU Competitiveness Council. The aim was to increasingly highlight innovation policy among other EU measures. The starting point was to achieve a situation where the innovation policy would in the future be a permanent part of the Council's agenda. Innovations are the key to improving productivity and play an important role in the application and commercialisation of new ideas, operating methods and technologies. In conditions of a global structural change and EU integration process, the significance of entrepreneurship is highlighted precisely as a force maintaining economic growth and employment as well as renewing the production structure and thus also increasing creativity.

Regional industrial policies reinforce the viability of regions and develop the preconditions for enterprising based on regional features and strengths. What is central is improving the ability to capitalise on skills and technology and other activities enhancing the competitiveness, growth and renewal of companies. The implementation of regional level industrial policies is supported by the implementation of the Entrepreneurship Policy Programme in co-operation with regional actors by promoting the growth and renewal relevant to generation changes of companies. The priority of

regional industrial policy lies in developing innovation activities, promoting the growth and renewal of entrepreneurship and business activities and reinforcing the ability to function of the Employment and Economic Centres.

## **7.2 Funding of research and development activities**

In the long run, it is estimated that the funding of technology will have clear positive impacts on employment. The priorities of the technology and innovation policy include enhancing skills, developing technology and applying it comprehensively to various sectors. In the reporting year, EUR 577 million were directed at this from the appropriations of the Ministry of Trade and Industry's administrative sector. The R&D intensity is clearly the highest in the administrative sector of the Ministry of Trade and Industry, 60% of whose expenditure targets research and development. The research intensity of the Ministry of Trade and Industry grew slightly from the year before.

According to the preliminary estimate of Statistics Finland, EUR 5.7 billion were spent on research and development activities in Finland in 2006, which is 3.4% of the GNP (3.5% in 2005). The majority of research and development funding comes from companies, whose share was 70.7%, while the share of universities was 19.4% and that of the public sector 9.9%.

The business and innovation environment is being developed by public measures to ensure that the research and development funding will more frequently than before result in market success: innovations based on customer needs will increase, more companies will be growing rapidly, and the application of the ITC technology in business operations will become more efficient. In addition to measures encouraging research investments, the demand for innovative products and creation of markets are promoted by making use of a wide range of methods available to the public authorities. In addition to research funding, demand and access to markets can be supported by increasing competition and improving productivity, developing innovations in the service sector, making use of public procurements and by applying normative control, such as regulation and standardisation.

Making efficient use of EU level research and technology co-operation and international co-operation are preconditions for a competitive innovation environment. The Ministry of Trade and Industry is responsible for monitoring the development of international R&D activities and promoting European research co-operation and bilateral partnerships with significant pioneering countries of technology and countries that are growing rapidly as market areas. Examples of these new forms of co-operation include the Finland-China Innovation Center (FinChi) opened in 2005, the task of which is to promote interaction between China and Finland in the sphere of technology and innovations. The operations of FinChi have come to a successful start, as several companies and organisations joined the centre already in the first year.

In December 2006, the Council of State decided to approve 13 skills clusters of national significance and 21 centres of expertise in the Centre of Expertise Programme for the period 2007-2013. The Ministry of Trade and Industry is enhancing its role in regional innovation activities by funding the national co-ordination of the skills clusters and reinforcing the co-operation of experts at the regional level. The Ministry of Trade and Industries has reserved a total of EUR 2.6 million for the costs of national co-ordination in 2007.

Through the new skills clusters, an attempt will be made to bring to a clearer focus the current specialisation of the regions and to bring the actors of various centres of expertise in a more close-knit national co-operation. The national co-ordinators of the clusters will be appointed based on the

proposals of the clusters. The task of the co-ordinators will be to support co-operation between the centres of expertise, ensuring that regional and local development measures are parallel with the national innovation strategy. In the perspective of the national strategy, particular challenges of the forthcoming period will be enhancing and internationalising entrepreneurship that creates growth, promoting service innovations and developing the innovation system, and targeting the resources in a more demand and business oriented manner. There is scope for improvement especially in activating SMEs to take part in the projects of the centres of expertise and their preparation.

### **The National Technology Agency Tekes**

The Finnish National Technology Agency Tekes invested EUR 465 million in research and development projects of companies, universities, colleges and research institutes in 2006. Nearly 2,000 projects financed by Tekes came to conclusion in 2006. They produced more than 800 new or replacement products or services, some 190 production processes, more than 700 patent applications, nearly 1,000 dissertations and approx. 2,400 publications.

Of the funding for 2006, EUR 271 million were targeted at some 1,400 projects of companies, and EUR 195 million at some 730 projects of universities, universities of applied sciences and research institutes. Annually, the projects funded by Tekes represent more than one tenth of all R&D activities in Finland.

Approx. one half of Tekes funding was linked to technology programmes. The technology programmes play an important role in reinforcing a close-knit co-operation and networking of companies, universities and research institutes. In 2006, 24 technology programmes were under way, and 11 were being prepared. Under these programmes, companies took part in 2,500 and research organisations in 1,500 projects.

More than one half, or some 53%, of project funding targeted SMEs, one fifth micro companies employing less than 10 people and approx. two thirds companies employing less than 500 people. Based on new and previous decisions, Tekes paid out funding to some 2,000 companies.

The establishment of the Technology Development Departments of the Employment and Economic Development Centres in the beginning of the year 2006 further strengthened Tekes's services in the regions. Together Tekes and the Employment and Economic Development Centres can essentially improve the competitiveness and preconditions for internationalisation of companies in the regions.

Numerous international and Finnish studies show that public research and development funding directed at companies increase the companies' own research and development investments. Tekes funding encourages companies to increase their research and development activities. It has been estimated that over 20 years, Tekes has taken part in and influenced the creation of hundreds of companies directly, and either directly or indirectly the creation of two hundred thousand new jobs, not forgetting a significant impact on preserving existing jobs.

### **Technical Research Centre of Finland, VTT**

Set up in 1942, the Technical Research Centre of Finland, or VTT, today is the largest organisation engaged in applied research in Northern Europe. In 2006, 2,780 people were working with the VTT. Over 70% of them were university graduates, more than 20% with doctorates or licenciates. 53 people worked abroad, and 68 foreign research officers were working for VTT.

VTT produces technology and research services for both domestic and international customers, companies and the public sector. The aim of VTT is to help their customers and partners create new products, production processes and methods, and services. In 2006, VTT had a total of 6,000 customers, of which 3,200 were domestic companies and 700 foreign companies. The customers also included some 500 Finnish and foreign public bodies.

VTT's turnover was some EUR 225 million in 2005. The share of basic funding from the State was 35%. This contributed to producing EUR 147 million of external profits, which was 65% of the turnover. Of this external share, 14 percentage points, or EUR 31 million, concerned international revenue.

During the last 20 years of VTT's operations, nearly 1,000 domestic and 1,200 foreign applications for patents have been submitted, some 2,000 notifications of inventions filed and nearly 47,000 publications produced. The impacts of VTT on employment are indirect. The impacts creating new jobs and preserving existing ones can be felt in research and development, education and technology transfers, and as new business activities in new or existing companies. It can be expected that the employment impacts may in the long run be reflected in such as the development of employment in knowledge intensive sectors.

VTT plays a significant role in the innovation processes of companies especially in R&D intensive sectors. According to a survey conducted by Taloustutkimus on the impacts of VTT's projects, nearly 93% of VTT customer companies felt that their skills and knowledge based had improved as a result of co-operation with VTT. Nine out of ten companies having benefited from the interaction said that VTT had at least speeded up the generation of benefits, and 56% of the companies estimated that their competitiveness had improved thanks to co-operation with VTT.

### **Mining and prospecting**

The Ministry of Trade and Industry promotes the exploitation of mineral natural resources by safeguarding the preconditions for prospecting and mining. The Ministry complies with the Mines Act and Mines Decree from the year 1965. Work to reform the Act and the Decree is currently under way.

Various industrial minerals are used in nearly all industrial activities, such as soapstone in paper manufacturing, carbonate rock in cement manufacturing and quartz in glass production. The excavation volumes of industrial minerals have steadily increased since the late 1960's. In 2005, there were some 35 mines or quarries in production, and the volume of excavation was estimated at approx. 16 million tons. The mineral aggregate sector is the largest user of geological raw materials. There are more than 400 companies active in this sector, the majority of which are small. The sector employs some 3,000 people, including production, sales and transport. More than 7,000 excavation licenses are valid, one half of which are in active use. Of these about 3,150 produce gravel and sand and 350 rock materials. Excavation points are scattered around the country.

The direct importance of the mineral industry in the Finnish national economy is some 3%, but its significance as a whole is estimated to be much greater than this, as it produces raw materials for approx. one third of the industries and the whole building sector. The direct economic impacts of the cluster are visible locally as employment and tax revenue. In addition to the actual mining jobs, a mine creates employment in its surroundings by buying logistics services, repair shop services etc.

See Table 14 for the personnel numbers and turnovers of sub-sectors of this cluster. According to calculations, the cluster employs some 13,400 people, which equals approx. 3% of all industrial jobs. The figures for the cluster also include prospecting as well as contractors and services clearly supporting the cluster.

**Table 14. Personnel numbers and turnovers of sub-sectors of the extractive industry in 2004** (figures rounded)

Sub-sector	Personnel numbers	Turnover, million €
Metallic minerals	940	260
Industrial minerals and commercial stone	1,100	360
Rock material sector	3,000	500
Natural stone industry	2,000	200
Prospecting	400	30
Equipment manufacturers	4,000	900
Contractors, services supporting the mineral industry	2,000	not estimated
<b>Total of the extractive industry</b>	<b>13,400</b>	<b>&gt;2,300</b>

Mining activities in particular have undergone great changes in the last few years. Previously, State enterprises were in charge of prospecting, whereas it now is in the hands of foreign companies and the Geological Survey of Finland GTK. The price development of metals, increasing demand and the good operating environment for the prospecting industry in Finland have attracted international companies to the country. The latest object of interest is uranium, the prospecting for which has been re-launched by foreign mining companies.

The prospecting volumes in Finland have become the greatest in Europe: in recent years, they have been varying between EUR 30-40 million. The employment impact of prospecting alone was estimated at 400 people in 2004. Geologically, Finland is part of the shield area of Fennoscandia, the ore potential of which is equal to those of other shield areas important for mining in Canada, Africa and Australia. The Fennoscandian shield forms a unique area of ore potential in Europe.

The development of mining has had a significant impact for regional development and employment. Unemployment has been a problem precisely in those regions of Finland that show the best potential for opening new mines. The continuation of active prospecting and dozens of active prospecting projects are a positive sign for the employment in such as Northern and Eastern Finland. The priority of these activities has been in Eastern and Northern Finland, even if prospecting is carried out all over the country. Several promising gold and nickel mining projects are under way in Finland, as well as certain occurrences of metals in the platinum group, copper or other metals.

### 7.3 Development of enterprising

According to Statistics Finland, 236,435 companies were operating in Finland in 2005. The number of companies went up by 1.8% from the year before. In the late 1990's, this figure increased annually by 3.5% on average. In the early years of the new millennium, the growth in the number of companies went down to an average of less than one percent annually, speeded up to 1.7% in 2004 and has thus staid more or less in the same figures in 2005.

1,328,451 people were employed by companies, which is an increase of 1.2%, or 16,200 people, from the year before. In proportion, the staff numbers went up the most in technical and business services. The increase was 6,400 people, or 4%. In the sector of trade, the staff numbers went up by 2.8%. This increase concerned large companies. In SMEs in the trade sector, the staff numbers went down. In the industries, the staff numbers continued to decrease in 2005.

The average company employs 6 people, which is close to the European average. Some 40% of the company base concern the self-employed. The share of large companies (number of staff > 250) is over 0.2%, but these employ nearly 40% of the total workforce of companies. In 2005, the staff numbers in SMEs went up by a total of 8,900 people. In large companies, too, the staff numbers went up considerably, or by 7,300 people. 61.6% of the staff of all companies worked in SMEs. The per capita turnover of companies went up by some 5% from the year before.

Of companies operating in Finland, 4% belong to groups. The staff of these companies encompasses 55% of the staff of all companies and 73% of the turnover. According to the Group Register of the Business Register, there were a total of 5,495 groups operating in Finland in 2005, 57% of which, or more than one half, were foreign. Some 74% of the total staff in groups worked in Finnish groups.

The share of personnel was the largest in the industries, or 29.8%. Wholesaling and retailing employed 18.3% and building management, rental and business services 14.8% of the staff in all companies. The share of transports, warehousing and data communications was 11.3% and that of construction less than 10%. In the period 2000-2005, the share of staff in the industries has clearly gone down, the share of trade has remained more or less unchanged and the share of building maintenance, rental and business services has increased the most.

**Table 15. Development of the number of companies, staff and turnover**

	Number of companies	Number of staff	Turnover EUR billion	Turnover/ staff Euro 1,000
2000	222,820	1,301,400	262.0	201
2001	224,847	1,318,700	271.7	206
2002	226,593	1,315,073	274.3	209
2003	228,422	1,308,031	284.1	217
2004	232,305	1,312,245	300	229
2005	236,435	1,328,451	318.5	240
2006 (est.)	240,000			

Source: Statistics Finland, Enterprise and Place of Business Register

The number of companies in Finland has been growing since 1995. In the late 1990's, this figure increased annually by 3.5% on average. The growth has slowed down slightly in the new millennium. In 2000-2003, the growth in company numbers went down to an average of one percent annually. In 2004, the number of companies increased by some 2%. In 2005 and 2006, the growth in company numbers has continued steadily.

At the European level, the company density in Finland is slightly below the average when the number of companies is put in proportion to the population. According to a report by the European statistics authority, Eurostat, the company density is the highest in Romania (89 companies/1,000 inhabitants). In countries with prosperous economies, such as the Netherlands (34 companies/1,000 inhabitants) and the United Kingdom (29 companies/1,000 inhabitants), the company density is the lowest. In the Nordic countries, the company density is the highest in Sweden, after which comes Norway, Finland (45/1,000) and Denmark. In light of the above figures, the number of companies alone cannot be seen as having a direct correlation to the standard of living .

#### **7.4 Impacts of company financing and company subsidies**

By providing financing for domestic enterprising, Finnvera influenced the creation of some 11,000 jobs in 2006. Of the new jobs, 59% were created in trade and services and 41% in the industries. In addition to new jobs, Finnvera financing made it possible to safeguard more than 6,000 existing jobs e.g. by financing changes of ownership in SMEs. Finnvera granted loans or guarantees for a total of more than 3,600 start-up companies. These companies created nearly 6,000 new jobs.

In 2006, Finnvera's aim was to offer financing for 1,000 growth enterprises. As growth enterprises Finnvera regards companies whose annual growth of turnover and exports is expected to be at least 10% per annum on average in the next three years. In order to achieve this goal, Finnvera reformed its activities and organisation in 2006. The Financing for Growth and Internationalisation Unit started operating in the beginning of April. During the year 2006, Finnvera funded a total of 1,355 growth enterprises by a total of EUR 407,9 million.

Finnvera's subsidiary, Aloitusrahasto Vera Oy (Avera) has during its time of operation made investment decisions amounting to a value of EUR 12.4 million in innovative and growth oriented companies that are in the early phase of their operations. Avera has processed a total of 330 applications for financing.

A total of EUR 110.4 million of export credits, or 73% more than previously, were granted for export projects of SME's where the risk is in Finland. Credits worth EUR 44.7 million intended for funding export trade involving risk-taking abroad were offered to SMEs.

As to the business activities of companies operating in national subsidy regions, Finnvera provided them a total of EUR 456.8 million of funding in 2006, of which EUR 118.5 million were interest subsidy loans under regional policies. Funding directed to developing areas was 49% of all funding for domestic enterprising activities. The target was granting EUR 420 million of funding to the underdeveloped regions. The share of companies financed by Finnvera in the company base of the province is the largest in Kainuu, Satakunta, Northern Savo and Lapland. This share is the smallest in Uusimaa and in the capital area in particular.

In the demand for credits, funding for shipyards and shipping companies as well as data communications continued to be predominant. The total share of credits offered for these was 80% of all credits offered. The demand for credits was also active in the forestry sector, in which the greatest share of the demand was relevant to the Latin America, Asia, Russia and Turkey. The number of credit offers associated with risk-taking abroad was the second highest during Finnvera's time of operation in 2006, or a total of EUR 2,760.2 million (2,974.3), mainly for industrialised countries, Russia and the Middle East.

The industrial policy effectiveness of Finnevera's activities was examined in a study funded by the Small Business Institute of the Turku School of Economics and Business Administration on the company's domestic funding in spring 2005 and export funding in 2006. According to these studies, Finnvera had succeeded well both in its industrial policy related task and its role in filling in market shortages in the financing for SMEs. Finnvera financing has been significant in particular for starting enterprising, changes of generation and ownership and growth and internationalisation projects. It was estimated that in export contracts in 1999-2004 where the export credits of Finnvera Oyj have been part of the funding, employment impacts encompassing production worth EUR 15 billion and man-years estimated at more than 100,000 were created in Finland. The effectiveness assessment took in consideration not only the export companies in question but also the indirect impacts of subcontractors and other networks.

### **The employment impacts of company financing by the Ministry of Trade and Industry and Employment and Economic Development Centres in 2006**

The Employment and Economic Development Centres and the Ministry of Trade and Industry granted total funding of some EUR 145 million for companies' investment, development and improvement of the operating environment projects and processing and marketing projects of agricultural produce pursuant to Aid to Business Act (1068/2000) in 2006. The aim of the funding granted for businesses was to improve their long-term competitiveness, renew and diversify the production structure of regional economies, increase employment, promote internationalisation and improve the operating environment of companies..

The greatest number of new jobs was created in small companies employing less than 50 people. The share of micro and small companies in company financing granted was 60% and in calculated new jobs 72%. Examined by sector, 1,260 new jobs were created in companies offering business services, 1,100 in manufacturing of metal products, and less than 700 jobs in manufacturing of machinery and equipment.

The business financing has played a significant role in promoting the most underdeveloped regions. Of the new jobs created, 2,800 were located in the least developed regions of Eastern and Northern Finland.

See the following classification for the impacts of company aids in creating jobs, by support form and job type (new, renewed, project time):

	New jobs	Renewed jobs	Project time jobs
Investment support (1,318 decisions, granted support EUR 114 million)	4 809	1 677	878
Development support for SMEs, (667 decisions, granted support EUR 18 million)	1 961	499	230
Support for improving the companies' operating envir.* (84 decisions, granted support EUR 9.8 million)	387	460	90
Support for processing and marketing of agricultural produce (31 decisions, granted support EUR 2.9 million)	119	53	25
<b>Total</b>	<b>7 276</b>	<b>2 699</b>	<b>1 223</b>

\*The follow-up of the data on employment impacts was made more accurate in 2006 since the employment estimation method was introduced as a tool. The new guidelines issued subsequently had an impact especially on making the employment impacts of the support for company's operating environment more accurate.

### **Supporting the joint projects and internationalisation of companies**

In 2006, the Ministry of Trade and Industry granted a total of EUR 17.6 million as internationalisation support for companies' joint projects. A total of 310 decisions to grant assistance were made, some of which included a package of several separate events or partial projects. The assistance was used to support participation in fairs, export pools, partnership programmes of start-up export companies and other joint events of companies associated with internationalisation and promotion of exports.

A total of 2,366 companies took part in projects implemented with this type of assistance in 2006. The supported projects were mainly directed to the EU member states (55%), Russia (21%) and Asia (13%). Projects worth EUR 3.5 million were implemented in Russia and EUR 1 million in China. 47% of the assistance was for participation in fairs, 25% for export pools and 4% for partnership programmes. In 2006, 80 networking projects of SMEs were under way. In the granting of the assistance, the projects of SMEs (72%), high technology projects (37%) and projects of start-up export companies (16%) were prominent (please note that these figures are partly overlapping). Broken down by sector, assistance was the most frequently granted for manufacturing of machinery and equipment (18%) and multi-sectoral projects (14%). A total of 69 parties were involved in the joint projects last year.

### **Public capital investments**

The Finnish Industry Investment Ltd is a State capital investment company working under the Ministry of Trade and Industry. It invests funds accumulated from the sales of State property in the growth and internationalisation of Finnish enterprising. The Finnish Industry Investment Ltd mainly invests in capital investment funds. Investments are also made in companies. The Act regulating the operations of the company provides that the activities must be commercially profitable.

In the beginning of the year 2006, the company's investments and investment commitments totalled EUR 326 million. The company had 16 employees. In 2006, the Finnish Industry Investment Ltd increased the offer of risk funding especially in areas with growth opportunities and dysfunctional markets. Additional inputs were made not only in businesses in the seed stage but also venture capital funds investing in growth enterprises. The number of direct investments went up in targets where the investment cannot be made in the form of a fund because of the passive attitude of private investors. The company's investments and valid investment commitments were approx. EUR 360 million divided between capital investment funds and direct investments in some 500 companies at the end of 2006.

The Finnish Industry Investment Ltd takes part in direct investments together with other investors and finance providers. Direct investments are as a rule associated with large-scale business, sectoral and financing arrangements or selected growth enterprises. Through its seed capital programme, the Finnish Industry Investment Ltd takes part in investments made in early stage companies. The investments are made together with other investors and finance providers. Investments from the financing programme are made in companies in the seed, start-up and early growth phases without sectoral limitations. By the end of 2006, investments were made in more than 80 companies for the total value of approx. EUR 20 million under the seed financing programme. One half of this is directed at mining.

## **8 THE ROLE OF EDUCATIONAL POLICY IN PROMOTING EMPLOYMENT<sup>1</sup>**

### **8.1 The contents and objectives of the educational policy**

The standard of education is high in Finland, and the quality of education good. Inputs in research are also high. In the next few years, however, the educational system will face major challenges. The population development and ageing of the workforce with the simultaneous need to increase the employment rate will require of the educational system flexibility and ability to change, a capacity to educate the whole age class and use all talent reserves, as well as improving the education and training possibilities of the adult workforce. The change in the social and cultural environment and internationalisation will also require a renewal of the educational system.

In December 2003, the Council of State made a decision on the priorities of developing education, training and research until 2008. Particular priorities for developing education and training during this period will include 1) increasing the efficiency of the education system, 2) supporting and guiding children and young people and 3) improving the education and training opportunities of adults. As the target will be set offering vocationally differentiated education and training for the whole age class of young people as well as increasing the competence levels of adults and keeping their skills up to date. The progress of young people to education and from there to working life will be speeded up. Prerequisites for this will be developing student selection, improving the throughput of education and reducing multiple education. The exclusion of young people will be prevented by enhancing remedial teaching, special needs teaching and student and pupil care, by implementing the Educational Guarantee and by developing the education and training of immigrants. For adults who already have qualifications, education and training opportunities that are suitable for their life situations and that take in consideration what they already have learnt will increasingly be offered.

The development plan of education, training and research will be implemented within the scope of the Government's framework decisions. The appropriations for the Ministry of Education's administrative sector (EUR 6.47 billion) went up by 4%, or EUR 273 million, in 2006 compared to the year before. The State's shares went up by more than EUR 100 million. The funding for universities went up, and the Academy of Finland's authority to grant research funding was increased.

### **8.2 General education**

A high share of young people in Finland move on to further studies after basic education. In 2005, of those having completed comprehensive school, 53.3% went on to a general upper secondary school, 39.4% to a secondary level vocational school and 2.5% to additional schooling that complements basic education. Of those having completed their basic education, 4.9 did not immediately continue their studies.

The number of students aiming at a qualification in general upper secondary schools was some 11,100 in 2005. The share of women in the students was 57%. The highest rate of attending general upper secondary school in the young age classes in 2005 was recorded in Uusimaa, where 60% of the age class went on to a general upper secondary school. The lowest rates of attending upper

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<sup>1</sup> As not all statistical figures describing educational activities in 2006 were not available when drafting the Employment Report, some of the figures are from the year 2005 and some from 2006.

secondary were in Kymenlaakso at 47%. The regional differences in attending general upper secondary school were also reflected in the shares of young people in the labour force and employment in the various regions. In 2005, the number of students studying for a combined diploma from a vocational and general upper secondary school was 2,770.

### 8.3 Vocational education institutes and universities

The number of students in vocational education institutes and universities continues to increase. The total number of students in this type of institutes was approx. 418,500 in 2001 and some 459,400 in 2005 (Table 16). In 2005, some 22,150 out of the 175,800 students in universities were studying for a post-graduate degree. The differences in student numbers in various sectors is influenced by the variable numbers of entry places and different times it takes to complete the studies.

**Table 16. Numbers of students in basic vocational education, universities of applied sciences and universities in 2001-2005**

	2001	2002	2003	2004	2005
Basic vocational education*	137,600	142,700	146,100	147,430	152,330
Universities of applied sciences	118,000	126,357	129,218	130,909	131,245
Universities	162,900	164,300	169,800	174,000	175,818
<b>Total</b>	<b>418,500</b>	<b>433,357</b>	<b>445,118</b>	<b>452,339</b>	<b>459,393</b>

\* Basic vocational training in an educational institute excluding apprenticeship training.

For the number of students having started in vocational upper secondary education and university studies in 2005-2006, see Table 17. All new university students were classified within the education of young people, as it is impossible to categorise them into young people and adults.

**Table 17. First-year places in basic vocational education and universities of applied sciences as well as new students for a graduate degree in universities in 2005-2006**

	Education of young people		Adult education	
	2005	2006	2005	2006
Basic vocational education	49,200	50,300	10,000	9,700
Universities of applied sciences	24,775	24,795	6,866	6,324
Universities	20,763	20,150	..	..
<b>Total</b>	<b>94,738</b>	<b>95,245</b>	<b>16,866</b>	<b>16,024</b>

### Number of qualifications from basic vocational education and universities

In 2005, a total of 74,476 students obtained a qualification in basic vocational education offered by vocational education institutes and universities. For a breakdown of the qualifications, please see Table 18.

**Table 18. Graduates in 2005**

	<b>Graduates</b>	<b>% of qualifications</b>
Secondary basic qualifications*	37,500	50.4
Graduates of univ. of appl. sc.	21,143	28.4
Graduates in universities**	15,833	21.3
<b>TOTAL</b>	<b>74,476</b>	

Source: Statistics Finland

\* Excluding apprenticeship training; 3,193 basic secondary level qualifications were obtained through apprenticeship training in 2005. Further, 1,594 combined diplomas of vocational and general upper secondary education were taken in 2005.

\*\*Of the basic degrees in universities, 12,920 were post-graduate degrees. In addition, 1,422 doctorates were obtained in universities.

### **On-the-job learning**

On-the-job learning is an elemental part of basic vocational studies, and this way part of the objectives of the qualification can be learnt at the workplace. The aim of on-the-job learning is to improve the working life orientedness of education and training, to promote the employment of young people and to increase working life awareness. Since 2001, on-the-job learning has been part of all basic vocational education. An on-the-job learning period of at least 20 credit points is included in all qualifications obtained in basic vocational education.

In 2006, an estimated 100,000 students for a basic vocational qualification took part in on-the-job learning periods. Since 2001, a support programme of on-the-job learning has also been implemented, which promotes the establishment and qualitative development of the activities. The support programme encompasses training for teachers and on-the-job counsellors, working life periods, information and pilot projects. By the end of 2006, some 26,000 on-the-job counsellors and more than 4,500 teachers had been trained in the programme. More than 2,500 teachers got acquainted with the workplaces and tasks relevant to their teaching area during working life periods.

### **Demonstrations of competence and additional vocational education**

Demonstrations of competence are a channel for receiving a vocational qualification developed for the adult population. Candidates can take this type of examination irrelevant of the manner in which their vocational skills have been acquired. Through a demonstration, it is possible to make skills acquired through various types of studies, work experience or hobbies validated as a formal qualification. The system covers some 360 qualifications. A basic vocational qualification, vocational qualification and a specialist qualification can be obtained through a demonstration of competence, and these are mainly intended for adults, most often for those at work. The vocational and special qualifications of further vocational training can only be obtained as demonstrations of competence. Such as apprenticeship training and labour political adult education also feature the possibility of demonstrations of competence.

In 2005, some 42,300 students took part in vocational adult education in educational institutes and a total of approx. 51,300 students in apprenticeship training. The number of students went up by some 3,500 from 2004. Some 33,000 students took demonstrations of competence examinations and their parts. The number of qualifications remained unchanged from the year before. Preliminary information concerning the year 2006 anticipates a slight increase in the number of students. The number of qualifications taken is also increasing, but more slowly than the that of students. In 2005,

the total of student working years in further vocational education in educational institutes entitling the institutes to the State's share was some 13,500, and the number of students in apprenticeship training was 22,600.

In November 2005, the Parliament adopted Acts amending the Act on Vocational Adult Education and the Act on the Financing of Education and Culture. The aim was to improve the possibilities of planning, guiding and monitoring further vocational training organised in institutes and as apprenticeship training as a whole. As part of the implementation of this Act, the licences to organise further vocational training were reformed in 2006. The licensing practice was associated with a quantitative regulation of the education provided.

A Section on service and development activities for the working life was added in the Act, the aim of which is to develop the skills of companies and public bodies and to increase the participation in education and training especially of those working in small companies. The providers of education were given the possibility of applying for this task in their license applications. In 2006, the task of developing and providing services for working life was included in some 100 licenses to organise further education. Those having been granted a license can apply for project and development assistance to implement this task. In 2006, some EUR 5 million of State assistance was granted in aid of this type, in addition to which some EUR 1 million of assistance was granted for projects to develop the quality of further education.

### **Vocational qualification grant**

The Education Fund grants vocational qualification grants as once-off compensation for taking a basic vocational qualification, vocational qualification or specialist vocational qualification pursuant to the Act on Vocational Adult Education (631/1998) as a demonstration of competence examination. The amount of this grant is EUR 330. A condition for granting a vocational qualification grant is that the person in question has been in an employment or civil service relationship with a Finnish employer for a total of five years before taking the examination. A grant can be issued to a person who is less than 64 years of age at the time of taking the examination.

In 2006, 22,218 vocational qualification grants were issued, and a total of EUR 7.4 million was paid out, which is EUR 2.8 million less than in 2005.

### **Vocational special needs teaching**

The teaching for students needing special teaching or student care services because of a disability, illness, slow development, emotional disturbance or other reason will be given as special needs teaching. The number of special needs students has increased dramatically in recent years both in special needs education institutes and other vocational education institutes. The growth of student numbers in State's special needs education institutes has been restricted by the low level of appropriations. In 2006, the number of special needs students was 16,200, of whom 12,305 studied in vocational institutes and 3,895 in institutes of vocational special needs education. Of students in basic vocational education, 11% were special needs students. A strategy for vocational special needs teaching and an action plan based on this were drawn up in 2004. For the purposes of co-ordinating the development of special needs teaching, a Council of Vocational Special Needs Teaching was established, and a co-operation body of vocational special needs institutes working in connection with it.

## **8.4 Apprenticeship training**

Apprenticeship training is an alternative way of acquiring a basic vocational education for both young people and adults. In addition, apprenticeship training is a form of further vocational training for staff in working life. Apprenticeship training is based on a written employment contract for a fixed term. For the time at work, the employer will pay the student a salary in compliance with the collective agreement. The organiser of the training, on the other hand, pays a training compensation to the employer according to the estimated costs incurred by the employer from training at the workplace. An employer who hires an unemployed jobseeker on an apprenticeship agreement can also receive a discretionary pay subsidy from the Labour Administration.

The party organising the training (a municipality, federation of municipalities, registered foundation or association) will take care of all local administrative tasks relevant to the apprenticeship training, such as assessing the capacities for training and the suitability of the workplace for training, preparing a personal study programme, confirming the apprenticeship agreement, payment of training compensation to the employer, implementing theoretical education in the organiser's own educational institutes or purchasing it from other organisers of education, providing the possibility for a demonstration of competence examination, payment of the student's social benefits during the participation in theoretic teaching and sitting of the demonstration examination as well as the payroll costs of the administrative, control and guidance staff of the training and other administrative costs.

In 2006, the average number of students in basic vocational education through apprenticeship training was an average of 14,269 annually. The annual number of students went up by some 1,600 students (12.6%) compared to the year 2005. The share of students aged less than 25 in basic vocational education through apprenticeship training was approx. 28%. The average number of students in further vocational education through apprenticeship training was an average of 22,514 annually. The number of students did not quite reach the student quota of the second Supplementary Budget of 2006, which was 23,000 students. Nearly 90% of further vocational education through apprenticeship training aimed at a qualification.

The average number of students in apprenticeship training provided by entrepreneurs was 2,987 in 2006. This was an increase of some 29% compared to the year 2005. Some 74% of apprenticeship training provided by entrepreneurs was further vocational training. Some 93% of apprenticeship training for entrepreneurs organised as further training aimed at a qualification.

## **8.5 Foreign students and education and training for immigrants**

### **Foreign students**

What increased the possibilities of foreign students to study in Finnish universities was the new universities legislation, which made it possible to use other than the Finnish or Swedish languages as the examination language from 1 August 2005 on. The universities have increased their offer of teaching in foreign languages. For example, of the 122 graduate programmes for a Master's degree created for the needs of working life, research and internationalisation, 78 are taught in English.

The total number of foreign students aiming at a degree has in recent years increased especially in universities (Table 19). The student numbers in universities also include foreigners taking post-graduate degrees.

**Table 19. Foreign students in education leading to a degree<sup>1</sup>**

	1999	2000	2001	2002	2003	2004	2005
Vocational educ. institutes	3,745	3,955	4,150	4,217	4,515	5,003	5,231
Universities of applied sciences	2,081	2,640	2,814	3,131	3,446	3,726	3,937
Universities	3,242	3,555	3,895	4,180	4,427	4,673	4,949

<sup>1</sup>excluding students in international exchange programmes; the student numbers of vocational educational institutes in 2005 include students in basic vocational training based on a curriculum, training preparing for a demonstration of competence and apprenticeship training.

Source: Statistics Finland, Statistics on Educational Institutes, and the National Board of Education

## Education and training for immigrants

An immigrant in the age for compulsory education living in Finland is entitled to the same basic teaching as Finnish children. Pursuant to the Basic Education Act (628/1998), a municipality can arrange teaching preparing for basic education. This teaching takes place in groups, and it is intended for immigrants aged 6 years and in the compulsory education age. The provider of the teaching makes the decision on how the teaching groups are formed. A minimum of 450 hours of preparatory teaching is given to 6-10-year-olds and a minimum of 500 hours for children older than this. According to figures reported by the municipalities, 1,711 pupils took part in preparatory teaching in the school year 2005-2006. There was a total of 67 parties providing this teaching, of which 64 were municipalities and 3 private education providers. These activities are covered by the statutory State's share. In addition, some EUR 4 million of separate State assistance is annually granted for remedial teaching for immigrants.

Pursuant to the Act on Vocational Education (630/1998), education preparing for basic vocational education has been arranged for immigrants since 1999, the aim of which is to provide the students with the linguistic, cultural and other necessary capacities for moving on to vocational studies. The extent of this education is 20-40 credit points, and it must comply with the national foundations of the curricula confirmed by the National Board of Education, according to which the extent of the study package concerning linguistic skills is 10-20 credit points. In 2006, there were some 1,050 students taking part in education preparing immigrants for basic vocational education. In 2006, this task was entrusted with 49 providers of education.

The license to organise preparatory education for immigrants does not restrict the maximum number of students, and the students are included in the total student numbers of basic vocational training. Because of the task of preparatory education for immigrants, it was possible to increase the total student numbers in basic vocational education of education providers having been entrusted with this task by a total of 645 places in 1999-2006. The teaching for immigrants taking part in basic vocational education was in 2006 also supported by a separate appropriation of EUR 15,000, which mainly targeted the teaching of Finnish and languages in general, as well as student guidance. In line with the objectives of the Development Plan for Education, Training and Research 2003-2007, the development of vocational education for immigrant women and girls will be one basis for granting the separate appropriation in 2005-2008. Immigrant students often are older than the average student. The immigrants can also apply for a place in vocational education in foreign languages.

## Vocational education in foreign languages

Between 1999 and the end of 2006, the Ministry of Education has, based on such as the needs for labour, granted organisers of vocational education a total of 14 licenses to organise education

leading to a basic vocational qualification in foreign languages. It is possible to take basic vocational qualifications in English in the fields of social sciences, business and administration, natural sciences, social and health care and sports as well as tourism, catering and domestic science. In the fields of social sciences, business and administration, it is possible to take a basic qualification in Russian. In addition, six organisers of education have a license to provide domestic science teaching not arranged as basic vocational education in English. One of these also has a license to organise domestic science teaching in Russian, and one also in German.

### Education of immigrants in universities

All universities organise teaching leading to a degree in English, which also makes it easier for immigrants to start their university studies.

In the University of Helsinki, class teacher education for students with an immigrant background was launched. These students have their own annual application quota. The University of Jyväskylä, similarly, provides student counsellor training. The universities offer training that familiarises students with an immigrant background with the Finnish educational system and the curriculum practice. Many universities provide education completing their qualifications for immigrants who were trained as teachers in their countries of origin, and decisions to recognise their education have been issued to them.

### 8.6 Placement of graduates

Table 20 describes the employment and other main activities at the end of the year 2004 of those having graduated from vocational education institutes, universities of applied sciences and universities in 2001-2004. The share of those at work shows a strong correlation with the standard of the qualification or degree taken. The share of the unemployed in those with a basic secondary level vocational qualification (15.2% and 13.5%) was roughly three times that of those with a post-graduate university degree (5.0%). This is partly explained by the fact that a third-level degree can be flexibly completed once the student has secured a job.

**Table 20. Main occupation of those having graduated between 1 Jan 2001-31 Jul 2004 (universities and universities of applied sciences 1 Jan 2001-31 Dec 2004) in 2004**

	Main occupation at the end of 2004				
	Total of graduates	Total of employed	Un-employed	Full time students	Others*
	<b>Share of graduates %</b>				
Basic vocational qualification 1)	110,727	60.5	15.2	11.3	13.0
Basic vocational qualification 2)	24,450	76.5	13.5	4.0	6.0
Vocational qualification	42,329	79.5	11.3	3.9	5.3
Special qualification	10,012	93.2	3.1	1.3	2.4
Diploma from a univ. of applied sciences	79,144	82.1	7.7	4.3	5.8
Graduate degree	7,876	76.3	2.7	16.7	4.3
Post-graduate degree	50,263	83.2	5.0	5.3	6.5
Licenciate	1,984	83.1	3.0	9.6	5.0
Doctorate	4,963	83.6	2.2	2.4	11.9

- 1) A basic qualification through education in an educational institute
  - 2) A basic qualification through a demonstration of competence
  - \*) The group Others includes those who had emigrated (excl. vocational qualifications)
- Source: Statistics Finland, Placement Service.

A vocational qualification must be completed within a given time, and a job can often only be secured after the qualification has been completed. On the other hand, of those having obtained a basic secondary level qualification through basic education provided by an educational institute, a clearly greater share was in full time further studies compared to those with a university degree, excluding those having obtained a graduate degree. The high share of those having obtained a basic qualification in further studies can be explained by the fact that after the basic qualification, the vocational competence can be increased by taking a vocational qualification and further a special vocational qualification, or by applying for a place in a university of applied sciences. The high share of those with a graduate degree from a university in further studies is explained by the fact that this degree is typically taken as an intermediate one before a post-graduate degree.

### Students at work

The latest follow-up data on students taking part in work are from 2004. Of students in education following the basic education, less than one half worked while studying. More than one half of university students worked. Working was more common by 3.6 percentage points than the year before. This reduction applied to all levels of education. The share of working students in vocational education increased particularly dramatically (Table 21).

**Table 21. Students who worked in 2004 and the share of students who worked in all students in 2000-2004**

	Total students	Students who worked	The share of students who worked (%) in all students				
			2004	2003	2002	2001	2000
General upper secondary education	120,531	24,678	20.5	20.2	21.1	21.7	21.6
Vocational education	230,823	105,919	45.9	37	35.4	34.7	33.5
Universities of applied sciences	131,919	69,568	52.7	50.8	50.2	51	49.5
Universities	173,974	98,967	56.9	55.7	55.9	57.8	57.6
of which post-graduate studies	144,933	76,907	53.1	51.4	51.7	53.4	53.1
<b>Total</b>	<b>657,247</b>	<b>299,132</b>	<b>45.5</b>	<b>41.9</b>	<b>41.3</b>	<b>41.8</b>	<b>40.8</b>

Source: Educational statistics, Statistics Finland

There were differences in participation in work between the various fields of education. The number of students who worked was the greatest in the fields of social sciences, business studies and administration, 62.6%. Of students of the social and health care and sports sector, 55.3% worked, and of students in the humanities and educational field 54%. Working while studying was considerably more common in the Province of Uusimaa than elsewhere in Finland.

## 8.7 Promoting the education, training and employment of the adult population

### Adult Education Development Programme

In the Development Plan for Education, Training and Research adopted by the Council of State in late 2003, adult education is one of the priorities of the educational policy. Adult education is being developed based on the proposals of the Parliamentary Working Group on Adult Education, and it is targeted in line with the working life needs and the development of the population's age and

education structure. The development of adult education will facilitate the availability of skilled labour force and the increasing of the employment rate. At the same time, the educational and cultural needs of the ageing adult population are met. During the period of the Development Plan, the overall offer of adult education will be increased and targeted in particular to further vocational training and high level adult education as well as independent cultural and educational activities.

### **The Programme for Increasing the Educational Standards of Adults (Noste)**

The Programme for Increasing the Educational Standards of Adults (Noste) offers a possibility to take a secondary level vocational qualification and/or improving their information society skills that is free and that supports studying for adults aged 30-59 who are at work and who do not have a secondary level education. Through this programme, they can achieve vocational qualifications or partial qualifications and computer driving licenses, as well as complete unfinished comprehensive school or general upper secondary school studies while working. The studies often include learning at the workplace. The qualifications can be obtained one part at a time as demonstrations of competence. The age range of those taking part in basic education studies is between 25 and 59. In case unsalaried periods are needed in the studies, an adult education benefit is available for these. The programme is funded by the Budget appropriations for 2003-2007. The education programmes can continue until the year 2009.

The 2006 Budget contained a total of EUR 30 million of appropriations allocated to the programme to improve the educational standard of adults. Nationally, some 4,600 students started education subsidised by the State under the Noste Programme in 2006. During 2006, 914 people achieved a vocational qualification under this programme, and 372 obtained partial qualifications. 664 computer driving licenses were completed, with 533 partial qualifications.

The education of the Noste target group was also supported by targeting the so-called basic funding for independent upper general secondary studies, secondary level vocational education and labour political adult education for this group.

### **The adult education benefit**

Pursuant to Act on the Adult Education Benefit (1276/2000), an adult education benefit to compensate for the loss of earnings can be granted for independent vocational education. A condition for receiving this benefit is that the recipient has been in gainful employment insured by a pension insurance for a minimum of 10 years, or as regards education starting after 1 August 2006, for a minimum of 5 years, and that the recipient has been employed by his/her current employer for at least one year before the studies supported by the benefit start. Another requirement is that the recipient will take an unsalaried study leave for a minimum of two months and that he/she does not receive any other assistance for the studies.

The basic part of the adult education benefit is EUR 500 monthly. In addition, an earnings-related part will be paid, which is 20% of the monthly salary up to EUR 2,700 plus 15% of the share exceeding this amount. This benefit is subject to tax. The adult education benefit is funded by the State, which finances the basic part of the benefit, and the Unemployment Insurance Fund, which funds the earnings-related part. The implementation of the benefit is ensured by the Education Fund. Those entitled to an adult education benefit are also entitled to a State guarantee for a student's loan pursuant to the Student Financial Aid Act (65/1994).

The duration of the adult education benefit is determined by the time at work. Each working month insured by a pension insurance increases the benefit period that is available by 0.8 days. Family political leaves also are partly comparable to time at work. In addition to the accumulated entitlement to the benefit, the person taking study leave is entitled to use in advance calculated working time up to the age of 60 years. A condition for this practice always is that the recipient has been in working life for at least 10 years. The maximum benefit period is 18 months.

Education entitling to an adult education benefit may include basic vocational education, other education leading to a qualification, completion of university studies started earlier, taking partial qualifications, specialisation or complementary education or post-graduate degrees in a university of applied sciences. Support can also be granted for completing basic education or general upper secondary studies, in case the lack of these is an barrier to vocational development.

In 2006, a total of EUR 30.2 million of adult education benefits were paid out to 7,483 students, which is EUR 1.8 million more than in 2005.

### **Development of adult education with a vocational orientation**

The Council for Labour and Training Affairs directed by the Ministry of Labour and Ministry of Education has a number of times discussed questions relevant to the skills of the adult population and adult education. Based on the recommendations of the Council, Minister of Education Kalliomäki established on 21 April 2006 a civil servant group of five Ministries (ME, ML, MTI, MSH, MF), which submitted on 29 September 2006 its memorandum on the needs and measures to develop adult education with a vocational orientation covering vocational and third level adult education, labour political adult education and staff education. For the Memorandum of this Civil Servant Group (Muutoksen ennakointia ja hallintaa kysyntälähtöisellä aikuiskoulutuksella, "Anticipating and managing change by demand oriented adult education"), please visit [www.minedu.fi](http://www.minedu.fi). The proposals of the group concern a) the development of division of labour between administrative sectors and the functioning of the whole, b) support systems for adult education, financial basis and tasks of the funds, c) increasing demand orientedness and efficiency, d) reinforcing the position of adult education in education political control, e) measures to increase equality, f) adult education measures supporting labour immigration and g) the position of skills as part of development of work organisations.

### **Improving capacities for the information society**

The Information Society Programme for education, training and research for 2004-2006 was implemented in three sectors: skills, contents and the operating environment. The programme implements the Government's information society programme as regards education, training and research.

Skill were developed at all levels of education and training. In 2006, the National Board of Education allocated a total of EUR 2,200,000 to train teachers in the use of ITC technologies in their teaching. In addition, a number of regional projects were implemented on ESF funding to ensure the skills of the teaching staff. The Ministry of Education together with the State Provincial Offices supported the training of information society support and advisory personnel (peer trainers) arranged by NGOs, educational institutes of independent cultural work and libraries. In 2006-2007, these activities will be supported by a further sum of EUR 500,000. In association with content production for this programme, the National Board of Education and virtual universities of applied

sciences have drawn up a set of quality criteria for on-line learning materials. As regards operating environments, the extension of data communication connections enabling e-governance and data transmissions to all educational institutes was improved.

## **8.8 Speeding up the progress to education and the labour market of young people**

### **The Educational Guarantee for young people**

In 2003, the target of the Educational Guarantee for young people was set at a minimum of 96% of those finishing comprehensive school starting in the same year in a general upper secondary school, vocational education or complementary teaching to basic education by 2008. When setting this target, data concerning those having finished basic education in 2001 was available. At that time, the share of those immediately continuing their studies was 93.2%. In 2005, the number of those continuing their studies had shown a steady growth to 95.1%.

**Table 22. Immediate placement in further studies of those finishing basic education**

	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Placed in vocational education (%)	36.1	36.7	37.0	38.4	39.4
Placed in a general upper secondary school (%)	54.2	54.8	55.1	54.1	53.3
Placed in complementary teaching to comprehensive school (%)	2.9	2.6	2.4	2.5	2.5
Total of those moving on to education leading to a qualification or complementary teaching to comprehensive school (%)	93.2	94.2	94.5	95	95.2
(people)	59,650	57,900	57,550	60,400	60,224

### **Reducing the incidence of dropping out**

The Council of State's education political report submitted to the Parliament in April 2006 stated that a wide-ranging programme of additional measures will be launched to reduce the incidence of dropping out of education. The Department for Education and Science Policy of the Ministry of Education established a working group of civil servants in November 2006 to look at measures to reduce the incidence of dropping out in all sectors of education. The objective is to include the wide-ranging programme of additional measures promised in the report in the following Development Plan of Education, Training and Research.

At the end of 2006, 29 ESF projects were under way in vocational education institutes, the purpose of which was to activate young people to apply for vocational education and to reduce the incidence of dropping out. The projects emphasise co-operation between basic education and secondary level vocational education in implementing career and student guidance, with the aim of lowering the threshold of moving on from basic to vocational education. Majority of these projects focus on reducing the incidence of dropping out of vocational education.

### **Support measures for progressing from vocational education to working life**

The performance financing of vocational education introduced from the beginning of 2006 encourages the education providers to take measures aiming at the fast employment or placement in

further studies of the graduates, improving the quality of education and reducing the incidence of dropping out. They are also encouraged to continuously improve the quality and effectiveness of the education by means of vocational education quality awards.

The development of the career and recruitment services of vocational education institutes continued under 15 ESF projects. These projects involved some 3,000 students. The projects focus on developing support measures for progressing from education and training to working life in co-operation with the working life. The objective is to make the student guidance services for those studying in vocational educational institutes more efficient to facilitate their employment.

### **The inclusion project for young people**

The inclusion project for young people was launched in the beginning of 2003, involving 37 projects of municipalities or regions and some 70 municipalities in total in 2006. The objective of the inclusion project is to promote inclusion and placement in education and training, the society and working life. The project is jointly funded by the State and municipalities. The State's funding share is EUR 1 million annually. The National Board of Education co-ordinates these projects in co-operation with the Finnish Youth Co-operation Allianssi. An interim report of an evaluation study concerning the projects was completed in spring 2005, and a study on the good practices produced by the publication project was finished in autumn 2006.

### **Workshop activities for young people**

The aim of workshop activities for young people is to support the social growth of the young people, strengthen their life skills, prevent exclusion and guide them to education, training and the labour market. Generally, young people stay on in the workshops for six months. The young person can also come to a workshop for on-the-job training or apprenticeship training. The majority of young people, or more than 66%, are referred to the workshops by the Labour Administration (60% through the Employment Office and 6% through Labour Force Services Centres). More than 12% are referred to a workshop by the Social Insurance Institution and nearly 12% by educational institutes. The number of young people joining the workshops without being referred by the authorities is increasing, and in 2006 it was nearly 8% nationally; for less than 2%, the party having referred them was not recorded. In 2006, the workshop activities reached 10,528 people, of whom 6,798 were young people under the age of 29. The workshop activities annually employ 1,046 workshop coaches.

In 2006, 64% of young people in the workshops had a comprehensive school leaving certificate or they had not completed comprehensive school, 10% had completed the curriculum of a general upper secondary school or were general upper secondary graduates, nearly 23.5% had a secondary level vocational qualification, and 2.5% some other educational background. New groups in the workshops were young people who had graduated from a general upper secondary school, those who lived on social support and young people without basic education. The workshop activities for young people were successful in reaching young people without vocational education, and in 2006 the share of this group in young people at the workshops was a total of 74%. The workshop activities meet well the needs for support experienced in the transition phase of young people's lives and reach young people in need of support as one actor in the public sector's selection of services.

The number of workshops for young people has stabilised at around 200, and regional co-operation between the workshops has increased. The majority of the workshops are part of the municipal organisation, and more than one half work under the administrative sector responsible for youth work. The activities are mainly maintained by means of project funding from various sources (ML,

ME, ESF, Finland's Slot Machine Association, municipalities). The workshops work in the marginal area between the education system, working life and the social and health care sector services. Co-operation of authorities over sectoral boundaries plays a great role in the success of the activities. Multi-professional and goal-oriented team work as well as learning by doing are the most common methods used in the workshops.

The workshop activities for young people were strengthened in 2004 and successfully made more permanent in 2005 and 2006. In the reporting year, 48% of the workshops received an administrative decision on the matter; the share of permanent workshops has gone up by 8 percentage points compared to 2005. If permanence is also measured by the duration of the activities (a minimum of 10 years without interruption) or the share of self-financing (more than 55% of the total budget), 80% of the workshop activities for young people were permanent in 2006. Of the workshop coaches, 68% were permanent.

According to studies, reports and follow-up of placements carried out by the workshops, young people having attended workshops were well placed in education and working life after their period at the workshop (national average 60%/one year after a period in the workshop). In 2005, 70% of young trainees in the workshops were placed positively (in education, work, other active measure or continued at the workshop). 30% of young people in the workshops become unemployed, drop out or are dismissed at the end or during their period there. Many young people feel that the period in the workshop helps them manage their lives better than before, increase their capacities for education and working life and clarify their future targets.

An interadministrative working group developing preventive intoxicant and drugs work for the workshops was active in the reporting year. The central proposals of the working group are relevant to the training of workshop coaches and preserving the so-called normality principle in the workshop activities. This means that only a handful of young people with a drug problem can be trained simultaneously in the workshop group.

According to the final accounts for 2005, a total of EUR 69.7 million was spent on workshop activities, of which funding allocated to the young people in the workshops was EUR 18.7 million and the funding for operations EUR 51 million. EUR 1 million of National Lottery funds and EUR 4.1 million of operating funds were used on the workshop activities for young people and prevention of exclusion from the State Budget for youth work. Some EUR 3.5 million of ESF funding was granted for the workshop activities.

### **Other measures implemented during the Government period**

A reform of the secondary level national joint application system is under way. The aim is to make applying for and being accepted in studies more efficient. The first phase of introducing the system will take place in 2007. In the autumn of 2006, the Ministry of Education launched a development and research project on the student selections and bases for accepting students in vocational education. Coaching and guiding education in association with vocational education for young people finishing comprehensive school started as an experiment in autumn 2006, and it will be expanded in 2007.

The expansion of complementary teaching in comprehensive schools, which was monitored in the follow-up of the Educational Guarantee, was not implemented. Complementary teaching in independent adult education centres has, however, expanded in recent years. Consequently, the forms of organising additional teaching have diversified.

## **On-line services for education and vocational information**

Information available on the educational opportunities plays a great role in making personal decisions on education and training, but the information based on which the final decision is made often is rather vague and found in random sources. Those with a low standard of education have worse possibilities of making use of the information that is available on education than those with high standards. However, even those with a high standard of education often seem to make their decisions based on rather poor information. According to a study by the University of Jyväskylä published in 2006, for example, those starting their university studies have little information on the contents of the studies selected by them and the tasks in which the graduates are placed. This results in changing fields and lengthening of studies: in the sample of the study, e.g. 24% of those having started university studies changed their degree programme within two years after starting.

The Internet is the most popular channel for finding information on education, training and studying. The collective on-line information services produced by the Ministry of Education (Opintoluotsi.fi), Ministry of Labour (Ammattinetti.fi) and National Board of Education (Koulutusnetti.fi) are intended to facilitate the search and comparisons of information by both individual citizens and the professionals of educational and training advice. In the beginning of the year 2007, new versions were produced of all three of these on-line services, the co-operation between which is being developed jointly by the administrative sectors in question. Central areas of co-operation include a better profiling of the services and visibility to citizens, as well as developing the interfaces and data transmission system of the information systems.

## **The joint implementation of the action plan of adult education information services, advice and guidance by the Ministry of Education and Ministry of Labour**

The Government has set as a target to increase the annual participation in adult education of the working age population from 53% to 60%. As part of measures associated with ensuring the skills of the adult population and promoting lifelong learning, an action plan of information services, advice and guidance for adult education was prepared for the years 2007-2013 (ML 365/2006) by the joint interministerial drafting group established by the Ministry of Education and Ministry of Labour on 1 June 2005. The action plan is divided between four sets of proposals aiming at improving the targeting and effectiveness of adult education and making the resource use more efficient. In the implementation of the development programme, the outcomes of the Noste Programme and regional co-operation networks will be used, the personification of adult education and the arrangements for recognising competences obtained in various ways will be speeded up, co-operation between the providers of adult education and working life will be reinforced and the increasing of the rate of participation in adult education and efforts to expand the participation base will be supported.

In order to spur further drafting of the proposals, the Ministry of Education and Ministry of Labour established on 1 November 2006 a co-ordination and monitoring group with a wide base involving the central working life organisations and other essential actors. This organisation drafted in co-operation between the Ministry of Education and Ministry of Labour a national plan for further measures. The intention is to obtain the majority of the additional resources through the ESF programme for years 2007-2013 (Priority 3: development of education and service systems associated with the labour market).

## **Promoting placement in university studies**

In line with the Government Programme, the time it takes the students to move on from the secondary level to university studies will be shortened e.g. by developing the contents and structure of the student selection system.

According to the Development Plan for Education, Training and Research, placement in studies will be promoted so that by 2008, a minimum of 55% of new students will have taken the secondary level qualification in the same year. The 50% target set in performance agreements between the universities and the Ministry of Education for 2006 was mainly achieved in the technical/scientific and natural sciences fields. Variations between different fields of education remain great. An average of 38% of students having accepted a place in a university had obtained the secondary level qualification in the same year. 34% of the students who accepted a place in universities were aged 19 or younger.

The universities continued to implement development strategies for student selection. These strategies aim at making the placement in studies more efficient and the selection process less cumbersome. The most central reforms include making the entrance examinations less cumbersome, harmonising points systems, increasing selections based on school certificates, cutting back on selection units, increasing co-operation in selections and increasing the weighting of the matriculation examination as a ground for selection. These reforms will be monitored as part of the performance management process between the universities and the Ministry of Education.

The national joint application system of the universities was drafted in co-operation between the Ministry of Education, National Board of Education and the universities. The joint application system including on-line applications will be built in connection with the applicant register maintained by the Board of Education. The introduction of the system will start with the selections for the academic year of 2008-2009.

According to the Development Plan policies, flexible possibilities for studying and recruitments of adults will be promoted. According to the recommendations of the Working Group on Lifelong Learning in Universities (2005:38), the universities were asked to prepare strategies for lifelong learning.

## **Facilitating university studies and the reform of the degree structure**

After the reform of the degree structure that entered into force in 2005, the students will first achieve a graduate degree, which will take three years as a rule, and after that a post-graduate (a Master's) degree, which will mainly take two years. In connection with the reform of the degree structure, the universities will also renew the contents of the degrees so that these will better meet the needs of the working life and research. The reform aims at shortening the times of study and reducing the incidence of dropping out. One of the central aims of the degree structure reform also is achieving a better international comparability for Finnish degrees. This reform will essentially improve the possibilities of Finnish universities to take part in the activities of the European third-

level education area. A national evaluation concerning the implementation of the reform will take place in 2009.

All universities introduced personal study plans to make planning and monitoring the progress of studies as well as student guidance more efficient. These plans are a central means for shortening the times of study.

The average time for obtaining a post-graduate degree in universities was 6.0 years in 2005. Students taking a Master's degree were on average aged 27.3 years.

The development of the study processes in the universities is one of the national programmes for 2007-2009. During the performance agreement period 2007-2009, the support for development projects of teaching and student guidance in universities will continue by an approximate total of EUR 6 million annually.

### **Structural development of universities**

The structural development of universities is based on a decision made by the Council of State in 2005 on the development of public research system structures and the principles outlined by the Ministry of Education in 2006 on the development of the Finnish network of universities. The objectives of structural development include improving the quality and effectiveness of teaching and research, progress in internationalisation, reinforcing skills levels and competitiveness, bringing the resources of university education together, improving the functioning of the public research system, enhancing educational alternatives and improving the services for students and researchers.

The profiling and priority areas of universities will be developed, and the network of universities will be gathered into larger wholes through co-operation and the merging of institutions. The aim of this will be strengthening the research and development activities as well as the quality and effectiveness of education and international competitiveness. In order to enhance the effectiveness of educational and research services and to make a commercial profit out of them, common structures will be developed for universities and other actors.

In 2006-2007, the Ministry of Education will allocate EUR 18 million for structural development projects of the universities. In order to develop the universities' new type of operating structures, 3 primary projects were launched in November 2006, and they submitted their proposals on 19 February 2007. These proposals include a joint operating structure for the University of Turku and Turku School of Economics and Business Administration, a joint operating structure consisting of the Universities of Joensuu and Kuopio and intensifying co-operation between Helsinki University of Technology, Helsinki School of Economics and the University of Arts and Design.

In the structural development of universities of applied sciences, the projects to merge three universities are the most significant. The new Haaga-Helia University of Applied Sciences, which combines the activities of both the Haaga Institute and Helsinki Business Polytechnic started operating in the beginning of 2007. The aim is also to unite Helsinki Polytechnic and the EVTEK University of Applied Sciences to form a new university of applied sciences. In the same connection, a rationalisation of sectors will be performed together with the Laurea University of Applied Sciences. Additionally, the Svenska Yrkeshögskolan University of Applied Sciences and Sydväst Polytechnic are preparing to combine forces.

In the target negotiations of the universities of applied sciences, an agreement has been reached on discontinuing the education of young people leading to a qualification in 12 units. The programmes and responsibilities for education will be combined so that at the level of educational programmes, education will be organised in groups of at least 40 new students. An agreement was reached on refocusing the educational offer of the universities of applied sciences for 2008-2009 so that 10%, or approx. 2,500, places for new students will be reallocated.

### **Recognition of skills**

Everybody should be able to have his or her skills recognised, independently of the learning environment or stage in life in which the learning has taken place. Provisions on recognising skills were added in the vocational education legislation. Pursuant to Section 30 of the Act on Vocational Education (601/205), the student has the right to have studies completed earlier or a competence otherwise acquired that essentially correspond with the objectives and requirements of the curriculum assessed and recognised. By the recognition of skills, the student can be credited and validated for compulsory, optional or freely selected studies. The provisions on recognising competence entered into force on 1 January 2006.

The practices of the universities as regards recognising skills acquired earlier vary to a great extent. The Ministry of Education working group set up in 2006 (2007:4) drew up 25 recommendations for the recognition of skills acquired earlier and competence acquired elsewhere than in formal education by universities. The working group proposes that the universities should have a harmonised, reliable and transparent system for recognising skills acquired earlier. The recognition system applies to education leading to a university degree, and it can also be applied to other education organised by a university and to the recognition of skills acquired abroad.

### **Improving the students' social position**

The measures improving the students' social position and incentive provided by the student's aid system required by the Government Programme progressed as follows:

The parents' income levels applied when granting student's aid were increased from 1 November 2006 on by 15%, and the housing supplement of students who are studying in a payable programme in a folk high school or sports education centres and live in the students' home of the institute was increased based on the changes in cost levels. In connection with the drafting of the State Budget for 2006, an appropriation for a further increase by 30% in the parents' income levels was reserved from 1 November 2007 on. The increase in the income levels will improve the student's aid available especially for students in general upper secondary education and basic vocational education. The meals subsidy of university students went up from EUR 1.47 to EUR 1.67 from 1 January 2007 on.

### **Introducing demonstrations of vocational competence**

Demonstrations of vocational competence were introduced in basic vocational education, starting from education beginning on 1 August 2006. The ground for introducing demonstrations was prepared by wide-reaching experiments. By means of demonstrations of vocational competence, the vocational competence of the student can be validated in co-operation between the education providers and industrial and other working life. The objective of demonstrations of vocational competence is to improve the quality and effectiveness of vocational education and to promote the

move of the students from education to working life. By the end of the year 2006, there were a total of some 90 projects implemented by the National Board of Education and the provinces under way, 60 of them having already concluded. They have trained teachers and on-the-job counsellors in implementing vocational competence examinations. There also is a special support programme to facilitate the introduction of demonstration examinations.

### Developing the degree structure of universities of applied sciences

The degree structure of universities of applied sciences was developed in 2005 so that pursuant to the Council of State's Decree on university degree systems, the degrees obtained in universities of applied sciences include graduate and post-graduate degrees.

The post-graduate degrees in universities of applied sciences provide the graduates a possibility of improving their vocational skills after three years' work experience. The extent of post-graduate university of applied sciences degrees is 60-90 credit points. The studies leading to a post-graduate university of applied science degree are working life oriented, and they can be completed while working. The degrees emphasise research and development associated with working life and its development.

Education leading to a higher university of applied sciences degree started in autumn 2005. In 2006, this education was expanded to new fields (natural sciences, natural resources and the environment, tourism, catering and domestic science as well as the cultural sector) and the number of students starting in the education was increased to around 1,200.

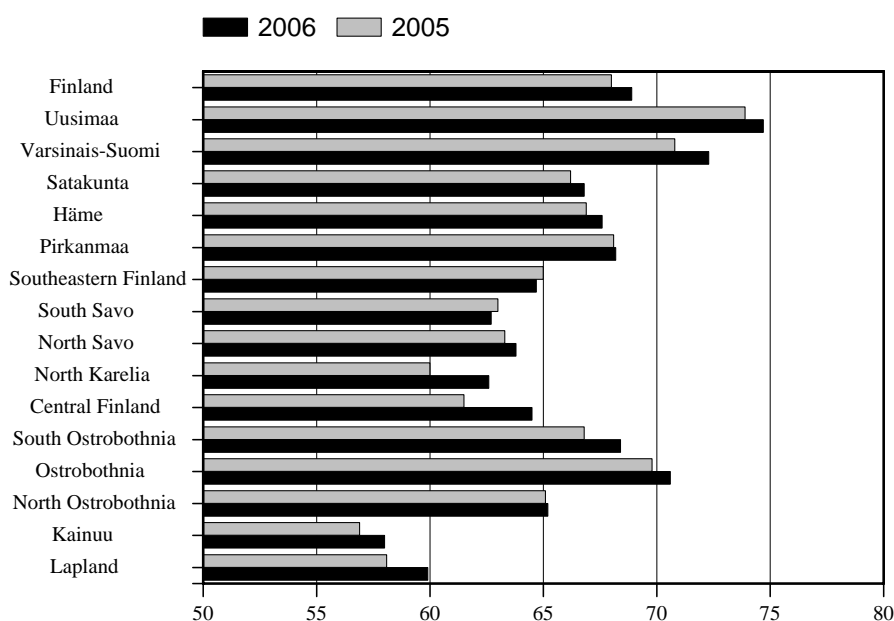
## 9 PROMOTING EMPLOYMENT IN THE REGIONS

### 9.1 The current state of regional development

#### Population and employment development

At the end of the year 2006, the population of Finland was 5,277,300. The population gain from the

Figure 13. Employment rates by Employment and Economic Development Centre, %



Source: Statistics Finland, Labour Force Survey

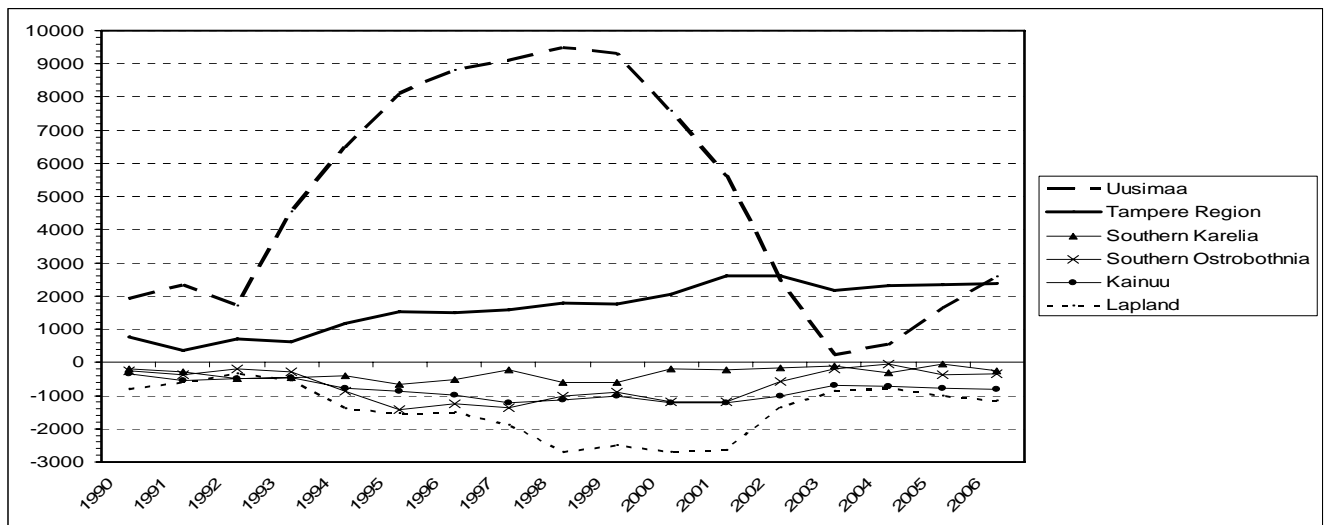
year before was 21,700 (0.4%). The increase was the greatest in the population centres of the provinces in Southern and Western Finland. In proportion, the greatest population gain was recorded in the provinces of Uusimaa and Kanta-Häme. The population losses were the greatest in Kainuu (-1.1%) and Southern Savo (-0.6%). The rural population declined especially in Northern and Eastern Finland. The production in Finland is regionally concentrated. The four leading provinces (Uusimaa, Southwest Finland, Tampere Region and Northern Ostrobothnia) account for some 60% of the national GNP. The regional picture of research and development activities is similar. These four provinces are in a class of their own compared to the other regions in the country. The regional differences are also great as to employment (Figure 13). In 2006, the highest employment rate was recorded in the area of the Employment and Economic Development Centre of Uusimaa (75%) and the lowest in that of Kainuu (58%). In the areas of most Employment and Economic Development Centres, the employment rate went up from the year before.

### **The regional mobility of labour varies with economic trends**

After the recession in the beginning of the last decade, the population tended to concentrate in the capital area and a handful of regional centres. With the more sluggish economic growth in 2001-2003, the migration flows between provinces slowed down. The net migration was negative especially in Uusimaa, which started gaining population again in 2005-2006, in particular because of the increased immigration. The good economic growth in 2004-2006 increased regional mobility. A positive net immigration was recorded in particular in the Tampere Region, and in 2006 also Kanta-Häme and Southwest Finland. In Kainuu, Lapland and Southern Savo, the population losses increased from the year before.

A population loss undermines the capacities for development in the regions of origin. As the majority of those moving out are young, the birth rate goes down. The training of the remaining older age classes does not always meet the requirements of the new jobs. This is how labour shortages can also occur in conditions of relatively high unemployment. The continuous migration flows also have an impact on the economic dependency ratio. In the midst of the depression in 1993, it was an average of 1.5, or there were 150 non-employed to each one hundred employed people. As employment went up, however, the dependency ratio improved in most provinces. In 2006, the national figure was 1.2. The situation was the best in Uusimaa (0.9) and worst in Kainuu (1.8).

**Figure 14. Net migration within the country in 1990-2006 in some provinces\***



\*In this Figure, the two extremities are shown, or Uusimaa and Lapland, and a few provinces around the country.

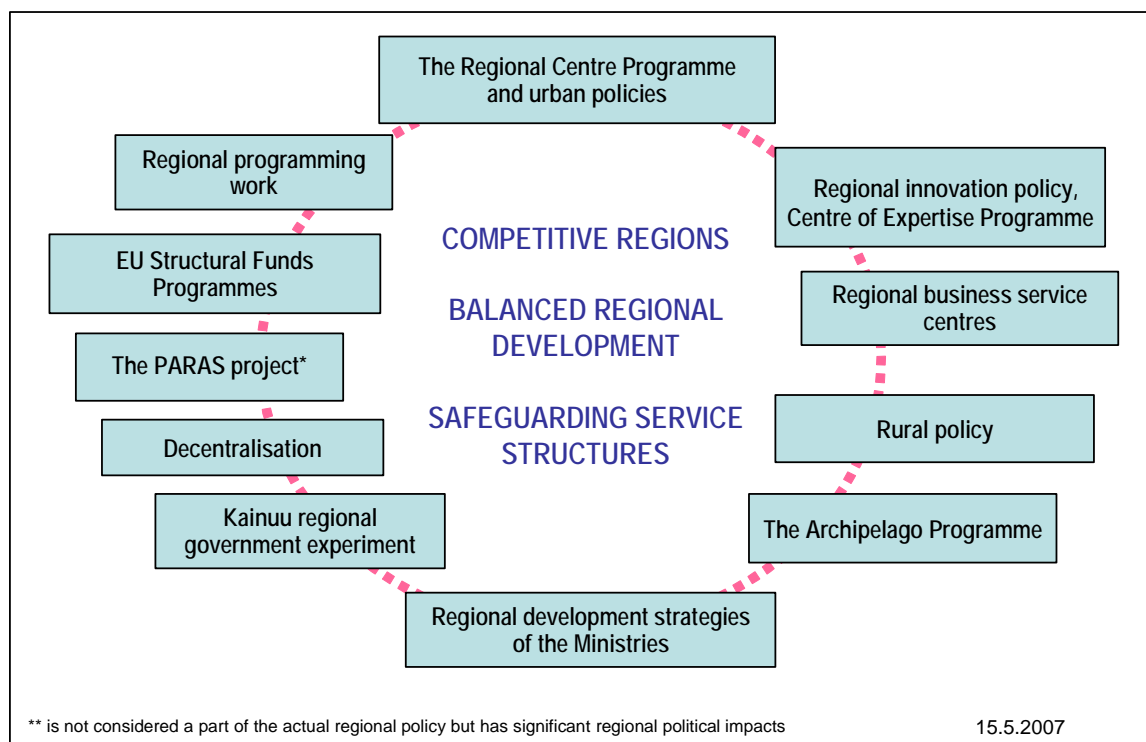
## 9.2 Implementation of regional policy measures

Pursuant to the Regional Development Act (602/2002), the objectives of regional policy include reinforcing the competitiveness of regions, safeguarding service structures in all parts of the country and developing a balanced regional structure. Based on this Act, the Government makes decisions in principle on the national targets of regional development and decides on fixed-term special programmes, which include the Regional Centre Programme, Centre of Expertise Programme, Rural Policy Programme and Archipelago Programme. The Act imposes on the ten Ministries involved in regional development the duty to draw up their own regional development plans and to implement regional policy measures in line with the national regional development objectives (15 Jan 2004) in their administrative sector.

According to the decision in principle, the aim of regional policy is achieving a regional structure with multiple centres that will enable a more evenly distributed economic growth in the whole country. This regional structure includes a competitive capital area and a network of regional centres. In each province, at least one urban area is needed, offering a competitive location for companies and a versatile labour market. Other urban areas, municipal centres and the rural areas will be networking as part of this regional structure.

The amendment to the Regional Development Act that entered into force in the beginning of 2007 enhances the effects of the regional programme implementation plan on the State Budget. The amendment requires the Ministries to negotiate with the provinces on the appropriations affecting regional development, after the Regional Councils have submitted their proposals on them in the regional programme implementation plan. The Ministries will subsequently put together the appropriation proposals with an essential impact on regional development and submit them to the plenary session of the Council of State.

**Figure 15. Programme package pursuant to the Regional Development Act**



The measures of the Ministries have targeted the regions afflicted by sudden structural change problems. EUR 30 million are reserved for this purpose in the 2007 Budget. The Centre of Expertise Programme was reinforced by Ministry of the Interior by expertise policies for 2007-2013. The role of the Regional Centre Programme in developing the industrial policy and transferring innovations was made more specific based on such as the regional specialisation strategies. The Ministry of Education brought together the regional development strategies of universities and universities of applied sciences.

The role of the Ministry of Trade and Industry in the innovation policy is being further strengthened. In order to improve the operating capacities of businesses, the number of regional business services centres was increased, and a service model for business customers was established in the Employment and Economic Development Centres. Employment services were linked to more wide-reaching efforts to develop regions and industries. The Ministry of Labour and the Ministry of Education increased the efficiency of assessing labour and education needs nationally and regionally. As part of the Employment Policy Programme, a labour force anticipation project was implemented.

The comprehensive Rural Policy Programme and Archipelago Programme were updated and matched with the regional programmes. The Rural Policy and Archipelago Programmes encompass the Government policies for the development of the industries, services, skills and the environment for 2007-2010. The Employment and Economic Development Centres prepared their regional plans for rural areas. Proposals were also drafted for new rural Leader action groups.

The predominantly rural regions of Eastern and Northern Finland will be the beneficiaries of the greatest amounts of regional political assistance in the programming period 2007-2013. Some of the rural areas of Southern and Western Finland have been designated as challenging areas that will receive EU funding and national co-funding. The EU funding for agriculture and fisheries and the associated national funding will continue nationally. Archipelago municipalities and parts of municipalities located in the archipelago have been included in a support category higher than that of their surrounding areas in Southern and Western Finland.

### **9.3 The Regional Centre Programme**

The Regional Centre Programme is a special programme pursuant to the Regional Development Act, the task of which is to enhance competitiveness, viability and socially balanced development in urban areas of various sizes. This programme is based on the areas' own strengths and specialisations.

#### **Results of the first period 2001-2006**

During the first period of 2001-2006, the Regional Centre Programme comprised 34 urban areas in 259 municipalities. EUR 48 million was allocated in the State Budget for the regional centre and urban policy during this period, of which the funding for 2006 was EUR 9.1 million. These appropriations were also used to support the urban programmes of the capital area and its surrounding areas and the network pilot of the Regional Centre Programme.

According to the final evaluation of the first period, the Regional Centre Programme reinforced the regional networks and co-operation. The Programme fitted in well with the regional programmes and other regional strategies. It boosted the innovation system, skills base and attractiveness of regions. Considerable progress was made in co-operation between businesses and the public sector. The Regional Centre Programme brought to most areas new types of activities and visibility. The Regional Centre Programme developed the economy and employment of the regions together with the Centre of Expertise Programme, the programming efforts of the regions and the associated EU Structural Funds programmes.

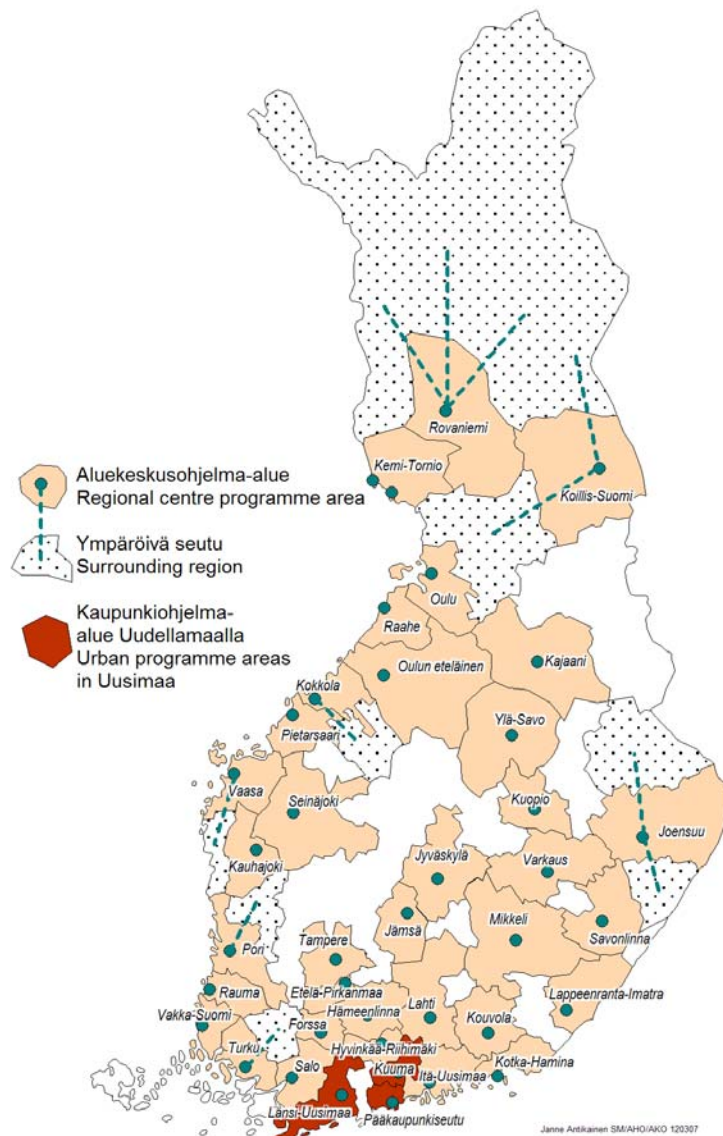
#### **The new programming period 2007-2010**

During the next programming period 2007-2010, the Regional Centre Programme will continue to develop urban areas that have capacities for enhancing the viability of their provinces. EUR 9.2 million were budgeted for regional centre and urban area policies in 2007. The programme will be implemented as part of the Government's urban political priorities and provincial development. The aim is to reinforce the vitality, competitiveness and social capital of the regions. In order to reach these objectives, the strengths, skills, specialisation and co-operation activities of regional centres will be developed both nationally and regionally. Priorities will include 1) business driven industrial strategies, 2) specialisation strategies of the regions, 3) structures, tools and operating models of innovation activities, 4) attractive operating environments and diverse labour markets and 5) public and private sector partnership.

The programmes will be diversified in line with the special features, strengths and development possibilities of the urban areas. Particular attention will be paid to the national and international role of large regional centres.

All urban areas of the previous period and the network pilot of Kauhajoki region were designated for the new programming period. The programme regions cover 257 municipalities. Out of the appropriations for regional centres and urban policies, the joint Western Uusimaa programme of Tammisaari and Lohja regions, the programme for the Kuuma municipalities of Central Uusimaa and the urban programme for the capital region are funded.

**Figure 16. Areas covered by the Regional Centre Programme and the surrounding regions (rural regions that already are co-operating with regional centres and white areas) and the urban programme areas of Uusimaa**



As part of the comprehensive Rural Policy Programme, a regional experimental section will be launched in 2007, the aim of which will be to enhance co-operation between regional centres and rural areas. The targets for development will include the industrial and skills strategies of the countryside and interaction between urban and rural areas. This experiment is intended for the surrounding regions and white areas shown in Figure 16. EUR 1 million of the regional development appropriation has been reserved for the implementation of this Programme in 2007-2010.

## **9.4 Centre of Expertise Programme**

The Centre of Expertise Programme is, pursuant to the Regional Development Act, a special programme targeting local, regional and national resources to capitalising on expertise. The aim of this programme is to promote new products, services, jobs and enterprises based on expertise. This programme supports the specialisation of regions and their capacities to make use of research and development funding.

### **Results in the period 1999-2006**

The first Centre of Expertise Programme involved eight centres. In 1999-2006, the programme covered 22 centres of expertise and 45 sectors. The basic State funding for the programme in 2006 was EUR 8.6 million. This was used on co-ordination, project preparation and seed funding for the centres of expertise. Co-funding of the regions was also required. The basic funding from the State for the whole programming period totalled EUR 52.5 million. The total funding of the project amounted to EUR 580 million, of which EUR 112 million was research and development funding subject to national and international competition (National Technology Agency Tekes and EU Framework Programme for Research).

In the programming period 1999-2005, the target was to preserve 18,000 jobs, create 18,700 jobs based on expertise and start 1,500 new enterprises. Based on the project data, the programme promoted the preservation of 29,000 and the creation of 13,000 jobs as well as facilitated the establishment of 1,300 new companies. 90,000 people took part in training. On average, 6,000 companies were involved in the projects annually.

Based on the final evaluation of the period, preservation of jobs and training exceeded expectations, but the programme was somewhat behind the targets as regards the funding of new jobs and projects. The national co-ordination and implementation of programmes in the regions in line with the plans and strategic priorities was successful. According to the evaluation, the Centre of Expertise Programme brought the regions' own innovation policies to a sharper focus through competition, promoted specialisation and targeted development funds to the leading sectors of the regions. What the evaluation highlighted as challenges was focusing the programme, and the joint impact of the centres of expertise.

### **The new programming period 2007-2013**

In the new period 2007-2013, a cluster-based operating model will be applied, which will utilise fragmented resources more efficiently. An expertise cluster is formed by at least two areas of expertise that complement each other and are located in different centres of expertise. Co-operation in the form of networking will be a central operating method for the clusters. The clusters will increase the critical mass of research and product development and the national effectiveness of the activities. In the new period, excellence, growth of companies and specialisation of regions will be highlighted. An attempt will be made to increase the share of joint projects in the cluster to a minimum of 70% by the end of the period. An effort will be made to increase the share of funding subject to national and international competition in the total funding of the projects to one half.

In the State Budget for 2007, EUR 8.7 million were reserved for the Centre of Expertise Programme. In the period 2007-2013, the programme will be implemented by 13 expertise clusters of national importance and 21 centres of expertise. The expertise clusters appointed by the Council of State are the HealthBio Cluster, the Well-being Cluster, Foodstuff Development, Future Energy

Technologies, Information Technology, Digital Contents, Tourism and Production of Experiences, the Maritime Cluster, Nano and Micro Systems and the Future Materials, Intelligent Machines, Forest Industry Future, The Expertise Cluster of Housing and the Environmental Technology Cluster.

## 9.5 Decentralisation of State functions and units

The decentralisation of State functions and units refers to their location outside the area of Helsinki. Decentralisation takes place pursuant to the Act (362/2002) and Decree (567/2002) on the authority concerning the location of State units and functions. The aim of the long-term decentralisation programme in line with the Government Programme is to alleviate the growth pressures of the capital area and to safeguard the availability of competent personnel for the State. An effort will be made to locate units and functions in regions where their strengths can be utilised and supported. Clusters of expertise will be taken in consideration when selecting these locations.

The Government's target is to locate 4,000-8,000 jobs outside the area of Helsinki by 2015. The decisions would be made by the year 2011. By the end of the year 2006, decentralisation measures equalling 1,453 man-years had been implemented. In addition to the measures already implemented, decision have been made on the decentralisation of 1,972 man-years, and plans concerning a further 745 man-years are under way. These projects cover a total of 4,170 man-years. For decentralisation measures by the administrative sector, please refer to Table 23 below.

**Table 23. Decentralisation measures by administrative sector 2001-2006**

<b>Administrative sector</b>	<b>impleme nted man-y.</b>	<b>decided man-y.</b>	<b>planned man-y.</b>	<b>total man-y.</b>
Prime Minister's Office	0	0	3	3
Ministry for Foreign Affairs	2	0	0	2
Ministry of Justice	130	0	107	237
Ministry of the Interior	344	106	56	506
Defence Ministry	120	1030	0	1150
Ministry of Finance	256	55	153	465
Ministry of Education	16	41	140	197
Ministry of Agriculture and Forestry	146	276	37	459
Ministry of Transport and Communications	165	31	13	209
Ministry of Trade and Industry	140	352	45	537
Ministry of Social Affairs and Health	73	0	127	200
Ministry of Labour	30	0	4	34
Ministry of the Environment	30	81	60	171
<b>Total</b>	<b>1 453</b>	<b>1 972</b>	<b>745</b>	<b>4 170</b>

The classification below shows decentralised measures (3,166 man-years) by the region (co-operation areas of the Regional Councils)

	man-y.	%
Southern Finland	1 266	40.0
Western Finland	849	26.8
Eastern Finland	693	21.9
Northern Finland	358	11.3
Total	3 166	100.0

**Figure 17. Decentralisation measures (implemented, decided and planned: 3,166 man-years) by location**

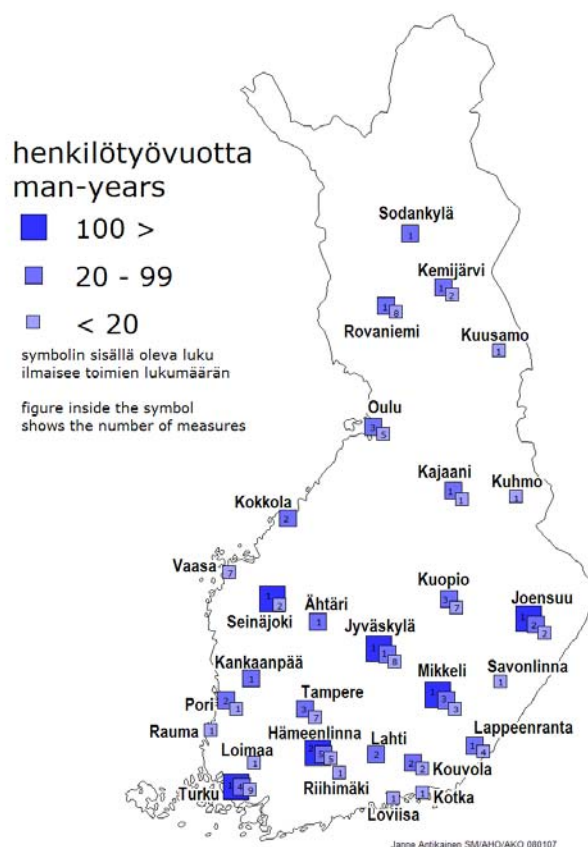


Figure 17 shows decentralisation measures (implemented, decided and planned: 3,166 man-years) by location. The total of measures is less than the total of the previous Table 23, as the location of all decentralisation measures has not yet been decided.

## **9.6 Areas afflicted by problems arising from a sudden structural change**

The global change factors and ownership arrangements in enterprising have resulted in sudden, unanticipated and large-scale problems of structural change and job losses also in Finland. In order to respond to these and to alleviate regional problems, measures and co-operation of the administrative sectors has been developed. In 2004-2006, there were five regions with problems arising from sudden structural changes designated by the Council of State (regions of Vakka-Suomi and Raahi, areas of Mänttä-Vilppula and Viiala-Toijala-Kylmäkoski and Parkano). For these areas, development programmes were drawn up, the measures of which were implemented as regional special measures by the various administrative sectors.

For the years 2007-2008, the Council of State designated Joensuu, Jämsä, Keuruu, Kouvola, Lappeenranta, Saarijärvi-Viitasaari, Vakka-Suomi and Southern Tampere Region as areas with problems arising from sudden structural change. The objective of this decision was to compensate for the losses of some 4,800 jobs caused by structural change in these regions in 2006-2007 using joint measures of the Ministry of the Interior, Ministry of Trade and Industry and Ministry of Labour in co-operation with the Employment and Economic Development Centres and business life in the regions. Due to the structural change problems in Voikkaa, the Council of State designated the City of Kuusankoski as a support area 2 of an underdeveloped area for the period 2007-2013.

For the first time, an appropriation was reserved in the 2007 Budget for regions facing problems arising from sudden structural changes. Of this EUR 30 million appropriation, EUR 12 million was allocated by the Ministry of Trade and Industry to investment and development projects of companies, EUR 8 million by the Ministry of Labour to employment based investment subsidies and EUR 8 million to employment, training and special measures, and EUR 2 million by the Ministry of the Interior to discretionary assistance for municipalities. In the new programming period 2007-2013 of the EU programmes, 3% of the funding from the ERDF and ESF operational programmes will be reserved for sudden problems of structural change.

The labour political change security plays an important role in addressing sudden situations of structural change. The purpose of the change security is to speed up and facilitate the re-employment of the dismissed workers. The operating model includes intensified information from the employer, a personnel action plan, a personal employment programme, paid leave for searching for a new job and increased unemployment security.

## **9.7 Development of Eastern Lapland**

Special State measures have been targeted at Eastern Lapland, as the population in the region keeps dwindling and unemployment rate has remained high. Investment assistance of the Ministry of Trade and Industry was granted to the region at higher levels than the reference assistance levels until the end of 2006. The Employment and Economic Development Centre of Lapland has taken in consideration the situation in the region and e.g. used more employment appropriations per unemployed jobseeker than the national average. The employer's social security contribution was abolished in Eastern Finland for 2003-2009. The scope of application of this Act was in the beginning of 2006 extended to municipal and church employers.

## **9.8 Social security contribution experiments**

The aim of the social security contribution experiments is to establish the effects of abolishing the employer's social security contribution on employment and companies' capacities to employ. The

social security contributions of private employers were abolished for the years 2003-2009 in twenty municipalities of Northern Lapland and the archipelago. As the experiment was extended to Kainuu for 2005-2009, municipal and church employers were also included in the exemption. When the experiment was continued for the years 2006-2009 in Northern Lapland and the archipelago, the municipal and church employers were also included in the exemption in these regions. The area of Pielinen-Karelia and municipalities of Iiomantsi and Rautavaara were included in the experiment for 2007-2009. These experiments were funded by a general increase in the rate of the employer's social security payments. Despite the extra costs of the experiments, it was possible to decrease the social security contribution rates in the whole country for 2006-2007.

The national pension contributions of private employers, companies engaged in business and State enterprises is staggered at three different levels based on depreciations of capital assets and the salaries paid. The employer's national pension contribution and health insurance contribution are deducted together as the employer's social security payment. Its share of salaries paid was 2.958% in payment class I of private employers, 5.158% in payment class II and 6.058% in payment class III in 2006. The social security contribution of other employers (municipality, municipal federation, municipal enterprise, church, Province of the Åland Islands, State and its institutions) was 4.008%. In numbers, a majority of the companies in the regions the experiment concerns were in the lowest category.

### **Evaluation of results**

According to an evaluation study concerning the first two years of the experiment in Northern Lapland and the archipelago (2005), the employers' contributions went down by an average of four percentage points, but this did not have a statistically significant effect on employment. Part of the lower labour costs were channelled as pay rises. Even if the social security payment experiment did not in the light of this study increase employment, the reinforced competitive position of the companies benefited the region, as pay levels are an important factor when competing for good workforce. It is possible that without the social security contribution experiment, part of the companies would have ceased to operate or relocated, which would have undermined employment. In Lapland, the competitive situation with Northern Norway and Northern Sweden must also be taken in consideration.

The relatively short period of three years of abolishing the social security payment and the experimental nature may also have reduced the willingness of employers to hire extra labour force. A longer-term reduction in employer's contributions could have a more significant impact on investments and employment. After the year 2009, it will be possible to proceed to more reliable estimates of the employment and other impacts of all the experiments together.

### **9.9 Assistance to a self-employed person for hiring the first employee**

In April 2006, the Ministerial Working Group on administrative and regional development supported the proposal by Rapporteur Raimo Sailas (30 December 2005) on supporting self-employed persons in hiring their first employee in the four regions that are afflicted by the greatest proportional population losses (Kehys-Kainuu, Torniolaakso, Eastern Lapland and Pielinen-Karjaa) as well as in the municipalities of Iiomantsi and Rautavaara. The assistance equals the employer's obligatory contributions for the first 12 months, after which only one half the assistance will be paid for a second period of 12 months. This assistance will be granted by the Employment and Economic Development Centres after entry into force of the Aid to Business Act and the Decree adopted pursuant to it in 2007.

## **9.10 Kainuu governance experiment**

The Kainuu governance experiment started in the beginning of 2005 has certain direct links to employment in the area. The new provincial government is a large employer in the circumstances of the region, the actions of which have an impact on employment. The provincial government assumes a larger share of responsibility for the industrial and employment policy in the region covered by the experiment than elsewhere in the country. In the first few years, the provincial labour policy has in its contents remained by and large unchanged. The employment situation has improved in Kainuu, but the significance of the various influential factors is not clear.

## **9.11 Reform of the municipal and services structure and safeguarding the availability and permanence of labour**

Pursuant to the Act on the Reform of Municipal and Services Structures (169/2007), a municipality or co-operation area providing basic health care and social care elementally associated with these must have a minimum of 20,000 inhabitants. The number of inhabitants in a municipality or co-operation area that has a license to organise basic vocational education pursuant to the Act on Vocational Education must be a minimum of 50,000. In addition, each municipality must belong to a municipal federation, whose task is to the extent indicated by the municipality to provide services pursuant to the Acts on Special Nursing Care and Special Care of the Handicapped.

The reform of the municipal and services structure will mean large-scale organisational changes and changes in the way services are arranged, which will have an essential impact on the location and tasks of the staff. In many cases, the new municipal federation will become the employer of the staff. One aim of the reform is to ensure the availability of skilled staff even in the future, as increasing numbers of staff will retire and the need for services will increase especially in the social and health care sector.

Rearrangements of tasks and changes of municipal divisions pursuant to the Act on the Reform of Municipal and Services Structure will be regarded as transfers of business. In addition, as the staff moves over to work for the new employer, the employers will not under these Acts have the right to terminate the private or public employment relationship based on production-related and financial reasons within five years of the entry into force of the new municipal division or the transfer of staff to work for the new employer. This provision represents an effort to safeguard the availability and permanence of skilled staff at a time when municipal functions will be subject to large-scale rearrangements in order to meet the obligations of the Act.

## **9.12 EU Structural Funds**

### **Programming period 2000-2006**

In the programming period 2000-2006, the EU Structural Funds (the Regional Development Fund, Social Fund, Agricultural Guidance and Support Fund and Financial Instrument for Fisheries Guidance) spent EUR 2.3 billion in Finland on reducing regional differences in development. The Objective 1 Programme promoted structural renewal of underdeveloped regions, Objective 2 Programme supported economic and social renewal of regions afflicted by structural problems and Objective 3 Programme prevented unemployment, improved employability and developed skills. The Management Authority for Objective 1 and 2 Programmes was the Ministry of the Interior and that for the Objective 3 Programme the Ministry of Labour. For the programme actions of the

European Social Fund, please refer to Chapter 6.4.

By the end of September 2006, the Objective 1 and 2 programmes had spent EUR 1.5 billion of EU funds, which was an average of 93% of their EU financing framework. By the end of June 2006, the programmes had facilitated the creation of 73,000 new jobs and 13,000 new companies. 360,000 people took part in training. The share of women in those having received training was more than one half, but in those employed in the new jobs and new entrepreneurs only one third. For the implementation of essential monitoring indicators for Objective 1 and 2 Programmes by the end of June 2006, see Table 24. The implementation is also compared to the targets set in the Objective Programmes (%).

**Table 24. The implementation of Objective 1 and 2 Programmes by 30 June 2006 in the period 2000-2006**

PROGRAMME	New jobs	%	Preserved jobs	%	New companies	%	Trained	%
Objective 1 Programme for Eastern Finland	25 426	98 %	37 473	91 %	5 298	128 %	140 180	106 %
Objective 1 Programme for Northern Finland	10 619	93 %	16 983	81 %	1 815	125 %	68 912	120 %
Objective 2 Programme for Western Finland	24 419	70 %	28 695	143 %	3 937	39 %	85 517	196 %
Objective 2 Programme for Southern Finland	12 666	84 %	13 077	65 %	1 716	34 %	64 759	112 %
<b>TOTAL</b>	<b>73 130</b>	<b>84 %</b>	<b>96 228</b>	<b>94 %</b>	<b>12 766</b>	<b>62 %</b>	<b>359 368</b>	<b>123 %</b>

### The new programming period 2007-2013

In the new programming period 2007-2013, Finland will be the beneficiary of EUR 1.1 billion from the European Regional Development Fund and EUR 0.6 billion from the Social Fund. The EU funding for Finland is one quarter less than for the preceding period. During programming period 2007-2013, the whole country will be within the scope of the competitiveness and employment objective. Eastern Finland will be part of a growth impact area, which will receive transitional period support. In addition, the sparsely populated areas of Eastern and Northern Finland will receive EUR 35 of additional funding per inhabitant annually.

### ERDF measures in the period 2007-2013

The European Regional Development Fund action programmes for the new programming period of 2007-2013 will be those for Southern Finland, Western Finland, Eastern Finland and Northern Finland. The total funding for these programmes will be EUR 4.1 billion, nearly one half of which is private. For the financing frame of the programmes, see Table 25. Priorities of the action programmes will include improving the operating environment of competitive and innovative enterprises, internationalisation of companies, networking, balanced regional development and promoting regional attraction factors. For a description of the Labour Administration's ERDF projects, please refer to Chapter 6.4.7.

**Table 25. Total funding for ERDF action programmes in 2007-2013**

	ERDF, EUR	State co-funding, EUR	Municipal co-funding, EUR	Private funding, EUR	Total, EUR
Southern Finland	138 063 117	135 543 887	71 550 789	432 654 356	777 812 149
Western Finland	159 375 850	162 656 051	76 407 724	293 751 700	692 191 325
Eastern Finland	365 564 309	305 611 762	59 952 547	787 659 700	1 518 788 318
Northern Finland	311 273 152	238 435 234	72 837 918	480 064 832	1 102 611 136
<b>Total</b>	<b>974 276 428</b>	<b>842 246 934</b>	<b>280 748 978</b>	<b>1 994 130 588</b>	<b>4 091 402 928</b>

Table 26 shows the objectives of the ERDF action programmes for the period 2007-2013 (new jobs in man-years, new R&D jobs, new companies and the financing share of projects supporting the objectives of the Lisbon competitiveness strategy, %). The programmes aim at achieving 38,000 new jobs and 6,400 new companies. It is expected that 2,100 of the new jobs will be created in research and development.

**Table 26. Targets of ERDF action programmes in 2007-2013**

	<b>New jobs (man-years)</b>	<b>New R&amp;D jobs (man-years)</b>	<b>New companies</b>	<b>Projects supporting Lisbon objectives*</b>
ERDF Programme for Eastern Finland	13 230	650	2 020	85,7 %
ERDF Programme for Northern Finland	11 000	1 000	1 500	75,4 %
ERDF Programme for Western Finland	9 800	150	2 000	80,3 %
ERDF Programme for Southern Finland	4 200	290	920	81,6 %
<b>TOTAL</b>	<b>38 230</b>	<b>2 090</b>	<b>6 440</b>	<b>80,9 %</b>

\*) Share of projects supporting Lisbon objectives in EU funding

## **Urban II Community Initiative Programme 2000-2006**

Urban II Community Initiative Programme aimed at reviving problematic urban areas in the period 2000-2006. The Programme supported independent initiative of the inhabitants, prevented exclusion and promoted the employment and employability of the unemployed. The joint Urban II programme of Helsinki and Vantaa targeted a consistent housing and labour market area of 40,000 inhabitants in the eastern part of the capital area. The total funding for this area, which was disadvantaged in the light of indicators, was EUR 22.5 million. The per capita assistance was EUR 500. A central aim was to find new solution models for long-term unemployment, which is the most important reason for poverty and dependency on supports. The structure of unemployment in the area is still severe. Many of the residents have low standards of education and foreign backgrounds, or they have been excluded from working life for long periods.

## **10 SOCIAL POLICY MEASURES**

### **10.1 Minimum income security for time of unemployment**

#### **10.1.1 Expenditure and recipients**

The basic subsistence of an unemployed jobseeker is guaranteed by the unemployment benefit and labour market support during unemployment. The unemployment benefit is either a basic daily allowance or an earnings-related allowance. The conditions for receiving the basic and earnings-related allowance are the same, but an earnings-related benefit is only paid to members of an unemployment benefit society. An unemployment benefit is paid to those who have established their position in the labour market; this is why meeting the time at work rule is a condition for receiving an unemployment benefit. An unemployment benefit is paid for a maximum of 500 days, with the exception of additional days for aged jobseekers.

Labour market support is paid to an unemployed jobseeker who does not fulfil the time at work condition for the unemployment benefit or who already has received the unemployment benefit for the maximum period. There is no maximum duration for the payment of labour market support. Unlike the unemployment benefit, labour market support is paid not only for the time of jobseeking

but also for measures promoting employment. To a person without vocational education, labour market support can only be paid after he or she, after registering with the Employment Office or within a two-year period prior to the registration, has been for a total of five months at work eligible for the time at work condition, self-employed, an unemployed jobseeker or in a labour political measure. A 17-year-old without vocational education will only receive labour market support for the time of labour force training, on-the-job training, work try-out or rehabilitation. A person aged 18-24 without vocational education is additionally entitled to labour market support in between the above-mentioned measures, in case he or she has not turned down or resigned from a job, training or labour political measure.

No employment benefit or labour-market support is payable for the waiting period, which for the unemployment benefit is a time equalling a total of seven working days and for the labour market support a total of five working days. In case of the unemployment benefit, the waiting period will be applied once the 500-day entitlement for daily allowance starts. In case of the labour market support, the waiting period will mainly be taken in the beginning of the unemployment, but only once a year. In 2006, a total of EUR 2,279 million<sup>15</sup> of unemployment benefit and labour market support was paid, or 6.4% less than the year before.

EUR 108.5 million of unemployment security basic daily allowances were paid, or EUR 4.8 million a day to 49,941 people. The expenditure on basic daily allowances went down by 8.1% from the year before. EUR 1,376.5 million of earnings-related daily allowances were paid, or EUR 29.2 million a day to 255,924 people. The expenditure went down by 5.6%. The number of days for which the daily allowance was paid went down considerably more, however, or by 7.9%. Daily allowances for times of lay-offs, of which EUR 88 million were paid, went down the most compared to the year before. Other daily allowances to wage and salary earners than those for times of lay-offs or additional days were paid for the amount of EUR 1,108 million (-5.8%).

EUR 793.8 million of labour market support was paid, or EUR 32 million a day to 224,418 people. The expenditure went down by 7.4 % from the year before. Pursuant to the Act on the Integration of Immigrants and Reception of Asylum Seekers, an additional EUR 48.9 million was paid as labour market support to 10,809 recipients (+ 8.0% from the year before). In addition, EUR 42.3 million of labour market support was paid as combined support. The expenditure on the combined support had gone down by more than one half from the year before, as the reform of the employment support included the discontinuation of the combined support as a measure, and thus only combined support based on decisions made the year before was paid in 2006.

At the end of September 2006, the number of recipients of labour market support was 115,200 people. This figure does not include the recipients of the combined support and integration support. The number of those receiving earnings-related income security was 102,900 and that of the basic daily allowance was 16,200. In other words, 49% of the recipients received labour market support, 44% an earnings-related allowance and 7% a basic daily allowance. Compared to the same period last year, the number of labour market support recipients had gone down by 13,200 people, recipients of earnings-related allowances by 12,100 and recipients of the basic daily allowance by 1,900.

The recipients of labour market support can be categorised in two groups: the long-term unemployed, who have received the unemployment benefit for the maximum period, and those who do not meet the time at work requirement. In 2006, 64,238 (29%) of the labour market support

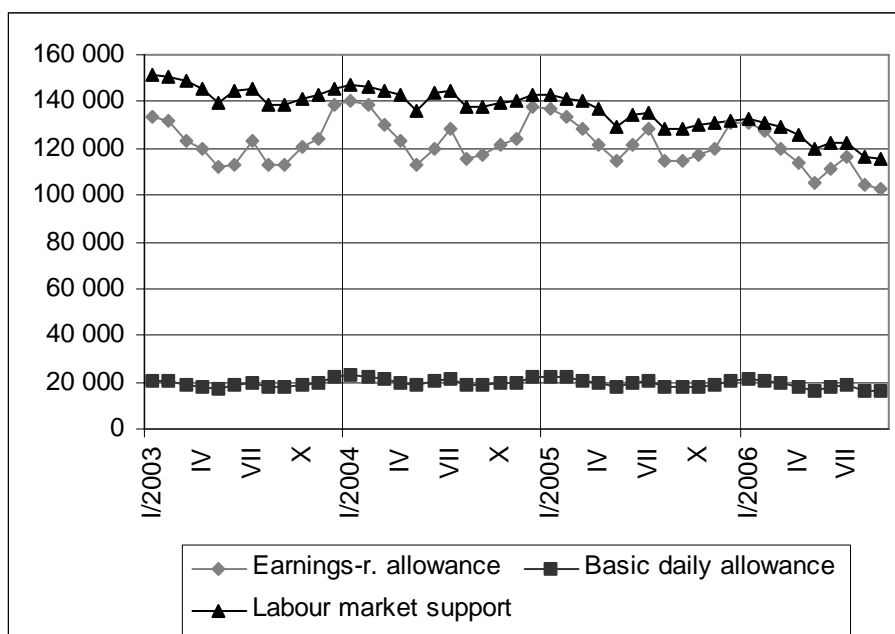
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<sup>15</sup> The labour market support is shown as the figure obtained from SII statistics. It is different from the expenditure included in the Ministry of Labour's item for labour market support.

recipients had received the earnings-related daily allowance for the maximum period, and 18,151 (8%) had moved on from the basic daily allowance in its current form to labour market support. 142,029 (63%) of the recipients of labour market support did not fulfil the time at work condition. During the reporting year, 10,399 people moved on to receive labour market support instead of an earnings-related daily allowance and 3,599 people instead of the basic daily allowance.

The number of people who had received labour market support based on unemployment for a minimum of 500 days and who also received the labour market support based on unemployment in 2006 was 100,122. The expenditure incurred during the period of unemployment of these people is shared equally between the State and the municipality. In 2006, this expenditure was EUR 384 million, whereas this figure for the year before would have been EUR 469 million. The funding reform of social support and labour market support that entered into force in the beginning of 2006 worked as expected. The reform has provided municipalities with an incentive to employ the long-term unemployed.

**Figure 18. Recipients of an unemployment benefit at the end of the month**



The unemployment security package also includes benefits paid to secure the livelihood of the unemployed person during training: adult education benefit paid to participants in labour political adult education and the training allowance paid to those taking part in independent education and training. These benefits are equal in amount to the daily allowance of the unemployment benefit, whereas maintenance support is also paid to the recipients of the education benefit and training allowance. A total of EUR 202.3 million of training allowances were paid to the unemployed, or 2.4% less than the year before. Of this sum, EUR 183.3 million concerned training allowances to participants in labour political training and EUR 19 million allowances to those taking part in education and training independently.

To a person born before the year 1950, who has turned 57 before reaching the maximum duration of 500 days of the unemployment benefit, the unemployment benefit can be paid until the end of the month in which he or she turns 60. At that time, he or she has the possibility of receiving an unemployment pension. Entitlement to an unemployment pension concerns persons who have

received the unemployment benefit for the maximum period and who have been in gainful employment for a minimum of 5 years during the last 15 years. A further requirement is that it has not been possible to find a job for the applicant, a refusal of which would have forfeited his or her right to the unemployment benefit. For those born in 1950 or later, the unemployment pension is replaced by additional days of the unemployment security, which can be paid until the age of 65. At the same time, the age limit for being entitled to additional days goes up to 59 years.

A total of EUR 672.7 million of unemployment pensions were paid in 2006, or 2% less than the year before. The number of recipients of unemployment pensions at the end of 2006 was estimated at 48,300 people, which is down by more than 5% from the year before.

### **Active measures of labour market support**

A labour market support is paid to ensure the livelihood of an unemployed jobseeker while he or she is looking for a job or taking part in labour political measures. By means of labour market support, an attempt is made to improve the capacities of finding work of a person who is entering the labour market or been unemployed for an extended period.

The measures that are available encompass labour political adult education (the labour market support expenditure including maintenance support for this was EUR 103.7 million), on-the-job training (EUR 23.7 million), preparatory training for working life without an employment relationship (EUR 63.8 million) and vocational guidance and rehabilitation measures (EUR 5.3 million). EUR 20.8 million of labour market support was paid for periods in rehabilitating work activities. Labour market support can be paid as a travel subsidy to compensate for costs arising from taking a full-time job outside one's own commuting zone (EUR 0.9 million). A full-time job was previously required to be at least six months in duration; from the beginning of August 2006, the requirement is that the full-time job is a minimum of two months in duration. Of the integration support paid as labour market support, EUR 13 million concerned support paid during comparable training.

### **Levels of unemployment benefits**

The statutory full basic daily allowance was EUR 23.50 a day. A child supplement is paid in connection with the daily allowance and labour market support, in case the unemployed person has dependent children aged under 18. The amount of the child supplement was EUR 4.45 for one child, EUR 6.54 for two children and EUR 8.43 for three or more dependent children.

The average basic daily allowance was EUR 22.7 a day, and the average labour market support including maintenance support was EUR 24.8 a day. The great number of adjusted daily allowances lowers the average daily unemployment allowance. When the labour market support can be associated with maintenance support for the time of active measures, the average labour market support has been greater than the non-discretionary basic daily allowance.

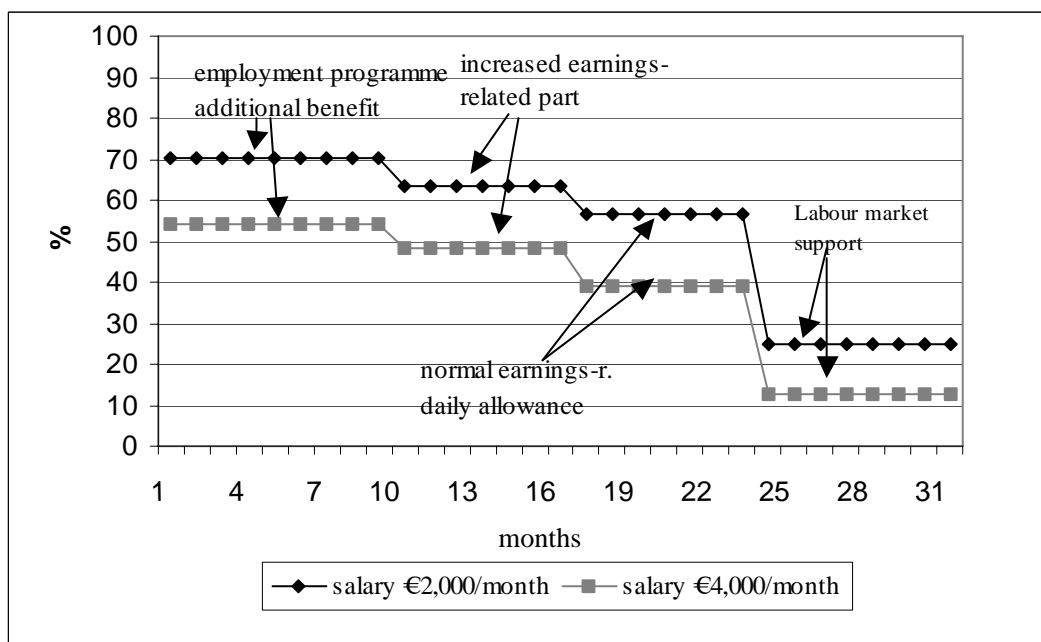
The earnings-related daily allowance consists of a basic part and an earnings-related part, which is 45% of the difference between the daily salary and the basic part. If the monthly salary is greater than 90 times the basic part (EUR 2,115 in 2006), the earnings-related part for the share of the daily salary exceeding this limit is 20%. The average earnings-related daily allowance was EUR 47.1 a day.

Since 2003, an increased earnings-related part has been paid to those dismissed for financial or production-related reasons instead of severance pay benefits, which were discontinued. Another requirement was a time at work entitling to a pension of no less than 20 years, and membership in a benefit society for at least five years. In that case, the earnings-related share is 55% of the difference between the daily salary and the basic part. If the monthly salary is greater than 90 times the basic part, the earnings-related part for the share of a daily salary exceeding this limit is 32.5%.

For the earnings-related daily allowance including an employment programme additional benefit paid since the beginning of July 2005, the earnings-related part is 65% of the difference between the daily wage and basic part. If the wage is greater than 90 times the basic part, the earnings-related part for the exceeding share of the daily wage is 37.5%. The condition for receiving the employment programme additional benefit is that an employment programme has been drawn up for the applicant, the time at work had been a minimum of three years and the employment relationship was terminated for production-related or financial reasons. On certain conditions, fixed-term employees are also entitled to the employment programme additional benefit.

The increased earnings-related part will be paid for a maximum of 150 days of unemployment; the days including the increased earnings-related part paid for the time of training are not, however, included in the maximum period of 150 days. An employment programme additional benefit is paid for no more than 185 days. The additional benefit is payable for the time of labour force training, training associated with jobseeking and a work try-out. This period can include a maximum of 20 days of independent jobseeking. If the applicant is entitled to both an increased earnings-related part and an employment programme additional benefit, the periods entitling to an employment programme additional benefit will be paid first, and the increased earnings-related part subsequently. The duration of the increased earnings-related security can in this case be a maximum of 335 days. It is characteristic for the employment programme additional benefit, however, that it is generally paid for certain shortish periods, in which case the person can receive an increased earnings-related daily allowance or a normal daily earnings-related daily allowance in between periods of earnings-related daily allowance increased by the employment programme additional benefit.

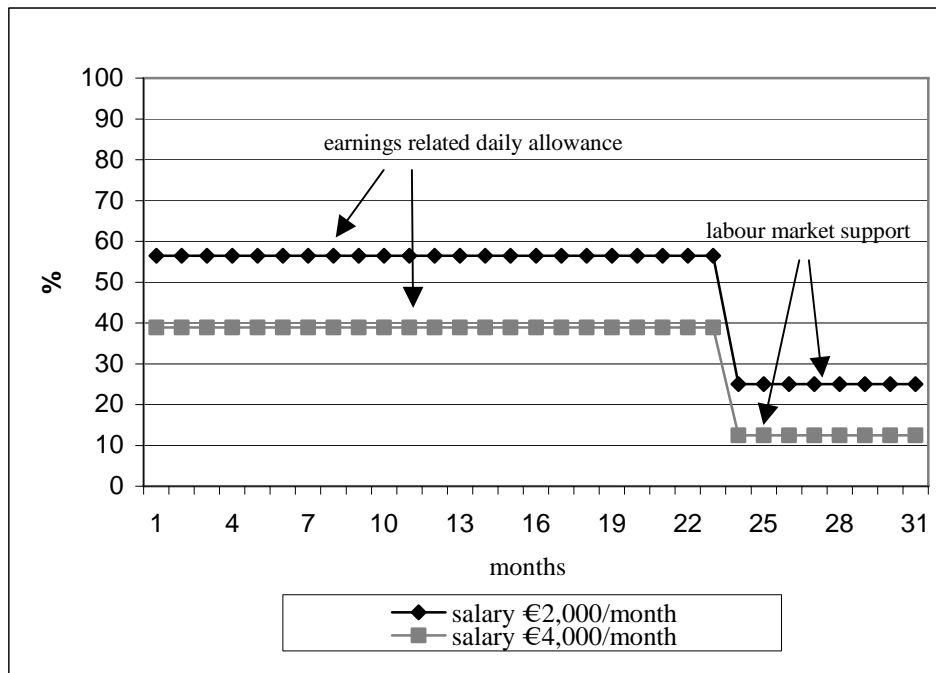
**Figure 19. The benefit level of the earnings-related daily allowance together with an employment programme additional benefit and increased earnings-related part for persons with a work history exceeding 20 years, % of gross salary**



A total of EUR 6.4 million of employment programme additional benefits under income security were paid to 10,595 people, of whom 3,488 had taken part in labour political training. The average earnings-related daily allowance including the employment programme additional benefit was EUR 70.9 a day, in which the share of the increase was EUR14.9.

The increased earnings-related share was paid to 17,070 people. Of these 2,317 people received an increased benefit for the time of labour force training and 283 people a training allowance for the time of independent training. A total of EUR 13.7 million was paid as increased benefits. The average allowance including the increased earnings-related part was EUR 66.4 a day, in which the share of the increase was EUR 9.3 per daily allowance. The amounts of employment programme additional benefits and increased basic daily allowances paid in connection with the basic daily allowance were insignificant. The additional part of the basic daily allowance was paid to 95 people and the employment programme additional benefit to 334 people.

**Figure 20. The benefit level of an earnings-related daily allowance without additional benefits, % of gross salary**



The full labour market support equals the amount of the basic daily allowance. The labour market support is a discretionary benefit, and the person's own income in full and the spouse's income for the part exceeding EUR 536 are deducted from its sum. The means testing does not apply to labour market support for the time of participation in labour political measures, the 180 days of unemployment subsequent to the ending of the entitlement to unemployment benefit nor to a person aged 55 or over who met the time at work condition when becoming unemployed. In 2006, a reduced means-tested labour market support was paid to 17,715 recipients. The share of days deducted because of means testing was 5% of all labour market support days. The average means tested labour market support was EUR 16.5 a day.

The labour market support paid to a person living in the same household with his or her parents, who does not meet the time at work condition for receiving an unemployment benefit, normally is reduced (partial labour market support). Living in the household of one's parents reduces the labour market support to 50% of what the jobseeker would otherwise be entitled to. The income of the parents will, however, be taken into account. In 2006, 14,841 people received a partial labour market support for the average sum of EUR 12.9.

## Entrepreneurs

A full-time entrepreneur is entitled to an unemployment benefit, if it can be proved that the enterprising activities have ceased totally or have been interrupted for a continuous period of four months. An entrepreneur who meets the time at work condition for entrepreneurs is entitled to a basic daily allowance. A member of an unemployment benefit society, who has been insured at least for the 24 preceding months and while being insured has met the time at work condition for entrepreneurs is entitled to an earnings-related daily benefit. The time at work condition for an entrepreneur is met if he or she has worked as an entrepreneurs for a total of 24 months during the

48 months preceding the unemployment and the enterprising activities have been substantial in their extent.

In 2006, EUR 6.9 million of earnings-related daily allowances, EUR 0.6 million of income support for the time of labour force training and EUR 0.1 million of education benefits and training allowances were paid to entrepreneurs in 2006. The benefits paid to entrepreneurs went up by 4.2% from 2005. The total number of benefit recipients was 1,243 people. At the end of the year 2005, entrepreneurs' benefit societies had 16,000 members.

### **Adjusted unemployment benefit**

A person who is in a part-time job, who is in a full-time job that is a maximum of two weeks in duration, who is laid-off and on a shortened working week or working day or who has an income from part-time enterprising activities or work is entitled to an adjusted unemployment benefit. The main principle is that the working time may not exceed 75% of the maximum working time of a full-time employee applied in the sector. The condition is that the applicant is looking for a full-time job and prepared to take one.

Pursuant to the permanent Act, the adjusted unemployment benefit can be paid for a maximum of 36 months. After reaching the maximum duration, the payment of an adjusted benefit can start again once the person has been working for a time fulfilling the time at work condition. If the person has been in full-time employment for 6 months before reaching the maximum duration, the calculation of the 36 months will start from the beginning. The maximum duration determined in this way was applicable to daily allowances paid from 1 April 2000 on. Temporary Acts have however made it possible to continue to pay an adjusted unemployment benefit despite reaching the criteria for the maximum duration. Pursuant to the Act currently valid this will be possible until the end of 2007.

A study commissioned by the Ministry of Social Affairs and Health from the Government Institute for Economic Research concerning the impact of the adjusted unemployment benefit on the demand and offer of labour is currently under way. The purpose of the study is e.g. to find out who is receiving the adjusted unemployment benefit, of what their livelihood consists, and why they are not in full-time employment or unemployed. An attempt will be made to examine the careers of employment or unemployment over the long term; how do periods of unemployment end, and does receiving an adjusted daily allowance promote full-time employment over the long term.

The extent of the adjusted unemployment benefit is determined by deducting 50% of the earned income from the daily allowance that would be paid in case the person was full-time unemployed. For the proportion of the net income received from partial employment and full-time unemployment (excluding housing and social supports) to the net salary at different levels of partial employment, see Figure 21. The gross salary from part-time work is assumed to be 25%, 50% and 75 % of the gross salary from full-time work on which the daily allowance is based. In case the salary for partial employment taken up exceeds that of the previous salary of the unemployed person, the benefit level may also become higher. Similarly, if it is lower than the previous salary, the benefit will also be lower.

In 2006, EUR 117.5 million of adjusted daily allowances were paid under minimum income security, EUR 11 million under basic security and EUR 31.7 million under labour market support. One out of four of all daily allowance recipients had received an adjusted unemployment benefit during the year. 62,700 people had received an adjusted earnings-related daily allowance, and

12,400 people an adjusted basic daily allowance. Of the recipients of labour market support, 29,900 people (13% of all) had received an adjusted benefit. In most cases, the adjusted benefit was only paid for a short time. On the other hand, it was possible to receive the adjusted benefit for even an extended period, as the maximum duration imposed by the permanent Act has not been in force, and taking a part-time job was enough to meet the time at work condition for the entitlement to the daily allowance to start from the beginning. Three out of four recipients of the adjusted benefit were women.

**Figure 21. Net benefit levels of the full and adjusted earnings-related daily allowance in proportion to income received from full employment, %.** (Source: Government Institute for Economic Research)



### Unemployment benefits for the aged

The "pension pipeline" has almost entirely concerned those within earnings-related income security. For the share of unemployment benefit society members in the population in similar age, see Figure 22. The population shares have changed significantly in the 10 years during which the age limit entitling to additional days was increased twice. In 1997, the age limit was increased from 55 to 57 years. Before that, the incidence of becoming unemployed for the first time increased at the age of 53. While the population share of 50-52-year-olds was less than 5% in 1996, the population share of those at the age of 53 went up to 8.5%. After the increase in the age limit, there were no significant differences in the population shares of the ageing up till the age of 54. The increase in the number of the unemployed had now moved on to the new age of entering the retirement pipeline, or 55 years, but this increase has been more moderate each year. As the share of unemployed members of

unemployment benefit societies was approx. 3.5% in 2001, the share of 55-year-olds was higher by one percentage point only.

The latest increase in the age limit for additional days is reflected in the fact that the population share of jobless unemployment society members remained stable until 2006, at just over 3%, until the age of 56 years. At that time, the 55-56-year olds no longer can receive additional days from the age of 57. An explanation for the considerable increase in the population share of 57-year-olds is the fact that having been born in 1949, they are the last age class within the scope of the old pension system. To what extent those born in 1950 and afterwards will be moving on to the new retirement pipeline, will remain to be seen from 2007 on.

**Figure 22. Unemployment members of benefit societies on 31 December, share in the same age population in %**



In addition to the later starting of the unemployment, the population share of those in the pension pipeline has gone down. While the population share of 59-year-old members of benefit societies was 18-20% in 1996-2000, it has in recent years been around 13%.

There has been no decrease in numerical terms, as those currently in the pension pipeline age belong to the largest age classes. This is why the number of those receiving the daily allowance for additional days has increased since the end of the year 2004. In 2004, the number of those receiving the daily allowance for additional days was an average of 11,400; in 2005 it was 13,600, whereas in 2006 it had gone up to 14,100. In 2006, the unemployment benefit societies paid a total of EUR 172.7 million of daily allowances for additional days, which was an increase of 8.1% from the year before.

### Training allowance

An unemployed person independently starting training that promotes his or her vocational capacities can receive a training allowance. The studies supported by a training allowance must be full time and promote vocational capacities. They also need to be continuous and at least 20 credit points in extent. The requirement for receiving a training allowance is that the applicant has been in gainful employment or an entrepreneur insured by a pension insurance for a minimum of 10 years. Another condition is that when starting the education or training, the applicant has in the immediately preceding 12 months been receiving an unemployment benefit or labour market

support for a minimum of 65 days (3 months). No period of unemployment is, however, required for those within the scope of change security. The total maximum time of the training allowance and unemployment benefit is 565 days; however, for those within the scope of change security, it is no more than 500 days plus the number of days of unemployment payable before the beginning of the studies.

Under income security, training allowance was paid to 2,354 people totalling EUR 15.4 million in 2006 (change from the year before +2.5%) and under basic security to 1,184 people, totalling EUR 3.5 million (+5.6%). These figures are overlapping, as once the maximum period for income security has been reached, the person may receive the remainder of the 500 days' maximum period training allowance in an amount that equals that of the labour market support.

### **Labour political opinions**

The Employment Office or the Labour Committee will issue a labour political opinion that is binding to the party paying the unemployment benefit on the applicant's entitlement to the unemployment benefit or labour market support. In 2006, a total of 1.8 million labour political opinions were issued. The Labour Committees issued some 147,000 opinions. Approx. 143,500 opinions were issued concerning the starting of a labour political measure, a comparable integration measure or rehabilitating work activities. On labour market support entitling to a travel subsidy, 1,200 favourable opinions were issued. The number of opinions enabling the payment of unemployment benefit after the preparation of an employment programme associated with the so-called change security operating model was 15,000, of which 1,300 were issued after the applicant had started training or a work try-out relevant to job-seeking.

Approx. 76,600 of the labour political opinions were issued with reference to actions that were reprehensible in terms of the labour policy. 43,700 of the opinions concerned the setting of a prescribed time without a benefit. The most common ground was resigning from a job. This was the justification in 19,600 cases (45% of periods without a benefit). Turning down a job or not concluding an employment relationship because of reasons arising from the applicant was the justification in 3,800 cases (9%). Refusing to take part in training, dropping out or being expelled by one's own fault was the justification in 5,600 cases. Refusing to take part in a measure promoting employment or dropping out of such a measure was the justification in 1,600 cases (4%). Refusing to prepare a jobseeking plan or an activation plan and failing to comply with a jobseeking or activation plan was the reason for setting a period without a benefit in 6,200 cases (14%).

Of opinions issued due to labour politically reprehensible actions, 32,900 concerned the so-called duty to work. The entitlement of a jobseeker having been issued a duty to work will be returned after he or she has been at work, in training or in a labour political measure for either three or five months. Of the opinions concerning duty to work, 4,200 (13%) were about a repeated refusal to take up a job or participate in training, 20,400 (62%) losing labour market support when aged less than 25 and 300 (1%) a repeated refusal to take part in the preparation of an activation plan or action associated with rehabilitating work activities. 8,000 duty to work sanctions were imposed based on the more stringent criteria for receiving labour market support concerning persons having been unemployed for extended periods that became valid from the beginning of 2006. These sanctions (7,300 opinions) mainly concerned refusing a job, resigning or being dismissed, or dropping out of or being expelled from labour political adult education.

5,936 notifications were issued to the party paying the benefit concerning disabled jobseekers who have been receiving a sickness benefit for the maximum period and who have a valid employment or civil service relationship. These cases concern jobseekers whose disability pension application is being processed or has been rejected and whose basic income has been arranged through the unemployment benefit system, even if they are not unemployed. In total, 17,839 notifications concerning cases of this type were issued after these notifications were introduced on 1 March 2003.

### **Decisions on unemployment benefits**

Unemployment benefits are paid by the unemployment benefit societies and the Social Insurance Institution (SII). In 2006, the unemployment benefit societies made 844,500 decisions, while 905,000 decisions were made by the SII. The average processing times of the applications were 16.3 days by the unemployment benefit societies and 6.8 days by the SII. The decisions of the unemployment benefit societies and the SII can be appealed to the Unemployment Appeal Board, and the decisions of the Board to the Insurance Court. In 2005, the Unemployment Appeal Board processed 6,525 appeals and the Insurance Court 939 appeals involving unemployment security issues. In the decisions of the Unemployment Appeal Board, the decision that was appealed was changed or it was referred for re-processing in 13% of the cases. This share for the decisions of the Insurance Court was 12%.

#### **10.1.2 Funding of unemployment security**

The funding of the labour market support was reformed from the beginning of the year 2006. The State will ensure the funding of the labour market support until the end of the payment period during which the labour market support has been paid for 500 days of unemployment. The labour market support paid for a subsequent period of unemployment is funded by the State and the municipality of residence of the unemployed person in equal shares. The labour market support paid during active measures is always funded by the State. In 2006, the amount payable by the municipalities was EUR 192 million. This was not an additional burden on the municipalities, as at the same time the funding of basic social support was also shared equally between the State and the municipalities, and in order to compensate for the increased expenditure shouldered by the municipalities due to the labour market support reform, the State's shares in the social and health care operating costs were increased.

The basic daily allowance is financed from State funds and the proceeds of the wage and salary earners' unemployment insurance. Of the proceeds of the wage and salary earners' contributions, the share of wage and salary earners who were not members of benefit societies, which in 2006 was EUR 56 million, is used to fund the basic daily allowance. The Unemployment Insurance Fund also finances the additional parts of the basic daily allowance and basic support and the employment programme supplements.

The State funds the share equalling the basic daily allowance in the earnings-related benefits paid by the unemployment benefit societies. The State does not, however, take part in the funding of benefits paid for times of lay-offs and additional days. The share of each earnings-related daily allowance funded by the membership fees of unemployment benefit societies as a rule is 5.5%; the unemployment benefit societies do not, however, take part in the funding of the increased earnings-related part and the employment programme supplementary benefit. The remainder is funded by the Unemployment Insurance Fund. The Unemployment Insurance Fund does not contribute to the daily allowances of entrepreneurs. Of these, the State funds not only the share of the basic daily

allowance but also the child supplements; the entrepreneurs' benefit societies fund the rest. Accounting for all earnings-related daily allowances, the share of the State was 37.4%, that of the Fund 57% and that of unemployment benefit societies 5.6%. The funding of the training allowance for labour force training is different in that the share of unemployment benefit societies, or 5.5%, is calculated based on the earnings-related parts of the income security, not on the whole daily allowance. The funding of the training allowance for labour political training is different in that the share of unemployment benefit societies, or 5.5%, is calculated based on the earnings-related parts of the income security, not on the whole income security. Taking in consideration the maintenance support funded by the State, the State's share in the student's social benefits in labour force training is 52% as regards income security, that of the Unemployment Insurance Fund 42% and that of the unemployment benefit societies 2%. The share of ESF funding was 4%.

In addition to labour market support expenditure during active measures, training benefits for the unemployed are also included in the active time security for the unemployed (labour force training benefits and training allowance paid during independent education and training). On the other hand, the combined subsidy paid to the employer who takes on an unemployed person is not included in the active measures of the labour market support in the following Table, as the combined subsidy as a separate support form was discontinued, and it was only paid in 2006 based on decisions made the year before. Taking in consideration the benefits paid to the unemployed persons themselves only, a total of EUR 435 million of active period support was paid, or 17.2% of all benefits. The State's share was a total of EUR 1,313 million, of which the share of the active period security was EUR 326 million, or 24.8% of the State's share.

These figures are not comparable with those for previous years, during which the combined subsidy was considered part of the active measures. In addition to the EUR 42.3 million of combined subsidies paid out in 2006, the pay subsidy that replaced it should also be taken in consideration. EUR 69.2 million of basic subsidy in the form of a pay subsidy or start-up grant was paid out of the labour market support appropriations. When this is added to the active period security and the total expenditure, the resulting share of active period security is 20.7%. In that case, the State's share was a total of EUR 1,424 million, of which the share of the active period security was EUR 437 million, or 30.7 % of the State's share.

**Table 27. The funding of unemployment security and training benefits for the unemployed in 2006**

	Benefits paid	Funding shares			Unempl. ben. soc.	Unemployment Insurance Fund
		State	ESF*	Municipalities		
	Euro 1,000					
Earnings-related daily allowance	1,376,493	514,974	0	0	77,450	784,069
Basic daily allowance	108,548	52,488	0	0	0	56,060
Labour market support for the unemployed	611,342	419,328	0	192,014	0	0
<b>Total of passive period security</b>	<b>2,096,383</b>	<b>986,790</b>	<b>0</b>	<b>192,014</b>	<b>77,450</b>	<b>840,129</b>
Active measures of labour market support	231,481	219,920	11,561	0	0	0
Labour force training benefits						
-Earnings-related	168,371	81,354	6,387	0	3,771	76,859
- Basic support	15,896	14,785	1,091	0	0	20
Independent training by the unemployed						
-Earnings-related	15,446	6,691	0	0	869	7,886
- Basic support	3,538	3,538	0	0	0	0
<b>Total of active period support</b>	<b>434,732</b>	<b>326,288</b>	<b>19,039</b>	<b>0</b>	<b>4,641</b>	<b>84,765</b>
<b>Grand total</b>	<b>2,531,115</b>	<b>1,313,078</b>	<b>19,039</b>	<b>192,014</b>	<b>82,090</b>	<b>924,894</b>
Share of active period security	17.2	24.8	100.0	0	5.7	9.2
<b>B Support paid out to the employer of an unemployed person or start-up entrepreneurs</b>						
Combined subsidy	42,259	41,486	774			
Basic support of pay subsidy and start-up grants	69,157	69,157				
Total	111,416	110,643	774			
<b>Grand total</b>	<b>2,642,532</b>	<b>1,423,781</b>	<b>19,813</b>	<b>192,014</b>	<b>82,090</b>	<b>924,894</b>
<b>Active period security</b>	<b>546,148</b>	<b>436,931</b>	<b>19,813</b>	<b>0</b>	<b>4,641</b>	<b>84,765</b>
Share of active period security	20.7	30.7	100.0	0.0	5.7	9.2
* Includes both national and EU funding						

The funding share of earnings-related unemployment security is the greatest item in the expenditure of the Unemployment Insurance Fund. In addition to the above-mentioned unemployment benefits, the Fund takes part in the funding of job alternation benefits, in which its share is EUR 41 million. In addition, the Fund pays out an equalisation of membership fees and a share of the administrative costs of the unemployment benefit societies.

The Fund annually remits to the Finnish Centre for Pensions a payment that covers the liability of taking the time of unemployment in consideration in pensions. The Fund also contributes to the costs of the State's pension scheme through a payment remitted to the State Pension Fund. In 2006, the Fund paid EUR 441 million into the pension system.

The Unemployment Insurance Fund finances the benefits paid out by the Education Fund for the parts not funded by the State and pays for the entire administrative costs of the Education Fund. The Unemployment Insurance Fund finances the earnings-related part of the adult education benefit and vocational examination grant. The State provides the funding for the basic part of the adult education benefit and the vocational examination grants for those employed by the State. In 2006, the Unemployment Insurance Fund paid out EUR 23 million to the Education Fund. The Fund pays the costs of pay security to the extent that these cannot be collected from private employers. The payment allocated to the year 2006 was EUR 14 million.

The expenditure of the Unemployment Insurance Fund is financed with the unemployment insurance payments collected from employers and wage and salary earners, and the profits of

investment activities. In order to safeguard liquidity and balance out for changes in the unemployment insurance payments due to economic trends, the Unemployment Insurance Fund has a buffer fund, the maximum amount of which is a sum corresponding to an unemployment rate of 3.6 percentage points. During a recession, the Unemployment Insurance Fund can have a deficit corresponding to this sum. The maximum amount of the buffer determined in this manner is approx. EUR 679 million. According to the preliminary data for 2006, the amount in the buffer is some EUR 323 million.

### **10.1.3 Pay security**

In 2006, EUR 18.9 million was paid out in pay security, which was EUR 2.2 million less than the year before. A total principal of EUR 5.37 million was successfully collected from the employers (3.93 million in 2005), in addition to EUR 1.47 million of interests (1.14 million in 2005). The interest income is used to cover administrative expenses incurred by the State as a result of handling pay security issues. The Unemployment Insurance Fund pays annual reimbursements to the State to cover the difference between the amounts paid out as pay security and the principal collected from employers.

Pay security payments were made to 6,022 employees, which is 1,036 less than the previous year. The number of employers who received a decision on pay security totalled 2,168, while the corresponding figure for the previous year was 2,279. The sector with the highest level of pay security paid out was construction (EUR 5.5 million). The next largest sectors were other activities serving business life (EUR 2.3 million), the metal industry (EUR 2.0 million) and trade and commerce (EUR 1.6 million). The average processing time for pay security applications was 53 days, which was 10 days less than the year before.

### **10.1.4 Rehabilitating work activities**

Rehabilitating work activities are an instrument of active social policy, the purpose of which is to improve the capacities of a person having received labour market support or social support based on extended unemployment to find a job and to promote his or her possibilities of taking part in training and other measures promoting employment. The Employment Office and the municipality draw up an activation plan together with the unemployed person, which maps the current situation of the customer and contains an agreement on measures improving the possibilities of being employed. This plan can also include an agreement on participation in rehabilitating work activities, the organisation of which as a social service is ensured by the municipality. Participation in rehabilitating work activities is only compulsory subject to losing social benefits for persons under 25 years of age within the scope of the Act on Rehabilitating Work Activities.

An appropriation is reserved for this in the State Budget, from which the municipalities receive compensation for arranging rehabilitating work. In 2006, a total of EUR 6.5 million were reserved for the benefits, of which EUR 5.5 million were used. The number of activation plans drawn up in 2006 was 38,900, with 7,400 of these produced for people under the age of 25. A total of 12,400 recipients of labour market support started in rehabilitating work, 690 of whom were under 25 years of age. The funding reform of the labour market support increased the use of rehabilitating work activities. The number of activation plans increased by more than 40% and that of people starting in work activities more than 50% from the year before. The most recent data on social support customers who took part in rehabilitating work is from 2005. At that time, 3,419 households had received support paid out to participants in rehabilitating work, and the number of labour market support recipients in that year was 4,712 people.

### **10.1.5 Pension subsidy for the long-term unemployed**

In the beginning of May 2005, the Act on Pension Subsidy for Persons Afflicted by Long-Term Unemployment entered into force. A condition for receiving pension subsidy is that the person has been unemployed without interruption since 1 January 1992 and that he or she was entitled to labour market support on 31 December 2004. The pension subsidy is a once-off solution for those born in 1941-1947 who, as a result of unemployment due to the 1990's recession, were not able to earn a sufficient pension security.

The amount of the subsidy equals that of the national pension and employee's pension security earned by the person by 31 December 2004. The pension subsidy will be paid instead of labour market support until the person turns 62, after which he or she will be entitled to the normal old-age pension pursuant to the employee pension and national pension legislation without an early retirement reduction. The pension subsidy is a taxable income, in which the recipient of the pension subsidy is entitled to the pension income deduction intended in the income tax laws. The Social Insurance Institution administrates the implementation and payment of the pension subsidy.

At the end of 2006, there were 2,555 recipients of the pension subsidy and 875 recipients of pension subsidy based old-age pensions. Three out of four recipients of the pension subsidy and 56% of the recipients of the old-age pension were men. In 2006, only 214 new pension subsidies started running.

The average pension subsidy is EUR 709 and the average old-age pension EUR 417 a month, including housing allowances and child supplements paid to the recipients. A total of EUR 28.3 million of pension-based benefits was paid out in 2006, EUR 23.8 million as pension subsidies and EUR 4.4 million as old-age pensions.

## **10.2 Employment oriented active social policy**

### **Increasing the attraction of working life - the Veto programme**

The national Veto Programme for 2003-2007 administrated by the Ministry of Social Affairs and Health aims at increasing the attraction of work and working life. Its objectives are to ensure that citizens participate fully in working life and to encourage them to stay longer at work as well as to increase the attractiveness of work in all situations. The Programme consists of four elements: 1) good quality of working life and safety culture, 2) efficient occupational health services and rehabilitation, 3) diversity and equality in working life and 4) a minimum income security and time at work that provide an incentive.

The effectiveness targets of the Veto Programme include:

1. Extending careers by 2-3 years from their current values (compared to years 2002/2010);
2. Absences due to illness will start declining and decrease by 15% from their current levels (compared to years 2002/2007);
3. Entry into working life will take place at an earlier stage (the shift will be apparent from 2004 on);
4. Incentive of the minimum income security and pensions schemes will increase; remaining at and returning to work will increase (throughout the programming period);

5. The frequency of accidents at work and the development of occupational diseases will decrease by 40% from the current levels, and these will become less serious (compared to years 2002/ 2010);
6. Tobacco and alcohol consumption of the working age population will decrease considerably (from year 2002);
7. A comprehensive family policy programme will be created and implemented (will be approved in 2003-2004);
8. The availability and quality of occupational health services will improve and the cooperation with rehabilitation services will become more efficient (throughout the programming period);
9. The general atmosphere and attitudes will change in a way that will allow for the programme's objectives to be accepted and reached (2004-).

The Veto Programme targets 1 to 5 have close links to the Government's long-term employment target of 75%. The general aim is to extend working life careers by 2-3 years from the current values. The Veto Programme has systematically monitored factors affecting the length of careers and analysed the emerging trends. As regards the older age classes, the employment trend has been very positive. Such as the good economic situation have contributed to this. Legislative solutions, the most significant of which were the pensions reform and increasing the age limit for the additional days in unemployment security as well as the Tykes, Noste and Veto programmes to develop working life, have played a part in this development. Towards the final stages of the programme, an attempt has been made e.g. to promote the introduction of a partial sickness allowance at the workplaces and to develop interfaces between working life and rehabilitation, especially in the perspectives of occupational health care, rehabilitation and return to work. The methods of early invention have been developed especially as regards mental health issues.

### **The Carl Bertelsmann award**

The German Bertelsmann Foundation issued the Finnish reform programmes an award for long-term work to extend the careers of ageing workers and to improve their working conditions and prerequisites for finding employment. The award was given to the National Age Programme and the Veto, Tykes and Noste Programmes which continued its work. The Foundation praised Finland for the early detection of the ageing problem in working life and wide-ranging co-operation with which the challenge has been faced.

In its justifications, the Foundation especially highlights Finland's excellent ability to adapt to changing conditions and praises the Finnish tradition of co-operation. According to the evaluators, what was particularly laudable was the fact that a systematic national strategy was drawn up in Finland, which was implemented in co-operation between the Government, trade unions, employers and the various Ministries. According to the Foundation's estimate, Finland has succeeded in managing the change in the age structure because age-related factors were taken in consideration in creating the preconditions for working and being employed for workers, and attention was focused on skills, improving well-being at work and the organisation of work. The pensions reform of 2005 was considered a major success and a good example of Finnish co-operation. In the words of the Bertelsmann Foundation, it was the good governance and interadministrative co-operation that ensured the implementation of the programmes.

The award sum, the amount of which is EUR 150,000, will be used to establish a Finnish award.

## **Extending careers**

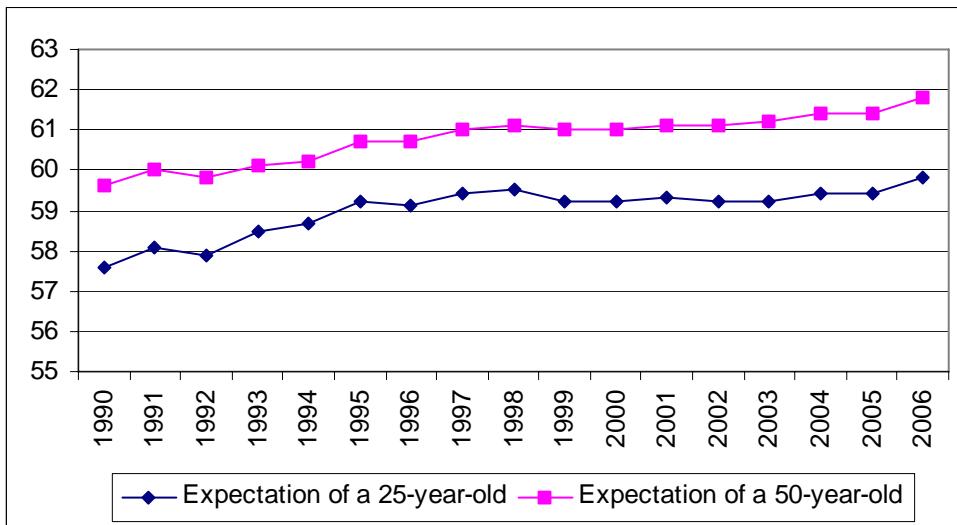
Since the early years of the 1990's, changes have been made in the employee pension system, the aim of which is to encourage the aged labour force to stay on at work. One of the targets of the 2005 pensions reform was to raise the average age of retirement by 2-3 years over the long term. The most significant changes in terms of taking retirement are the introduction of a flexible old-age pension age, changes in the accumulation process and the reduced selection of pension types.

The pensions reform changed the age limit for old-age pensions. A full old-age pension can be taken flexibly at the age of 63-68 years. An effort was made to attract employees to stay on in working life by means of financial incentives. The accumulation of pension equals 1.5% of the annual earnings for under 53-year-olds, for 53-62-year-olds the accumulation percentage is 1.9% and for those older than this 4.5% of the earnings. A wage or salary earner can take early old-age pension at the age of 62. In this case, however, the pension is decreased by the early retirement reduction, which is 0.6% for each month that remains before the age of 63.

The pension benefits under the new Act were cut by reducing the number of pension types. Individual early retirement is abolished, and as a rule the youngest age class is that born in 1943. Individual early retirement is not available for those born in 1944 and later. The unemployment pension, which will no longer be available for those born in 1950 and later, was a central route from working life to retirement. The most significant factor that has had an impact in extending the careers of the aged, however, was the increase by two years in the age limit of the entitlement to additional days of the unemployment benefit.

The expected retirement age was calculated separately for 25-year-olds, which describes the retirement age of the whole population, and for 50-year-olds. When looking at the private sector employee pension system alone, the retirement age of those aged 50 or over has been going up since the year 2000. In 2005, the retirement age did not go up, as during the first year of the pensions reform three age classes reached the old age pension age in practice, and a record-breaking number took old age pensions. In 2006, there was a hike in the retirement age. The retirement age went up by 0.4 years from 2005. The expected retirement age of a 25-year-old in 2006 was 59.8 years and that of a 50-year-old 61.8 years. The increase in the retirement age is also seen in the systematic decrease in the population shares of those taking retirement. The trends in recent years have been in line with the objectives.

**Figure 23. Retirement age in the private sector in 1983-2006** (Source: the Finnish Centre of Pensions)



### Absences due to sickness

The share of days of absence due to sickness for women has been growing for several years recently. Significantly, in 2006 women's absences due to sickness started declining after a growing trend of many years. The absences due to sickness of men, on the other hand, went up in 2006.

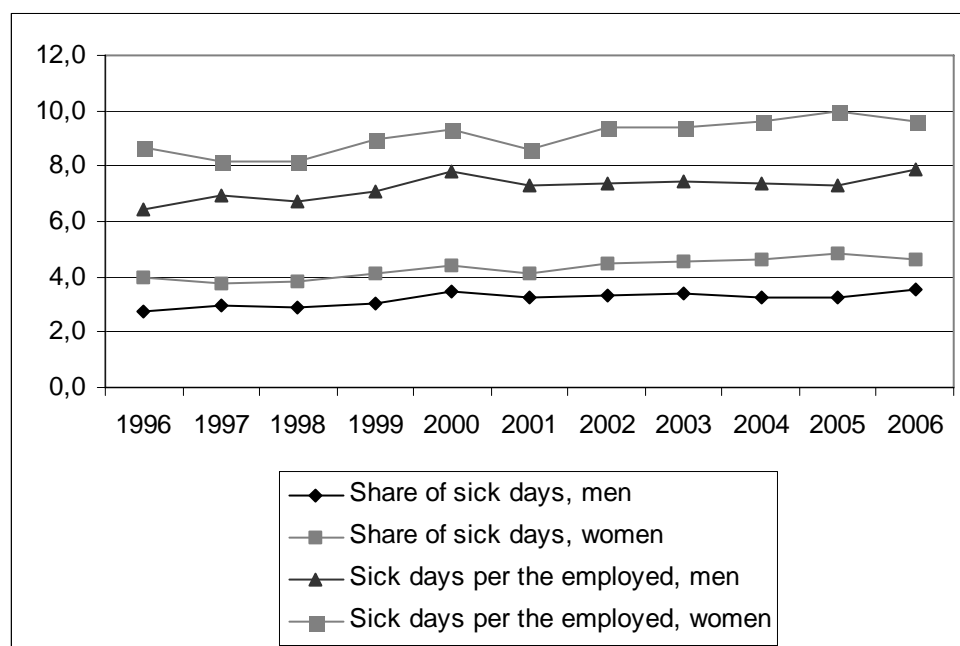
One out of three sickness benefit periods starting in 2006 (366,900) were due to musculoskeletal diseases, and one out of six due to mental health problems. The number of sickness benefit periods starting due to mental health disturbances has doubled in ten years.

In 2005, 269,400 people were on disability pensions and 28,700 people took disability pensions. The number of new disability pensions granted in 2006 went down by an estimated 2,000. Taking a disability pension has been a common way out for the long-term unemployed. This is why the lowering unemployment and previous projects for the disabled, in which an active attempt was made to establish their possibilities of receiving a pension, may have contributed to the smaller number of those taking disability pension.

Mental health problems and musculoskeletal diseases also remained the most common reason for going on a disability pension. Unlike long sick leaves, however, mental health problems have started declining as a cause for disability pensions.

In order to prevent the extending of sickness benefit periods, getting treatment in time is essential. The Treatment Guarantee has clearly reformed and improved access to treatment in health care centres. The number of those who had been waiting for treatment for more than six months was an estimated 7,300 at the end of 2006, whereas in the early phase of launching the project it was more than 66,000. Four health centres out of five were able to organise non-urgent treatment. The implementation of the National Health Care Project continued in 2006. Its most essential development targets and project packages concern: promoting health and preventive health care, safeguarding access to treatment, improving the availability and skills of the personnel, reforming the functions and structures of health care and reinforcing the funding for health care.

**Figure 24. Absences due to sickness**



As an essential measure to prevent the lengthening of sickness absences and continuous disability, an Act on Partial Sickness Benefit was adopted, which entered into force on 1 January 2007. The aim of the partial sickness benefit is to support rehabilitation and return to work.

### **Vocational rehabilitation**

An attempt has been made to reduce the risk of becoming disabled by means of vocational rehabilitation, the reform of which entered into force in the beginning of the year 2004. A duty was imposed on the Social Insurance Institution and Employee Pension Institutions to arrange vocational rehabilitation for persons who can be declared to be under threat of disability. A subjective entitlement to vocational rehabilitation to replace the previous discretionary right was instigated. The condition for this is that the person has an illness, problem or disability, which even when appropriately treated will result in a risk of having to take disability pension in the next few years and that vocational rehabilitation essentially reduces this risk. A condition for access to employee pension rehabilitation is that the applicant at the time of making of the rehabilitation decision has an entitlement to a future period in force, in other words he or she is at work or no longer than one year has elapsed from the ending of the employment relationship. Since 2004, employees in need of rehabilitation have the right to appeal a decision concerning the right to rehabilitation. Since the beginning of 2007, the applicants have also had the right to appeal the contents of the decisions.

**Table 28. Those taking part in vocational rehabilitation**

Organiser of rehabilitation	2002	2003	2004	2005
Social Insurance Institution	16,653	17,198	17,462	17,039
Employee pension companies	4,969	5,548	6,257	6,834

Vocational rehabilitation is also arranged pursuant to the Act on the Public Employment Service, the Employment Accidents Act, the Traffic Insurance Act and provisions on special needs teaching. The Social Insurance Institution has no duty to arrange rehabilitation, in case the person is entitled to rehabilitation under another Act, except in case the rehabilitation has been delayed for a reason beyond the control of the customer. In recent years, the Social Insurance Institution has increasingly organised short-term rehabilitation instead of rehabilitation of longer duration (e.g. vocational rehabilitation).

Of persons who finished their rehabilitation under employee pension rehabilitation in 2005, 68% came to rehabilitation from working life, and 72% of these also returned to work. Similarly, 32% came to rehabilitation from a pension, mainly from a disability pension, and 43% of these returned to working life. The results as regards returning to working life of rehabilitation customers from both working life and especially from pensions have improved every year.

### **Continuing the pensions legislation reform**

Another aim of the pensions reform was to create preconditions for harmonising and simplifying the employee pension legislation for the private sector. To implement the pensions reform, a Government proposal on harmonising employee pension laws was submitted, which entered into force on 1 January 2007. The Employee Pensions Act will replace the former Employee Pensions Act, the Act on Employee Pensions in Short Employment Relationships and the Act on the Pensions of Artists and Workers in Certain Special Groups. The new Act makes the system clearer, as the insurances and pension security are determined in the same way in all sectors. The amendment does not include new industrial policy outlines. The new Act will make it possible for Employee Pension Institutions to insure all types of work.

The amendments concerning a technical reform of seamen's pensions, entrepreneur pensions and farmers' pensions will enter into force in 2007. The provisions on the insurance for entrepreneurs were adjusted; the upper limit of the earned income was increased, and those on an old age pension pursuant to the Employee Pensions Act were exempted from the duty to insure. The definition of family members of entrepreneurs and farmers when counting the shares of ownership in the company were amended so that cohabiting partners are no longer required to have a common child.

The pensions reform and the reform of the investment activities of employment pension funds controlled the pressures to increase employee pension contributions. The alternatives of employment pension fund investment activities were developed in order to increase the proceeds from these, to slow down the pressures to increase the employee pension contributions and to support domestic investments. The investment activities and administration of Employee Pension Institutions were reformed e.g. by an amendment in the provisions on the working capital and underwriting reserves of Pension Institutions, provisions on decreasing the financial solvency limit

of Pension Institutions and covering the underwriting reserves, amendment of the Act on Employee Pension Institutions and an amendment of the Act on the Insurance Supervisory Authority. These Acts entered into force on 1 January 2007.

### **The development of family leaves and family leave benefits as well as the balancing out of family leave costs**

Central measures in 2006 included the so-called family leave package, in which the rules of taking a father's month were made more flexible, earnings-related maternity and parental benefits were increased for a part of the payment period, the compensation for annual leave costs paid to the employer was increased and the parental leave period of adopted parents was extended. The reform encourages fathers to use their entitlement to parental leave, improves the labour market position of women by equalising the costs to the employers from the parental leaves and supports the reconciliation of work and family life. In order to make it possible to use the father's month more flexibly, the Act on the Home Care of Children and Support for Private Care and the Act on Day-Care for Children were amended. These Acts entered into force from the beginning of 2007.

The Finnish fathers take less than 4% of the actual parental leave days. Even taking the father's month into account, only 10% of fathers stay at home on the parental benefit even for a short time. In the future, the parents can use the father's month more flexibly than before as suits their life situation. In addition, an increase in the father's benefits was an attempt to increase the number of fathers who will use their entitlement to parental leave.

The maternity benefit will be increased for the first 56 working days, or for some nine weeks. The maternity benefit will go up from 70% to 90% of the earned income on which it is based. The parental benefit will go up from 70% to 75% of the salary for the first 30 working days, or for some five weeks. In case both parents take parental leave, both will receive the increased daily allowance for the first 30 working days. The father's month, however, must be used no later than by the time the child is around 14 months of age. The parental leave period for adopted parents was extended to 200 days. Parents in a registered relationship can agree on how to share the parental benefit period.

The increase in the daily allowance also improves the compensation paid to the employer to make up for the salary during maternity leave. The annual leave salaries paid by the employers will in the future also be subject to higher compensations. These amendments will balance out the concrete payroll costs caused by parenthood to private employers and support the more equal sharing of parental leaves between the parents.

### **Promoting gender equality**

The Government has been implementing its Equality Programme, the monitoring report of which was completed towards the end of 2006. For the drafting of the 2007 Budget, guidelines were provided for taking the gender perspective in consideration. Mainstreaming training was provided for civil servants of the various Ministries. The Government launched a tripartite equal pay programme with the labour market organisations in 2006. The general aim of the programme is to narrow the pay gap between women and men, which is calculated from the average monthly earnings of regular working hours, from its current level of approx. 20% by a minimum of 5 percentage points by 2015. The progress of the Equal Pay Programme will be followed up in the Monitoring Group chaired by the Speaker of the Parliament, Mr. Pekka Lipponen, which involves

such as the leaders of the central labour market organisations, politicians and high-level civil servants. The programme includes a total of some 30 packages of measures. During Finland's EU Presidency, a conference on Men and Equality was organised; one of the themes discussed in this conference was encouraging men in female dominated sectors.

### **Matching of social support and earned income to encourage working**

The duration of the experiment with disregarded income associated with the Act on Social Assistance was extended by two years (2007-2008). This experiment makes it meaningful for a customer receiving social support to earn a small income. This also facilitates the employment of those on social support. When granting a social support, the available income of the person and his or her family members are taken in consideration. Persons outside working life have preferred not to take on such as temporary work on a small pay, because it does not at all increase the income at their disposal. A minimum of 20% of the earned income of a person or a family applying for social support on a temporary basis, however up to a maximum of EUR 150 a month, is disregarded when granting the support. The amount of the disregarded income is determined for each household.

The number of households receiving social support was 238 000<sup>16</sup> in 2005. During the first half of 2006, this number went down by 4% compared to the same period the year before.

### **10.3 Social insurance contributions**

The costs of the statutory social insurance are collected as payments from employers and the insured employees. The funding of the health insurance was made more clear-cut from the beginning of the year 2006 by dividing it into a medical expenses insurance and an earned income insurance. The purpose of the reform was to safeguard sufficient funding for paying out benefits granted based on illness. This is why the insurance principle was reinforced by making the link between payments and benefits stronger. The funding reform of health insurance was implemented by compensating the increased insurance premiums to the wage and salary earners by changes in taxation and to the employers by decreasing the national pension contribution.

In 2006, the health insurance contribution of all employers was 2.06% of the salary; for 2007, this payment was lowered to 2.05%. The health insurance payment of the insured person consists of the medical expenses premium and daily allowance premium. Wage and salary earners and entrepreneurs pay both of these. In 2006, the health insurance contribution of wage and salary earners was 2.10%, consisting of a medical expenses contribution of 0.77% and daily allowance contribution of 1.33%. For 2007, these contributions were reduced to 0.75% and 1.28%, resulting in a total health insurance contribution of 2.03%. Pensioners and recipients of other benefits only pay the medical expenses contribution, which for these groups was 1.5% in 2006, while the 2007 level is 1.45%.

The health insurance contribution of farmers insured by the insurance scheme for farmers is the same as that of wage and salary earners. An additional funding share is collected from entrepreneurs insured by the insurance scheme for entrepreneurs to cover the decrease in the waiting period of the health insurance. The health insurance contribution of this group for 2006 was 2.35% and for 2007 2.19%.

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<sup>16</sup> preliminary data

The exemption from employer's social security contributions implemented in the Kainuu governance experiment area and the similar experiment continuing in certain municipalities in Lapland and the archipelago will extend to 2009. The national pension contribution of employers was decreased by 0.468 percentage points for 2006 to compensate for the increase in the health insurance contribution. The national pension contribution of the State employer and the Province of Åland Islands was however decreased by 2.018 percentage points to bring this contribution to the same level as that of municipal employers. From the beginning of 2007, the employer's national pension contribution was increased by 0.003 percentage points, which will fund the loss of national pension income to the Social Insurance Institution due to extension of the experiment of reducing the employer's social security contribution to Pielinen-Karelia and the municipalities of Ilomantsi and Rautavaara.

The employee pension contribution of 2006 was decreased by 0.6 percentage points to use up the deficit formed by disability pension contributions of previous years. For 2007, a similar temporary decrease in contributions will be granted, and consequently the average employment pension contribution in compliance with the Employee Pensions Act, which contains both the contributions of the employer and the employee, will be 21.6% of the salaries. The contribution level of a temporary employer pursuant to the Employment Pensions Act will be 22.04%, of which the employer's employee pension insurance contribution can be obtained by reducing the payment share of the employee.

The unemployment insurance contribution of a wage and salary earner in 2006 was 0.58% of the salary. The employer's contributions are staggered so that the lower contribution, which in 2006 was 0.75%, is applied to the first EUR 840,940 of the salary, and for the salary exceeding this, 2.95% of the salary. The payments for 2007 were confirmed to be at the same level.

The social insurance contributions also include an accident insurance contribution paid by the employer, the extent of which varies according to the risk of accident in the company's sector. The employers also contribute a group life insurance payment, which is collected based on an agreement between the labour market organisations.

**Table 29. Social insurance contributions in 2005-2007**

	y. 2005	y. 2006	y. 2007
<b>Employers</b>			
<b>Employer's national pension contribution</b>			
private employer, payment class I	1.366	0.898	0.901
private employer, payment class II	3.566	3.098	3.101
private employer, payment class III	4.466	3.998	4.001
municipal/church employer	2.416	1.948	1.951
State employer	3.966	1.948	1.951
<b>Health insurance</b>			
private, church and municipal employer	1.6	2.06	2.05
State employer	2.85	2.06	2.05
<b>Unemployment insurance</b>			
sum of pay below EUR 840,940	0.7	0.75	0.75
part exceeding EUR 840,940	2.8	2.95	2.95
<b>Employee pension insurance</b>			
average employee pension contribution/ Employment Pensions Act 2007	16.8	16.7	16.7
municipal employer	23.19	16.7	16.7
State employer	18.9	16.7	16.7
<b>Employees</b>			
<b>Health insurance</b>			
health insurance contribution *)	1.5		
daily allowance contribution **)		0.77	0.75
medical expenses contribution *)		1.33	1.28
<b>Unemployment insurance</b>			
	0.5	0.58	0.58
<b>Employee pension insurance</b>			
those aged less than 53	4.6	4.3	4.3
those aged 53 and over	5.8	5.4	5.4
<b>Entrepreneurs and farmers</b>			
<b>Health insurance</b>			
daily allowance contribution **)		0.77	0.75
additional funding share of those insured within the scheme for entrepreneurs***)		0.25	0.16
medical expenses contribution *)		1.33	1.28
<b>Employee pension insurance</b>			
those aged less than 53	21.4	20.8	20.8
those aged 53 and over	22.6	21.9	21.9
Medical expenses contribution for incomes based on pensions and benefits		1.5	1.45

\*) percentage of income taxable in municipal tax

\*\*\*) percentage of earned income  
\*\*) percentage of earned income subject to entrepreneurs' insurance contributions