Investing in Youth

FINLAND

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Investing in Youth: Finland

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Foreword

As highlighted in the OECD Action Plan for Youth, successful engagement of young people in the labour market is crucial not only for their own personal economic prospects and well-being, but also for overall economic growth and social cohesion. Therefore, investing in youth is a policy priority in all countries, including Finland, requiring concerted action to develop education systems and labour market arrangements that work well together.

Following the launch of the OECD Action Plan for Youth in May 2013, the OECD is working closely with countries to implement the plan's comprehensive measures in their national and local contexts and to provide peer-learning opportunities for countries to share their experience of policy measures to improve youth employment outcomes. This work builds on the extensive country reviews that the OECD has carried out previously on the youth labour market and vocational education and training (Jobs for Youth, Learning for Jobs and Skills beyond School), as well as on the OECD Skills Strategy.

The present report on Finland is the tenth of the series "Investing in Youth", which builds on the expertise of the OECD on youth employment, social support and skills. This series covers OECD countries and key emerging economies. The report presents new results from a comprehensive analysis of the situation of young people in Finland, exploiting various sources of survey-based and administrative data. It provides a detailed assessment of education, employment and social policies in Finland from an international perspective, and offers tailored recommendations to help improve the school-to-work transition. Additional information related to this review can be found on the OECD website (http://oe.cd/youth-finland).

This review is joint work by the Social Policy Division and Skills and Employability Division of the Directorate for Employment, Labour and Social Affairs (ELS). Sarah Kups, Christopher Prinz and Marie-Anne Valfort prepared the report, under the supervision of Veerle Miranda (project leader) and Monika Queisser (Head of the Social Policy Division). Pauliina Patana contributed to the review as consultant and Fatima Perez provided editorial support. The report benefited from useful comments provided by Stefano Scarpetta (Director for Employment, Labour and Social Affairs).

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Executive summary

Finland's education system ranks consistently among the best in the OECD, but inefficiencies in employment and social policies are hampering a smooth transition into the labour market for a considerable share of the youth population. The youth employment rate is slightly above the OECD average but markedly below those in other Nordic countries, while youth unemployment is only slowly recovering from a series of economic shocks that affected Finland in the past decade. With a strong demand for high-skilled workers and persistent shortages in high-skilled jobs, low-skilled youth encounter particular difficulties in the Finnish labour market. Those who failed to complete upper secondary education account for nearly half of all youth who are not in employment, education or training (the so-called NEETs).

Despite the outstanding performance of the education system, there is room to raise completion rates in upper secondary education, especially among vocational students. A recent reform of the vocational upper secondary education system introduced many promising changes, but some additional adjustments could boost the pay-offs of these reforms. It is essential to better engage employers and to support them with the tasks of offering workplace learning. To ease the transition from upper secondary to tertiary education and provide the labour market with the necessary skilled workforce, Finland would also need to reform the highly selective admission procedures for tertiary education and expand its capacity.

Finland has one of the most generous benefit system for young people among OECD countries. The wide range of benefits and services help young people face economic and labour market challenges, but they also create considerable disincentives to seek work and leave benefit. The benefit system is complex and disjoint, with no direct connection between different types of payments and the limited connection between benefits and employment services hinders the implementation of a stronger activation regime.

The coming years will therefore be critical for Finland and the government must make every effort to streamline the benefit system and strengthen activation for young jobseekers. The planned but currently halted administrative and regional government reform (the so-called SOTE reform) is not making these challenges easier as it would reinforce the disconnection between benefits (a national matter) and employment and other services (a regional matter).

Key policy recommendations

- Prevent school dropout by ensuring sufficient support for students with additional needs, introducing cross-age peer counselling and raising the compulsory schooling age.
- Reach out to early school leavers by ensuring that youth in all regions are adequately served by youth support networks and developing digital services to reach young people in distant areas.

- Ease the transition from upper secondary to tertiary education by reforming the highly selective tertiary education admission system, expanding the capacity of the higher education system, and adjusting the study financial aid system if needed.
- Improve the pathway from vocational education to employment by promoting collaboration with employers and developing short-cycle postsecondary vocational programmes for upper secondary graduates.
- Address the fragmentation of the social protection system by streamlining the benefit system, removing disincentives to work, and revisiting the child home care allowance.
- Strengthen the activation of benefit recipients and the effectiveness of active labour market programmes.
- Strengthen the provision of integrated services by increasing the resources and impact of the Ohjaamo centres, evaluating available programmes and new initiatives, developing a multi-sectoral joint service and providing mental health training to caseworkers.
- Revise the administrative and regional government reform to tackle the fragmentation and activation challenges, and consider a gradual transition based on other countries' experiences with the outsourcing of public health, social and employment services.

Assessment and recommendations

The Finnish economy is recovering from a decade of serious economic shocks. In addition to the global economic crisis of 2008-09, the country faced major difficulties in the electronic and forest industries and was affected by a severe recession in neighbouring Russia. A wide range of structural reforms and an ambitious competitiveness programme helped weather the impact of those shocks and the economy re-gained strong momentum in 2016, with an average GDP growth of 2.6% between 2016 and 2018.

Nevertheless, employment recovery has been slow and unemployment remains relatively high, not only for young people, but for all age groups. While persistently weak labour market performance partly reflects a lagged response to recent economic recovery, policy settings play an equally important role in holding back labour supply. The combination of quite generous working-age benefits and high income taxes reduces work incentives and, consequently, employment. The compressed wage distribution further reduces incentives to hire low-productivity workers, affecting people with low education or low skills in particular. As a result, Finland's labour market performance has always been markedly weak compared with other Nordic countries, with employment and unemployment rates performing barely above OECD averages.

How do Finnish youth fare in the labour market?

The employment rate of young Finns aged 15 to 29 stood at 54.6% in 2017, slightly above the OECD average of 53.3%, but well below the rates observed in Norway and Sweden. Finnish young women tend to perform better than their counterparts in other OECD countries, while Finnish young men perform worse than their peers. Relatively high shares of Finnish youth hold temporary jobs (44% of the age group 15-24) or would like to work full-time but only find part-time jobs (24% of all part-timers); both indicators are significantly higher than the respective OECD averages (25% and 14%).

Youth unemployment rates for the age group 15 to 29 reached 14.7% in 2017, placing Finland seventh highest in the OECD ranking, just behind France and Portugal. The high unemployment rate is not only the result of the economic recession; the large number of students searching for part-time employment in Finland contributes to this relatively high youth unemployment rate, as in other Nordic countries. An alternative indicator for youth labour market performance is the share of young people who are not in employment, education or training (NEETs). While unemployed students are not included in this rate since they are in education, the NEET rate does cover young people who are inactive, a group the unemployment rate does not capture.

In 2017, 11.9% of the Finnish youth population aged 15-29 were NEET, a rate below the OECD average of 13.4%. The majority of NEETs (60%) are currently not looking for work (they are considered inactive NEETs) – a share close to the OECD average– but only one third will remain NEET for more than one year – well below the one in two on average across European OECD countries. The difficult economic conditions of the past

decade had only a limited impact on the risk to become NEET: between 2007 and 2017, the NEET rate rose by 2.4 percentage points. For comparison, the unemployment rate rose by 3 percentage points.

Who are NEETs in Finland, and what are the risk factors?

- Low educational attainment is the most important driver of the NEET status in Finland. Youth who failed to complete upper secondary education account for nearly half of all NEETs, and they are three times more likely to be NEET than those with tertiary education. Even so, as a result of the high quality standards in the Finnish education system, Finnish NEETs tend to have much higher skills proficiency than their counterparts in most other OECD countries.
- The likelihood to become NEET in Finland is equal among young women and young men, but their reasons differ. Inactive female NEETs state caring and family responsibilities as a primary reason for inactivity (50%), while inactive male NEETs declare illness and disability (37%) as principal reasons.
- (Mental) health concerns and substance abuse are widespread among NEETs, and the situation is worse in Finland than in many other OECD countries. NEETs are much more likely to feel depressed than their peers, and secondary in- and out-patient mental health service and psychiatric drug use is common. The use of such services also increases significantly with the length of NEET spells.
- Disadvantage and the risk of exclusion grows as the length of NEET spells increase. While many youth may find themselves NEETs at some point, (mental) health and social issues are particularly important among young individuals with long NEET spells. The transmission of disadvantage and parents' (lower) socio-economic background is especially marked among long-term NEETs.

Improving the transition from school to work

Finland is renowned for the excellent results in its compulsory schools and receives daily visits from education specialists from all over the world who would like to learn from Finland's success. In the latest PISA survey on skills of the 15-year-olds, Finland ranked second among OECD countries in science, third in reading, fifth in problem solving and sixth in mathematics. Finland's success in compulsory schooling is partly because teachers are valued by society and enjoy good working conditions, relatively high salaries, smaller classes and fewer teaching hours than the OECD average. Another feature of Finnish schools is the well-developed system to detect pupils with special needs early and provide timely interventions. Teachers are well trained in identifying learning difficulties and in adapting their instruction accordingly.

Despite the outstanding performance of Finland's education system, the transition from school to work is not straightforward for many young Finns. Low-skilled youth face severe constraints in finding a job in an economy dominated by high-skilled jobs, while a very selective higher education system delays the entry into tertiary education. These barriers do not only contribute to high unemployment rates, but also translate into a qualification mismatch. Nine out of ten jobs in shortage in Finland are of the high-skilled type, and more than one out of five Finnish workers have qualifications that are below those usually held by workers in their jobs – one of the highest shares in the OECD. With

a comparative advantage in knowledge-intensive industries, the economy displays a strong need for high-skilled workers, which the education system seems unable to deliver.

Raising completion rates in upper secondary education

Nearly all Finnish children graduate from compulsory education and more than 95% of them make the transition from compulsory to upper-secondary school. Approximately 55% chose the general curriculum, while the remaining 45% enrol in vocational education and training. Even though overall completion rates in upper secondary education are quite high in Finland compared with many other OECD countries, one in four vocational students do not obtain their upper secondary degree within two years after expected graduation. A mayor reform of the vocational upper secondary education system in 2018 aims to create a more customer-oriented and competence-based system and to improve efficiency. The funding model will encourage education providers to adopt measures to raise completion rates and reduce school dropout, but there may be additional ways to reach this goal. To start, Finland could further close the gap between students' expectations and curriculum by introducing cross-age peer counselling, as in Denmark and the United States, whereby upper secondary students mentor last-year lower secondary students.

Second, the vocational reform encourages education providers to better support students throughout their studies, as a substantial part of the funding will depend on graduation rates and outcomes in the labour market. However, a downside of the new financing model is that schools are discouraged from taking in low-performing students, since their probability to complete their education programme is lower. The impact of the new financing model on the performance of students with additional needs should be closely monitored. If needed, the financing model could be adjusted with a budget multiplier for each student who received intensified or special support during compulsory education. The alternative is a separate budget for special support services.

Third, Finland may also want to raise the compulsory schooling age to 18 years to limit the impact of myopic behaviour among youth. Compulsory schooling laws are indeed a common policy tool to achieve greater participation in education, particularly from marginalised groups. Since raising completion rates is a priority of the reforms in upper secondary education, many of the costs related to increased participation will be incurred anyway, even if the compulsory schooling age is not increased. In fact, the main extra cost induced by a reform of compulsory schooling age would consist in providing learning materials and books for free, a requirement for compulsory schooling in Finland. In turn, free upper-secondary education could further encourage the poorest segments of the population to continue their education.

Fourth, support networks outside of schools – e.g. social and health services, public employment services and, possibly, non-governmental organisations – play an important role in addressing more severe or long-lasting problems that schools are incapable of dealing with on their own. The range of such services available to youth in Finland is remarkable, including youth outreach workers to reconnect youth with education or employment, youth workshops for on-the-job training and career guidance, integrated services for youth at risk of social exclusion, and comprehensive support for young men excluded from compulsory military service. Even so, not all regions are properly served and digital services should be developed to reach young people living in distant areas.

Easing the transition from upper secondary to tertiary education

Finland has one of the most selective higher education system in the OECD, with 67% of applicants rejected each year, compared with an OECD average of 30%. This high selectivity delays the start of studies, forcing applicants to take unwanted gap years and repeat the tests. Only 25% of upper secondary graduates manage to continue their tertiary studies immediately after graduation and the average age at which Finnish students enter tertiary education for the first time is amongst the highest in the OECD. Given the strong demand for high-skilled workers and persistent shortages in high-skilled jobs, the high selectivity and limited capacity of the higher education system do not seem appropriate and could be harmful for the Finnish economy.

To improve the transition from secondary to tertiary education, universities and polytechnics agreed to modify their admission procedures. By 2020, matriculation examination results will be the main entry path into tertiary education. The admission system could be further improved by developing flexible ways for students who wish to switch between programmes or complement their studies with selected parts from other programmes and to allow for recognition of prior learning to encourage participation of non-traditional learners. Finland may also want to expand the capacity of the higher education system to fill the shortages in high-skilled occupations.

A reform of the study financial aid system in 2017 shifted the focus from study grants to student loans and an increase in the take-up of loans in the year following the reform suggests that students effectively compensated the lower grant amounts with student loans. According to statistics from Finnish Social Insurance Institution, three in four students aged 20-24 received a study grant during the school year 2017/18 and more than 90% of them complemented their grant with a loan. However, it is unclear to what extent the lower study grant has discouraged students from enrolling in education, as there has been a notable decrease in the share of 20-24-year olds enrolled in education.

With Finland's generous social assistance system, there is a considerable trade-off for young people, in particular those coming from poorer families, between paying for higher education or opting for generous social assistance benefits. The trend in education enrolment should therefore be carefully monitored. If the enrolment rate continues to drop, Finland could consider exempting people whose taxable income is too low from repaying their student loan, and not only interest rates as is currently the case. A similar approach has proven successful in the United Kingdom, not only to keep enrolment in tertiary education high, but especially to encourage participation from the poorer segments of the population.

Improving the pathway from vocational education to employment

The vocational education reform aims to increase learning in the workplace by allowing for different forms of learning at work and making apprenticeships more attractive. While the stronger focus on workplace learning should be conducive to a better alignment of labour supply with labour demand, employers' interest in apprenticeships has always been limited in Finland. The main question therefore is how to better engage employers. In 2016, only one out of eleven upper secondary students did an apprenticeship in Finland, despite the country's high share of vocational students.

To promote collaboration between the vocational education system and employers, it is essential to involve social partners in the design and implementation of workplace learning schemes. Employers are in a strong position to see if qualifications and curricula

meet current labour market needs and they can guide their adaptation to changing requirements. It would also be worth undertaking a cost-benefit analysis to better understand the cost-benefit balance for employers of the different workplace learning options. Such empirical evidence could then underpin policy choices to improve employer engagement. While it is important to support employers, the government should be cautious with universal tax breaks or subsidies aimed at employers. With the possible exception of well-designed and well-implemented employer-driven levy systems, the government would be better served by targeting funding at measures designed to help improve the quality of in-company training and reduce administrative costs. Such measures are especially important for smaller employers.

Even though the Finnish vocational education system has further and specialist vocational qualifications beyond upper secondary vocational qualifications, these postsecondary options are mainly intended for people with work experience rather than for upper secondary school-leavers. The development of short postsecondary vocational programmes for upper secondary graduates would provide an effective way to help vocational graduates to gain more technical expertise, management and other skills, and improve their prospects on the labour market. For instance, Sweden successfully created such a programme from scratch that rapidly attracted growing numbers of students. Postsecondary vocational options would also be a way to reduce the waiting lists for the highly selective tertiary education system and speed up the labour market entry for many youth.

Strengthening support for young people

Finland is making considerable investments in social benefits that provide youth with stable income and in services that help them complete meaningful education, address social and health problems, and access employment. Support also targets and reaches disadvantaged youth. However, overall social and labour market outcomes for young people in Finland do not fully reflect the size of the investments made: youth poverty and youth unemployment rates are high. These outcomes are related to institutional factors, which include benefits and services that are generous but fragmented and disconnected, weak activation and a limited focus on assessing the effectiveness of services.

Responding to the fragmentation of the benefit system

The large number of different benefits that youth in Finland can access and the different rules regulating benefit eligibility and benefit levels lead to high benefit receipt rates, considerable benefit dependency, and substantial and highly variable disincentives to work. A more streamlined system with fewer benefits available for youth would address some of these issues and a single working-age payment, as proposed in previous OECD work, would be the best option for the future.

Removing benefit traps and making work pay for every young person, including those with lower skills and thus poorer earnings potential, is paramount. Work incentives should be the same, irrespective of the type of benefit received. This requires changes in benefit levels and/or in-work payments and/or phase-out ranges to reduce marginal tax rates for those starting work.

Moreover, for a benefit system as generous and accessible as Finland's, strong activation is essential to ensure young people actively engage in further education and rehabilitation and seek work. Activation requirements must be stronger on all types of payments –

including through clear participation conditions for those receiving benefits, strong monitoring of the compliance with those requirements, and clear and significant sanctions in case of non-compliance.

Finally, the child home care allowance, which is granted when a child under three years of age is looked after at home, can render staying at home more financially advantageous than engaging in training or paid employment. According to the EU Statistics on Income and Living Conditions Survey data, nearly half of all young mothers aged 15-29 with young children were NEETs in 2017.

Strengthening the integration of services

The range of services available for youth in Finland is considerable. However, different services offered by the public employment service, the social insurance institution and the municipalities tend to operate in isolation; integrated services that address different needs concurrently are the exception, not the norm. Such integrated services are especially important for the most disadvantaged among the youth population.

Finland invests considerable amounts in its active labour market programmes but the share of young people under age 30 referred to a programme is low and subsequent employment outcomes are relatively poor. In any year, one in three of this age are in a programme (which is the same figure as for jobseekers aged 30-54) and six months after participation in an activation programme, about one in four are in employment (one in three in case of training programmes). These outcomes are disappointing in view of the strong youth focus of the public employment service. Several steps could be undertaken to improve the employment impacts of its services, including: i) engaging with schools to help in the transition to higher education, vocational education or employment; ii) putting more emphasis on assessing and recognising the skills of jobseekers; iii) using information on previous experience with the public employment service in the profiling process; and iv) providing follow-up support to those leaving the service.

Finland must also do more to measure the outcomes and assess the effectiveness of the many initiatives, projects and programmes offered by public authorities. This recommendation holds for the employment and training measures of the public employment service, but also for the rehabilitation programmes of the social insurance institution, the social services provided by the municipalities and the guidance services provided by the Ohjaamo youth one-stop centres. Good evaluations are critical to promote evidence-based policy-making. On this aspect, Finland could learn from the United States where the laws providing funding for a particular programme include requirements for programme performance tracking and impact evaluation.

The 2015 act on multi-sectoral joint service, which created a permanent network bringing together a range of municipal, employment and social insurance services, was Finland's biggest step towards the provision of joint and fully integrated services organised around a multi-sectoral employment plan. It will be important to implement and monitor this change rigorously, as it should be the basis and a model for the provision of fully integrated services for all people facing multiple problems.

In the effort to expand integrated services, attention to health is particularly important. Mental health issues, often undiagnosed, are a considerable barrier to better education and employment outcomes. Mental health is a complex challenge: on the one hand, mental health problems too often remain unidentified and unaddressed while, on the other hand, the work capacity of those with a diagnosed mental health issue is often underestimated.

Caseworkers from all public authorities need better mental health training to be able to recognise problems and refer their clients quickly to the right types of supports and services. Accordingly, mental health should also become a category in the profiling tool used by the public employment service, e.g. by using validated survey instruments that identify a person's mental health status in an indirect manner.

Using the government reform as a vehicle to address fragmentation and activation challenges

While Finland must work towards well-integrated benefits and well-integrated services for youth (and the population more generally), the government was preparing a major administrative and regional government reform. The so-called SOTE reform planned an important change in the provision of health and social services, but came to a temporary halt with the resignation of the Finnish government in early 2019. It will be up to the next government to decide whether the reform will be implemented and in what form.

The last version of the reform would have changed responsibilities, service organisation and funding mechanisms and thus affected policy implementation and outcomes in many different ways. In particular, the reform would have reinforced the disconnection between benefits (a national matter) and employment and other services (a regional matter). To make such setup functional and effective, underlying funding mechanisms must ensure sufficient investment by the counties in prevention and early intervention services, to avert benefit claims and dependency. Sharing county actions and outcomes openly in a transparent manner would facilitate the diffusion of good practices at the county level.

Ohjaamo one-stop centres are critical entities guiding young people through a fragmented system of services and benefits. There is a need to expand Ohjaamo resources to ensure such one-stop-guidance centres are available for all young people across Finland and offering the full range of services needed to support them (including outreach workers, employment specialists, mental health professionals, social workers, housing experts, financial expertise and benefit knowhow). Ohjaamo centres are the main strength of the Finnish Youth Guarantee, which is successful in reaching young people in need, especially NEETs, but much less successful in achieving employment outcomes for them. With the SOTE reform, the position and location of the Ohjaamo centres would come under pressure. Counties must have the resources and incentives to maintain and expand this guidance structure, to prevent rising within- and cross-county inequalities in access to services.

In many ways, the SOTE reform would dive into new territory. The reform of the public employment service in 2013, which transferred the responsibility for employment services from the local to the regional level, was a precursor of the SOTE reform. Both reforms aim at increasing service efficiency and harmonising service availability and quality across the country. Monitoring, evaluating and fully understanding the implementation and impact of the 2013 public employment service reform is critical as a learning experience for a successful realisation of any SOTE reform.

As part of the SOTE reform, Finland aimed to generate a transparent and competitive market for health, social and employment services, to improve service efficiency and introduce user choice. Such change would be a major undertaking, with considerable potential but also risks. Finland should consider doing this transition in steps, starting with the administrative changes while carefully studying how other countries managed to outsource public services. Australia in particular has considerable experience in

outsourcing various services, including youth outreach services, youth mental health services and employment services.

Box 1. Key policy recommendations

Improving the transition from school to work in Finland

- Raise completion rates in upper secondary education by:
  - ensuring sufficient support for students with additional needs;
  - introducing cross-age peer counselling;
  - raising the compulsory schooling age;
  - guaranteeing adequate youth support networks in all regions;
  - developing digital services to reach young people in distant areas.
- Ease the transition from upper secondary to tertiary education by:
  - reforming the admission procedures for tertiary education;
  - expanding the capacity of the higher education system to fill skill shortages;
  - carefully monitoring the trend in education enrolment and adjusting the student financial aid system if needed.
- Improve the pathway from vocational education to employment by:
  - involving social partners in the design and implementation of workplace learning schemes;
  - undertaking a cost-benefit analysis of employer participation in workplace learning and supporting employers where needed to tilt the cost-benefit balance;
  - developing short-cycle postsecondary vocational programmes for upper secondary graduates.

Strengthening support for young people

- Address the fragmentation of the social protection system by:
  - streamlining the benefit system and removing disincentives to work;
  - revisiting the child home care allowance.
- Improve the activation of benefit recipients and the effectiveness of active labour market programmes;
- Strengthen the provision of integrated services by:
  - increasing the resources and impact of the Ohjaamo centres;
  - evaluating available programmes and new initiatives;
  - developing a multi-sectoral joint service;
  - providing mental health training to caseworkers.
- Revise the administrative and regional government reform by:
  - incorporating a benefit reform to tackle the fragmentation and activation challenges;
  - ensuring that the underlying funding mechanisms guarantee sufficient investment in prevention and early intervention services;
  - investing in monitoring and evaluating policy reforms;
  - studying other countries' experiences with the outsourcing of public health, social and employment services.

Chapter 1. Youth employment and education in Finland

This chapter provides an overview of the educational and employment outcomes and well-being of young people in Finland. After briefly outlining the economic context of the past decade, it compares the educational and employment performance of young Finns with that of young people across OECD countries. The chapter then describes the size and composition of the population of young people who are not in employment, education or training (NEETs), paying particular attention to how their outlook and health compares to other youth. The chapter concludes with discussing the comparative length of inactivity of youth in Finland and the risk factors associated with remaining a NEET for an extended period.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

1.1. Introduction

The labour market performance of youth in Finland has been hampered by a prolonged economic crisis at a time when a rising demographic dependency ratio creates urgency in boosting the employment of all working-age adults. The global economic crisis followed by weaknesses in the key forest and electronics industries as well as a severe Russian recession depressed economic growth. Recently, the economy has started to grow again, but the labour market recovery remains tepid for all age groups. Given that the demographic dependency ratio (the number of children and the elderly to working-age adults) is projected to rise from 60 in 2017 to 66 in 2030 (Statistics Finland, 2018[1]), easing the school-to-work transition of young people is important not only for their well-being, but also for the country's economic health and the viability of its welfare state.

This chapter provides an overview of the labour market and educational outcomes of Finnish youth. It first discusses the employment and education outcomes of young people in the context of the current economic situation (Section 1.2). It then presents the characteristics and challenges of Finnish youth not in employment, education or training (NEETs) (Section 1.3).

1.2. The education and employment performance of Finnish youth

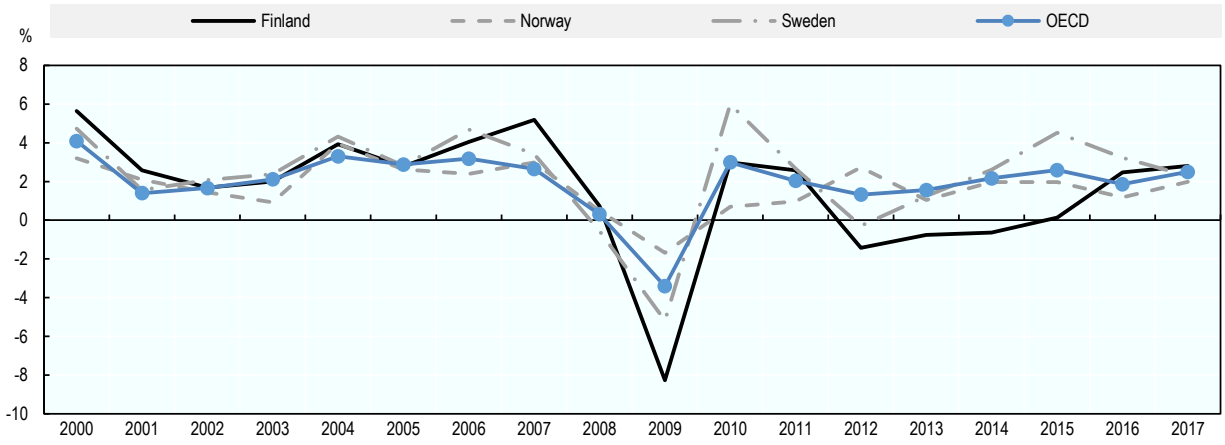
1.2.1. The economic context

Finland's economy has recently recovered from a near-decade of economic difficulties. The global economic crisis affected economic growth in Finland more negatively than in other OECD countries, including Norway and Sweden (Figure 1.1). The economy had barely recovered from this shock when the key industries faced major difficulties: electronics, with the collapse of Nokia, and forestry, with a decreased demand for paper products. A severe recession in Russia, an important trading partner, also had negative effects (OECD, 2018[2]). Despite the lingering effects of the Russian downturn and trade sanctions, Finland managed to return to positive economic growth in 2016 and 2017, when GDP rose by 2.4% and 2.8% respectively. In 2018, seasonally adjusted quarter-to-quarter growth rates remained at similar levels.

Multiple factors contribute to a lower per-capita income in Finland compared to leading OECD countries. At around USD 46 000, Finnish GDP per capita is around USD 2 000 higher than the OECD average. Nevertheless, Sweden and oil-rich Norway benefitted from per-capita incomes that are USD 5 000 and 16 000 higher in purchasing power adjusted terms, respectively. Lower labour productivity is one reason that GDP per capita is lower than elsewhere, and low labour utilisation another. In fact, as will be seen in the next section, the Finnish employment rate is comparatively low.

Figure 1.1. Finland experienced two recessions during the past decade

Annual real GDP growth rate, in percentage



Source: OECD (2018), "Country Statistical Profiles", OECD.Stat, http://dotstat.oecd.org/index.aspx.

1.2.2. Labour market outcomes of young Finns

The global economic downturn of 2008-09 disproportionally affected youth across advanced industrialised democracies. Given that relative to older workers, younger individuals have less work experience and more frequently have short-term work contracts, many are in a more precarious situation in the labour market and more vulnerable to economic downturns. Young people in Finland were no exception to the general trend in the OECD: youth employment rates fell and unemployment rates rose throughout the recession and have not fully recovered since.

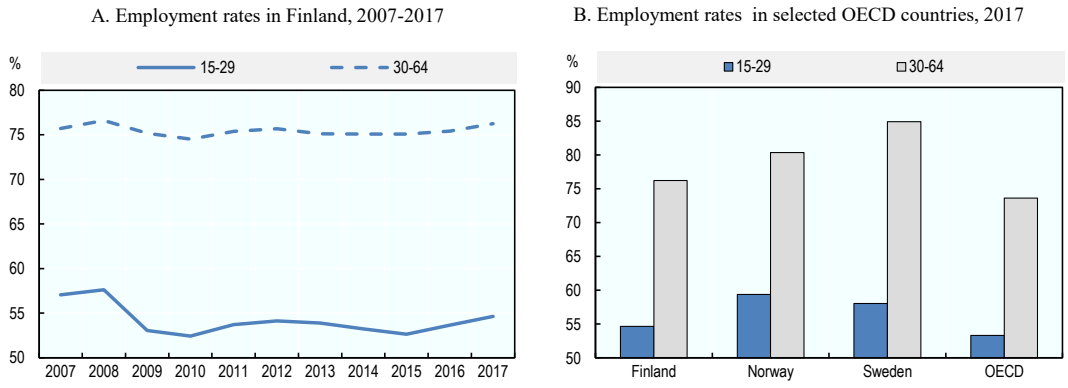
Employment in Finland dropped more for young people than for other working-age adults and continues to be lower compared to its Nordic neighbours for both age groups. The Finnish youth employment rate sharply declined in the years following the financial crisis, from 57.6% in 2008 to 53.0% in 2009. Since then, it has only marginally increased to 54.6% in 2017 (Figure 1.2, Panel A). In contrast, at 76.2%, the employment rate of older working-age adults (aged 30-64) is only slightly below the 2008 level of 76.6%. Employment rates in 2017 were slightly higher in Finland than OECD averages but markedly lower than in Norway and Sweden (Figure 1.2, Panel B).

Military service does not figure in these employment rates. The 1.5% of youth aged 15-29 who were completing their military service in 2017 are excluded from the employment rate calculation. In Finland, military service is mandatory for young men fit to serve and lasts from six to twelve months. Conscientious objectors can opt for non-military service lasting a year (Ministry of Economic Affairs and Employment of Finland, n.d.[3]). This share of conscripts among youth is the same as in Austria and higher than the 1.2% in Estonia and the 0.8% in Norway and Korea. In contrast, nearly two thirds of OECD countries have abolished or suspended conscription.

The employment participation of young men and women has opposing effects on Finland's performance relative to the OECD average. In 2017, 56.3% of Finnish male youth were employed, compared to an OECD average of 57.8%. In contrast, the Finnish youth employment rate among women (52.9%) compares favourably with the OECD average (48.7%). Nevertheless, to catch up with its Nordic peers, the gap that needs to be

closed is even larger for young Finnish women than for their male counterparts. For example, the employment rate of young Finnish women is more than five percentage lower than that of young Swedish women, while the difference among men is less than two percentage points.

Figure 1.2. Employment rates are lower in Finland than in other Nordic countries



Source: OECD (2018), *LFS by sex and age,* http://dotstat.oecd.org/Index.aspx?datasetcode=LFS_D.

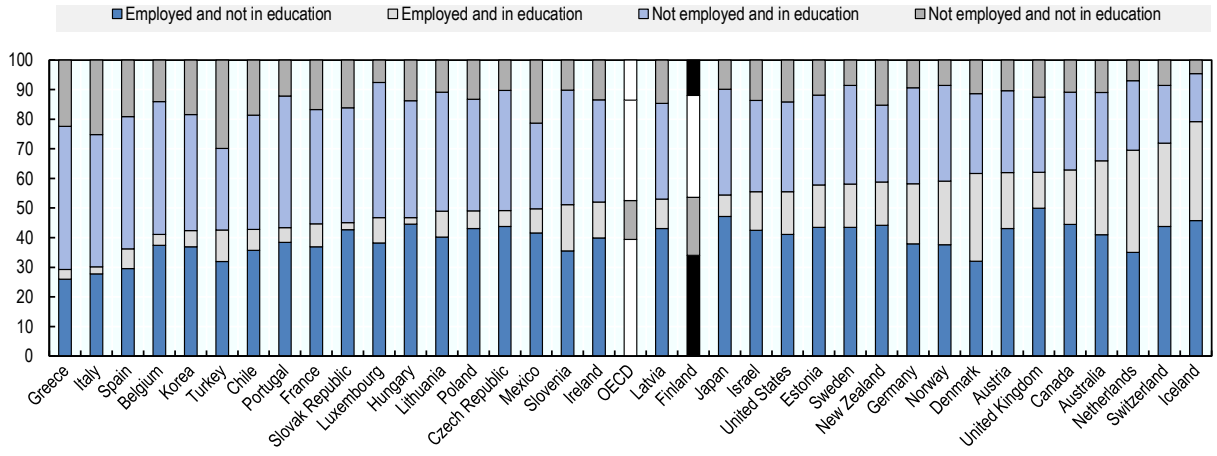
Only one in three young Finns works exclusively and an above-average share combine studying and working. Whereas an average of 13.1% of youth were both working and enrolled and education or training programmes across the OECD in 2017, in Finland, the share was 19.6% (Figure 1.3). Nevertheless, this share is once again lower than in most other Nordic countries with the exception of Sweden. About a third of employed young Finns are working part-time, a rate above the OECD average but below the Netherlands (64%) and Norway (44%). More than two thirds of these young part-time workers are currently in education.

The combination of work and education can partially explain why part-time employment is more common among young than middle-aged workers. However, in 2017, Finnish youth were also more than twice as likely to find themselves in involuntary part-time employment than employed individuals aged 30-64: 9.2% of young people were involuntary part-time workers, a rate well above the average of 5.9% among OECD countries for which the information was available and the 3.8% of middle-aged Finns. Moreover, compared to pre-crisis levels, the share of involuntary part-time employment remained relatively stable among the middle-aged employed but rose from 4.9% for young people.

A relatively high proportion of Finnish youth also hold temporary jobs. In 2017, 43.7% of 15-24 year old employees had temporary contracts. They are hence more than three times more likely to have temporary contracts than prime-aged employees are (13.3%). The Finnish youth temporary employment rate is lower than in neighbouring Sweden (53.8%) but higher than the OECD cross-country average (37.0%) and other Nordic countries including Iceland (25.3%) and Norway (26.4%).

Figure 1.3. One in five young Finns combine work and education

Distribution of youth by employment and education status, 2017



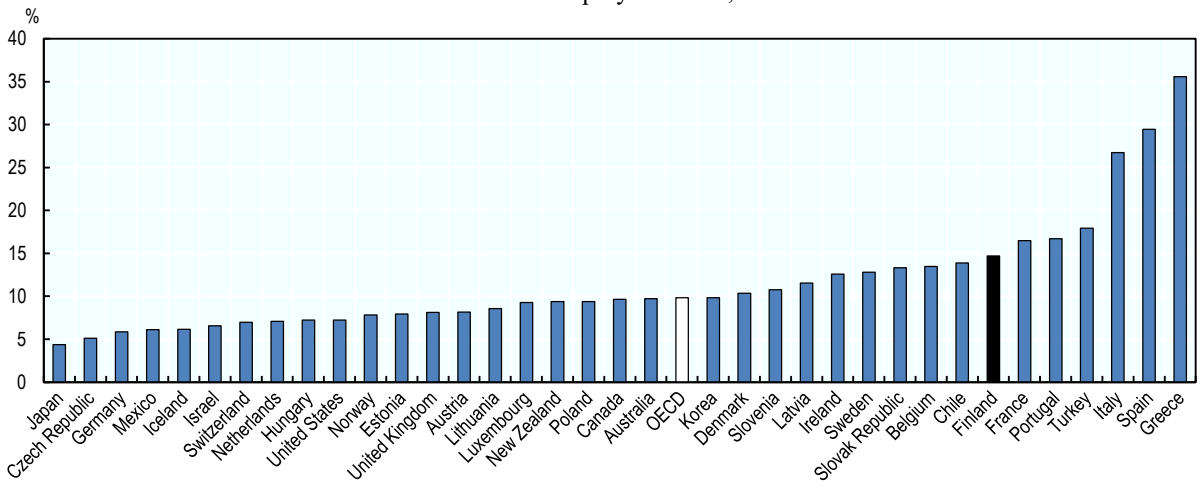
Note: The reference year is 2017 except 2013 for New Zealand, 2014 for Japan, 2015 for Chile and Turkey and 2016 for the United States. The calculations exclude individuals with missing educational information or who are in military service. Youth are defined as 15-29 year olds. Countries are ordered by the share of youth who are employed (including those in and not in education).
Source: Calculations based on labour force surveys including EU-LFS and OECD (2018[4]), *Education at a Glance*, https://stats.oecd.org/Index.aspx?datasetcode=EAG_TRANS.

Youth unemployment is much higher in Finland than in the OECD on average. In 2017, the unemployment rate among 15-29 year olds was 14.7% in Finland, compared with 9.8% across the OECD, 7.8% in Norway and 12.8% in Sweden (Figure 1.4, Panel A). The impact of the two recessions was particularly strong among young men (Figure 1.4, Panel B). Moreover, while the unemployment rate of 30-54 year olds is also higher than in peer countries or the OECD average, the changes throughout the last decade were much less pronounced.

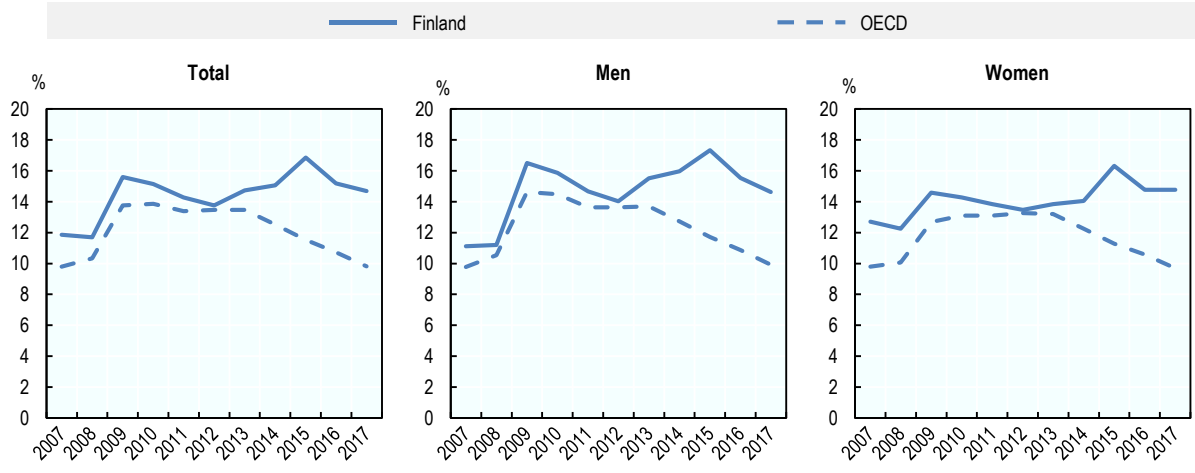
More positively, Finnish youth are usually unemployed for a short time. The average duration for 15-24 year olds was only 3.3 months, the second lowest duration after Canada (2.5 months) among the nine OECD countries for which the statistic is available. In Norway, the average length of an unemployment spell was 4.6 months. While the share of these unemployed youths in Finland who remain unemployed for half a year or longer has risen from 9.7% in 2008 to 14.3% in 2017, 2008 was an outlier with a particularly low duration. Finland remains among the countries were the fewest unemployed youth remain unemployed for a medium or longer term. Across the OECD, the share is twice as high (28.9%). In Norway and Sweden, 30.9% and 21.5% of unemployed youth, respectively, were in this category in 2017.

Figure 1.4. Youth unemployment is high in Finland

A. Youth unemployment rate, 2017



B. Youth unemployment rate, 2007 to 2017, by gender



Note: The unemployment rate is the share of unemployed among labour force participants. Youth are defined as 15-29 year olds.
Source: OECD (2018), *LFS by sex and age,* http://dotstat.oecd.org/Index.aspx?datasetcode=LFS_D.

1.2.3. Educational attainment of Finnish youth

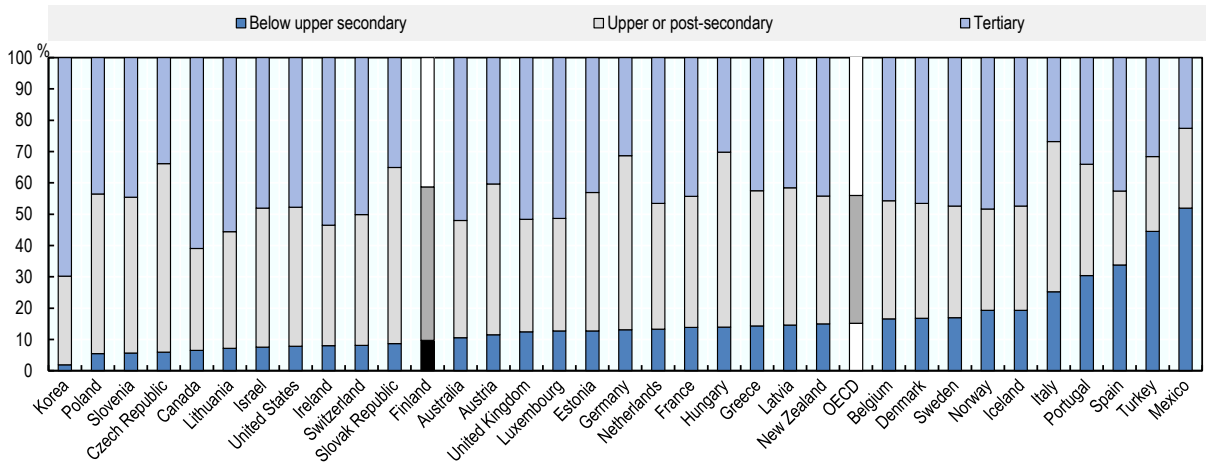
Finland's education system is often considered a leading example for other advanced democracies. The country has consistently scored high in international comparisons of student performance and offers primarily publicly-provided, tuition-free, high-quality education to its citizens (OECD, 2017[5]). Strengths of the system include that teaching is a high prestige occupation with relatively good salaries (OECD, 2014[6]); teachers stand in front of small class rooms for comparatively few hours per week; and teachers have the training to identify pupils with special needs and the resources to provide them with the needed support (OECD, 2013[7]).

An above-average share of young Finns attain upper or post-secondary degrees that often focus on vocational skills. In 2017, 90% of Finnish individuals aged 25-34 had completed at least an upper-secondary degree, compared to 85% across the OECD, 81% in Norway

and 87% in Sweden (Figure 1.5). Compared to the OECD average (44.5%), fewer young people (41.3%) have a college or university degree. In contrast, vocational education is common and well developed. In 2015, almost half of 15-19 year olds in upper secondary education were enrolled in a vocational programme, the highest share across OECD countries and three times higher than the average. Unfortunately, students in vocational education are much less likely to complete their studies than their peers in general programmes (see Chapter 2).

Figure 1.5. Young adults in Finland are highly educated

Highest educational attainment of 25-34 year olds, 2017



Source: OECD (2018[4]), *Education at a Glance 2018,* https://doi.org/10.1787/eag-2018-table15-en.

1.3. Finnish youth not in employment, education or training

The youth unemployment rate only provides a partial picture of the labour market situation of young people. First, it does not count youth who are inactive on the labour market and in education and who are not searching for a job. Second, it depends not only on the number of unemployed, but also on the number of participants in the labour market. When two countries have an equal share of the population that is not working, the unemployment rate is higher in the country with a higher labour force participation. The share of young people not in employment, education or training (NEETs), in contrast, is neither dependent on how many youths have become discouraged from seeking work nor on the labour force participation rate.

Some NEETs may have chosen their status voluntarily, but others have not and face disadvantages compared to their peers. The social inclusion and activation of these NEETs is therefore a priority for the Finnish government (Valtioneuvosto, 2017[8]). The following section describes the NEET population in Finland. After providing information on the evolution of NEET rates, it discusses NEET's characteristics and well-being as well as the duration of NEET spells.

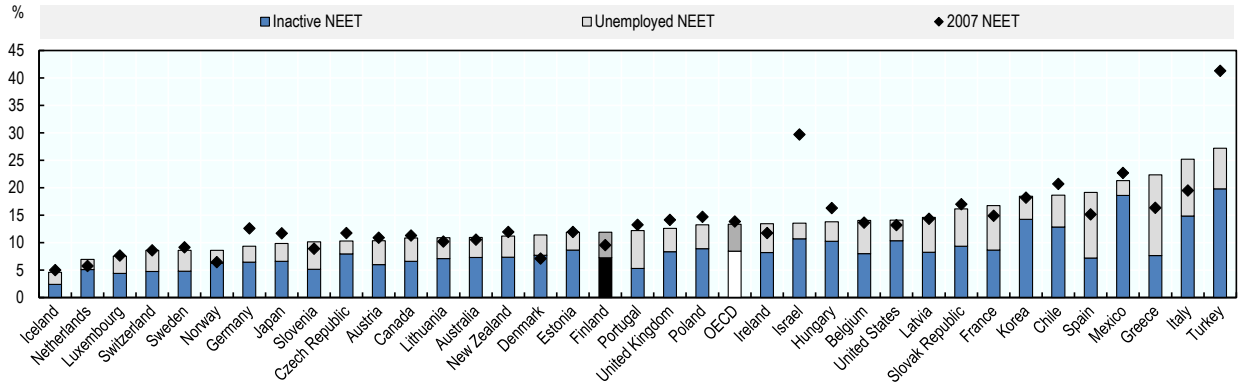
1.3.1. NEET rates

Finland does not have a massive NEET problem, but there is room for improvement. The share of young individuals in Finland who are NEETs (11.9% in 2017) may be somewhat lower than the OECD average (13.4%) and drastically lower than in a many countries in

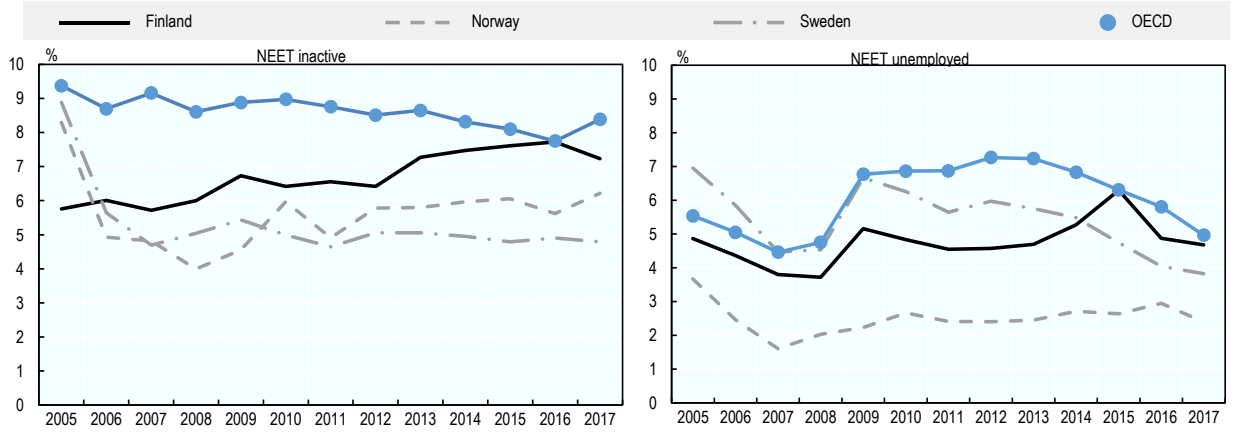
Latin America and Southern Europe (Figure 1.6, Panel A). However, it is much higher than in other Nordic countries, including in Norway and Sweden (both at 8.6%). 61% of NEETs in Finland were inactive, about equal to the OECD average of 63%.

Figure 1.6. The NEET rate in Finland is close to the OECD average

A. Share of inactive and unemployed NEETs among 15-29 year olds, 2007 and 2017 or latest available year



B. Share of inactive and unemployed NEETs among 15-29 year olds



Note: Unemployed NEETs are youth who are neither employed nor in education and training that are actively looking for work. Inactive NEETs, in contrast, are not searching for work. Japan (2014) and the United States (2016) have a different reference year than 2017. The values for Australia, Germany, Israel, New Zealand and Turkey are taken from *Education at a Glance*.
Source: Calculations based on labour force surveys and OECD (2018[4]), *Education at a Glance 2018,* https://doi.org/ 10.1787/72d1033a-en.

The economic crisis had a stronger impact on young Finns in their early twenties and on the share of unemployed rather than inactive youth. Compared to 2007, the NEET rate has increased by 2.4 percentage points in Finland, while across the OECD, the rate dropped slightly by 0.4 percentage points. The increase was strongest among 20-24 year olds (3.1 percentage points), followed by 25-29 year olds (2.5 percentage points). Among 15-19 year olds, the increase was 1.0 percentage points. Business cycles generally have a stronger impact on the number of unemployed rather than inactive NEETs. This is true across the OECD as well as in Finland (Figure 1.6, Panel B). However, while the share of inactive NEETs trended downwards from 2010-16 across the OECD, it increased in

Finland. Even though both of these trends reversed in 2017, it suggests that the Finnish NEET challenge has become more entrenched.

NEET populations are proportionally more important outside the most densely populated region of Helsinki-Uusimaa. While their share in the capital region was 9.7% in 2017, in other regions the corresponding figure was above 12%. In the most sparsely populated areas of Northern and Eastern Finland, 14.0% of youth were NEETs. NEET populations in rural areas can be harder to reach and may receive fewer services, suggesting a need for targeted interventions.

1.3.2. Characteristics of NEETs

Finnish NEETs are more likely to be female, less educated and foreign-born than the general Finnish youth population.

Across the OECD, young women are more frequently NEETs than young men. In Finland, the difference of 1.7 percentage points (12.8% compared to 11.1) amounts to only one third of the average OECD difference of 5.1 percentage points (16.3% compared to 11.2%). The difference is nonetheless larger in Finland than in other Nordic countries such as Norway (0.3 percentage points) or Sweden (0.6 percentage points). In Finland, the difference is entirely due to young adults in their late twenties. In this age group, 19.3% of women and 12.0% of men are NEET. At the younger ages of 15-24 years, women are less likely to be NEET than men are.

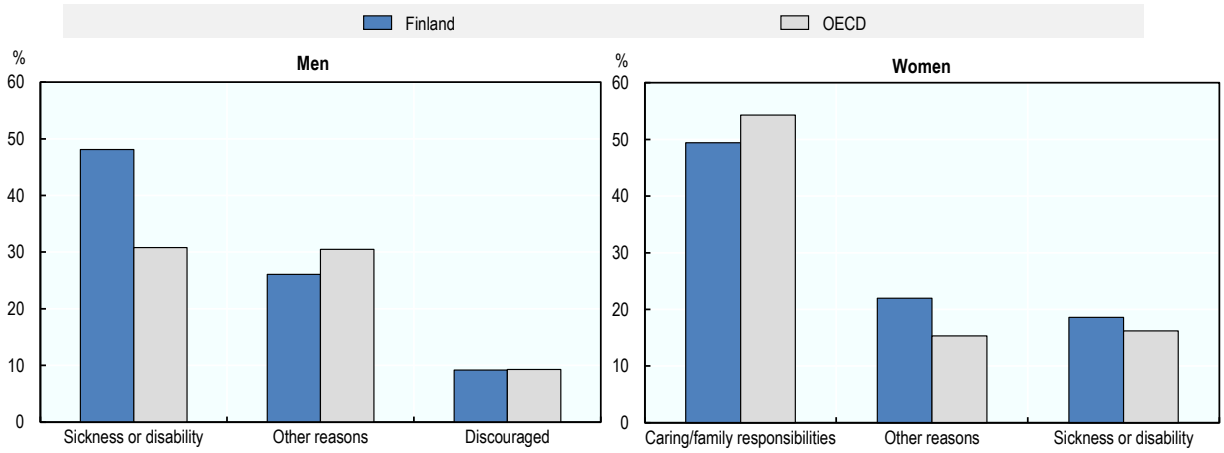
Differences in how men and women adjust their labour force participation to parenthood contribute to these patterns. Declared reasons for inactivity back up the hypothesis: Half of inactive male NEETs stated that their main reason for being inactive was that they were sick or disabled (compared to 31% across the OECD), while half of female NEETs cited family responsibilities (compared to 54% across the OECD) (Figure 1.7). In fact, according to the EU Statistics on Income and Living Conditions Survey data, in 2017, 46% of young Finnish women with children under the age of five were NEETs, more than five times the rate among young Finnish fathers with children in the same age group. The rate is comparable to the OECD average (48%), but much higher than in Norway (19%) or Sweden (15%). Overall, slightly more than one quarter of NEETs in Finland are mothers with young children, a share comparable to the OECD average. The generous parental leave policy in Finland (Adema, Clarke and Frey, 2015[9]) apparently encourages many young mothers stay at home during the first years of their child's life. Other Nordic countries instead opt for shorter though still very generous maximum lengths of parental leave in combination with higher average payment rates

Young Finnish NEETs are more likely to have low levels of educational attainment. In all OECD countries, individuals in their late twenties who did not complete upper secondary education have a higher likelihood of being NEETs than those with higher levels of educational attainment (Figure 1.8). The difference is even larger in Finland: In Finland, the NEET rate among those with low levels of education (44.1%) is 3.1 times higher than among those with upper or post-secondary education (14.2%). Across the OECD, it is only 2.2 times as large. The difference between the NEET rates for medium (14.2%) and high educational attainments (10.5%) is less pronounced than in some, but by no means all, OECD countries. The NEET rates of Finnish women with medium and high levels of education are about ten percentage points higher than for their male peers, while the rates for men and women with low levels of education are practically equal.

Higher NEET rates among the less *educated* are mirrored in higher NEET rates among the less *skilled*. In 2012, people aged 25-64 living in Finland with low literacy (level 1 or below in the Survey of Adult Skills) were more than twice as likely to be NEETs as people with literacy level 2 (34% compared to 16%). Across the participating OECD countries, the difference was less drastic (29% compared to 18%). The difference in mean literacy scores between NEETs and employed individuals was 24 in Finland and 20 across the OECD (out of a scale of 600). However, it also needs to be noted that the mean literacy scores of NEETs in Finland (280) was higher than the average of mean literacy score across the OECD (278), reflecting the quality of the Finnish education system (OECD, n.d.[10]). In fact, since those with very low levels of literacy or numeracy only represented 15% of the Finnish population in 2012, the second lowest share in the OECD (OECD, 2016[11]), NEETs who are low performers only represent a small share of all NEETs despite the fact that they are over-represented among NEETs.

Figure 1.7. Male and female NEETs have different motives for being inactive

Self-reported main reason for being inactive (2017 or latest available) (% of inactive NEETs aged 15-29)

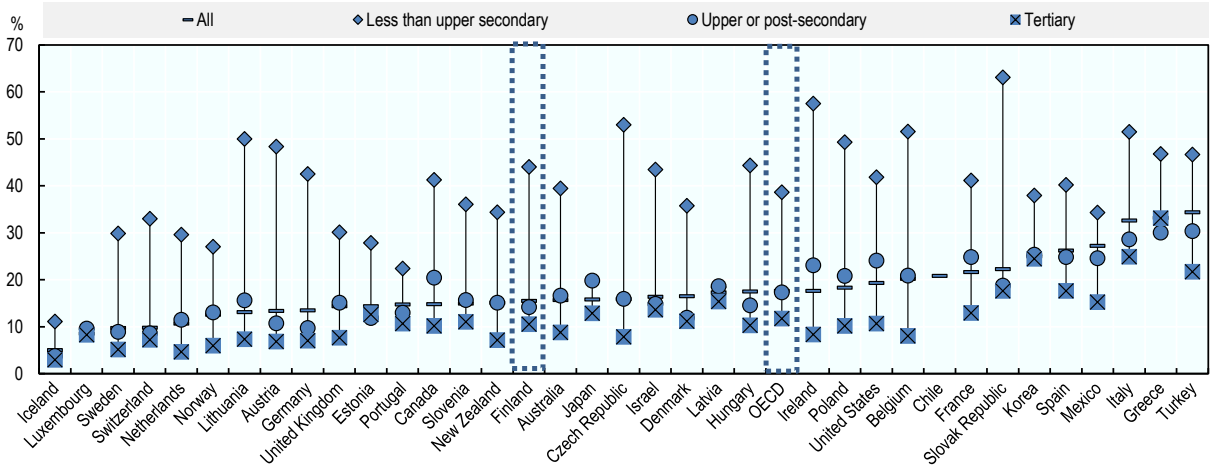


Note: The OECD average does not include Australia, Germany or Israel.
Source: OECD calculations based on Labour Force Surveys including the EU-LFS.

In addition to basic foundation skills, non-cognitive abilities, such as self-confidence, communication skills or sociability, are also important determinants of educational and labour market outcomes. While a study of a half a million Finnish men found that non-cognitive skills have improved over time (Jokela et al., 2017[12]), research in the Swedish context suggested that some men's poor labour market outcomes were attributable to the lack of non-cognitive, rather than basic foundation skills (OECD, 2016[13]). Mourshed, Patel and Suder (2014[14]) also found that employers in Sweden raised concerns about youth's "soft skills" rather than their linguistic, numeracy or general competency. Deficiencies in such abilities likely explain part of NEET youth's challenges finding employment or poorer educational outcomes, at least in the Nordic context where cognitive skills proficiency is high.

Figure 1.8. Low educated Finns have a high risk of becoming NEETs

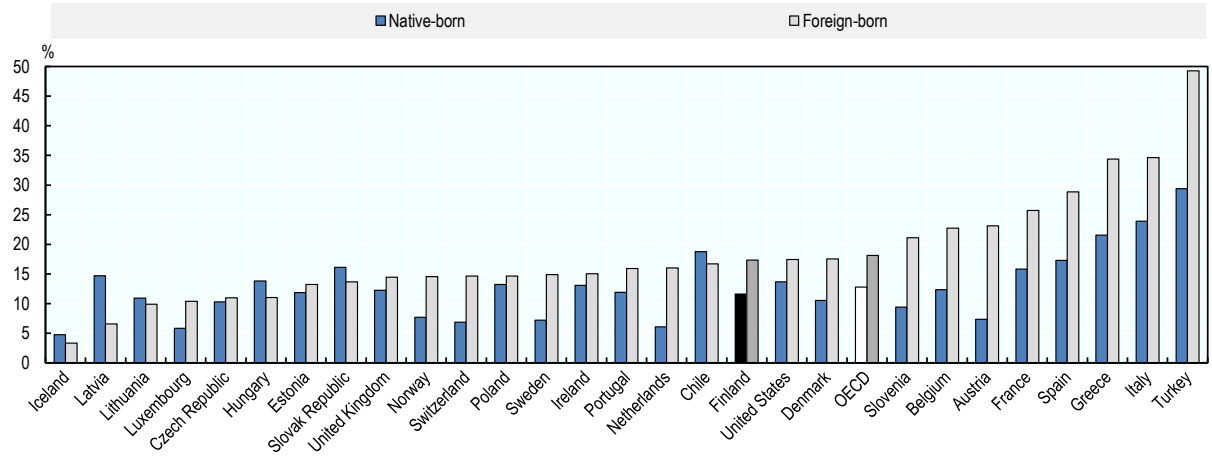
NEETs as a share of 25-29 year olds in 2017, by highest level of educational attainment



Note: Countries are sorted by the overall NEET rate for 25-29 year olds. Japan (2014) and the United States (2016) have a different reference year than 2017. The values for Australia, Germany, Israel, New Zealand and Turkey were compiled by the OECD LSO network and refer to the first quarter.
Source: Calculations based on labour force surveys.

Figure 1.9. NEET rates tend to be higher among foreign- than native-born youth

Share of NEETs among foreign- and native-born youth populations



Note: Countries are sorted by the difference in NEET rates between foreign- and native-born youth.
Source: Calculations based on EU-LFS and other labour force surveys.

A higher proportion of foreign- than native-born youth are NEETs in Finland, but their overall share among NEETs is limited. The difference between the two NEET rates in Finland (17.3% among foreign-born compared to 11.6% among native-born youth) is similar to the OECD average, but above that observed in a few countries such as Hungary, Iceland and Ireland. However, in Finland as well as in a few other OECD countries such as Germany and Sweden, the NEET rate of the foreign-born may have been significantly affected by recent inflows of asylum seekers (Box 1.1). The impact of these inflows however already appears to have declined significantly: while in 2015,

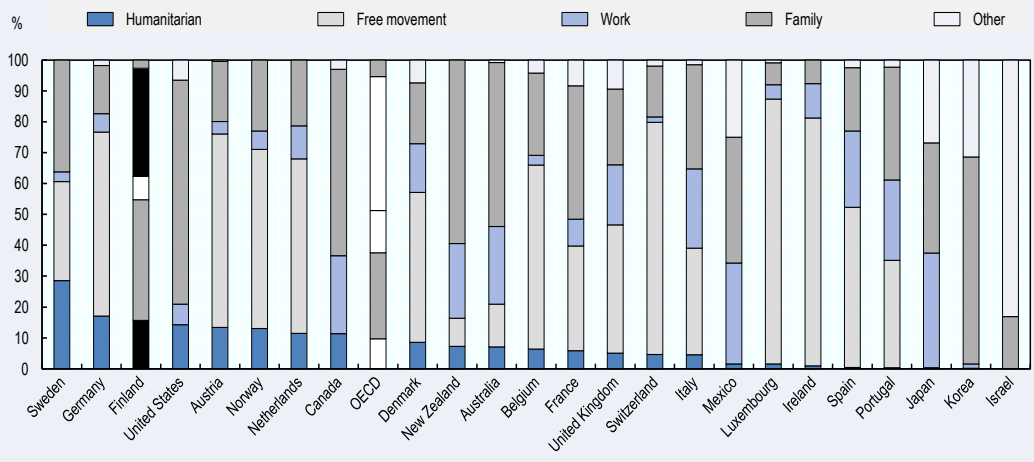
11.2% of NEETs were born abroad, this share had dropped to 7.8% by 2017. In contrast, the share of foreign-born among all youth in Finland dropped only be 0.1 percentage points over the same period.

Box 1.1. Humanitarian migrants in Finland

Finland's immigrant population is relatively small, but humanitarian migrants represent a comparatively important share. In 2016, 6.5% of the population living in Finland were born abroad, compared to 9.8% across the OECD, 15.2% in Norway and 20.5% in Sweden (OECD/EU, 2018[15]). Among permanent immigrant arrivals from 2005-16, 15.7% were humanitarian migrants (Figure 1.10). This share was only higher in Sweden (28.6%) and Germany (17.0%), and well above the OECD average of 9.7%. Family migrants are also common and among them, humanitarian family migrants accounted for approximately 10% (Statistics Finland, 2014[16]).

Figure 1.10. Humanitarian immigrants in Finland make up a larger share of immigrants than in most other OECD countries

Distribution of permanent immigrants across categories of entry



Note: 'Family' combines family reunification and accompanying family members of labour migrants. Countries are sorted by the share of humanitarian immigrants.
Source: OECD/EU (2018[15]) "Figure 2.12. Categories of entry", *Settling in 2018 – Indicators of Immigrant Integration*, OECD Publishing, Paris/EU, Brussels, https://doi.org/10.1787/9789264307216-en.

The brief peak in humanitarian immigration in 2015 may have increased the NEET and youth unemployment rates. Monthly asylum applications, which were in the 300-500 range during most of the early months of 2015 and returned to these levels as of spring 2016, were in the thousands from July 2017 and peaked at 10 837 in September 2017 (Finnish Immigration Service, 2019[17]). Since two thirds of asylum applicants during the 2015-18 period were aged 14-34, and since many likely initially faced difficulties in integrating into the labour market or education system, it is plausible that their presence led to higher unemployment and NEET rates.

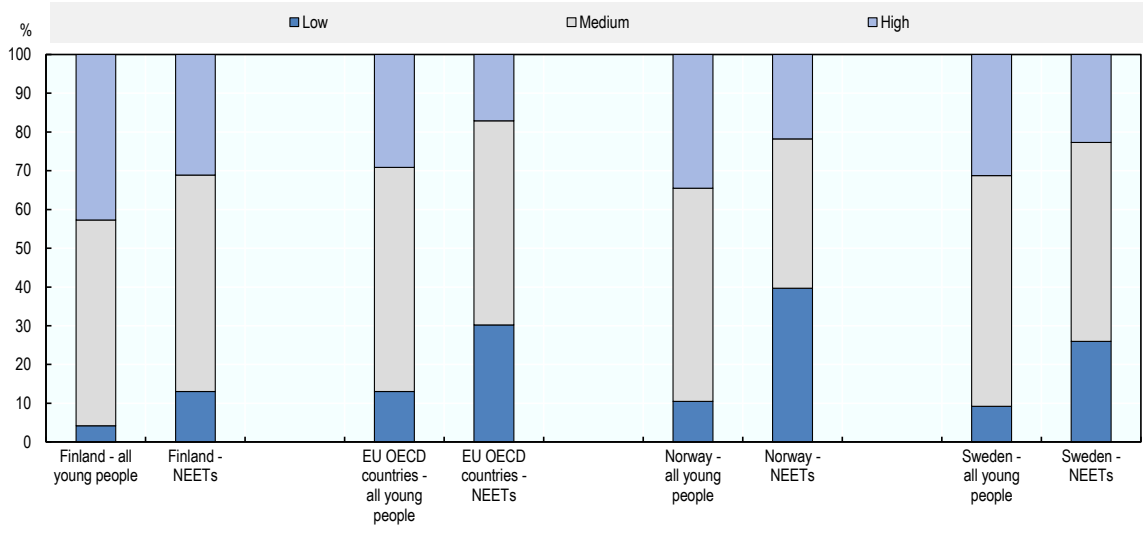
1.3.3. Well-being of NEETs

The difficulties some NEETs face can have major and lasting consequences for their health, subjective well-being and outlook on their lives and society. NEETs report lower well-being and health and more pessimistic opinions than youth overall, but the gap is lower in Finland than elsewhere.

The gap in life satisfaction between Finnish NEETs and Finnish youth overall is not as wide as the average across OECD countries that are also member states of the EU. In 2013, 13% of Finnish NEETs reported low life satisfaction, compared to 4% among youth overall (Figure 1.11). This well-being gap of nine percentage points was below the average of 17 percentage points across EU-OECD countries, as well as below the 16 percentage points in Sweden and the 29 percentage points in Norway. In fact, the share of Finnish NEETs reporting high life satisfaction was larger than the cross-country average for all young people. At the same time, the gap in well-being between NEETs and non-NEETs in Finland should also not be minimised: For example, according to a Finnish survey, the rate of youth reporting being lonely was twice as high (69% compared to 35%) among NEETs than among all youth. Even more drastically, one in five NEETs compared to one in fifty among all youth reported being pessimistic about their future (Gretschel and Myllyniemi, 2017[18]).

Figure 1.11. Life satisfaction is comparatively high among Finnish NEETs

Distribution of youth aged 15-29 across categories of self-reported life satisfaction, by NEET status



Note: The question about life satisfaction elicits a response from 0 (not at all satisfied) to 10 (completely satisfied). "Low satisfaction" combines answers from 0-5, medium from 6-8 and high from 9-10. Germany is not included in the average.
Source: Calculations based on the 2013 ad-hoc module on well-being of the EU Statistics on Income and Living Conditions.

Nevertheless, the high life satisfaction of Finnish youth appears to affect their trust in politics and other people. The shares of all youth (28%) and of NEETs only (42%) who report no or low trust in the political system are lower than in any of the other European OECD country for which data are available, and well below the average across these countries (67% among all youth and 77% among NEETs, respectively). The pattern is the

same for trust in people. However, only 42% of Finnish NEETs had a strong attachment to Finnish society, compared to three quarters of all youth (Gretschel and Myllyniemi, 2017[18]).

NEET status is associated with poorer physical and mental health. According to a recent study, one in five Finnish NEETs has a disability or long-term illness, compared to only one in ten among youth in general (Gretschel and Myllyniemi, 2017[18]). The share of Finnish youth who report being limited in their activities over the last six months due to health problems is overall larger than across the OECD, but the relative – though not absolute - difference between NEETs and non-NEETs is smaller. In Finland, 32.5% of NEETs and 18.4% of non-NEET youth reported such a limitation, while the OECD cross-country averages are 13.1% and 5.7%, respectively.

Poor health can significantly reduce individuals' work capacity and hence lead to a higher NEET rate, but being inactive can likewise negatively affect physical and in particular mental health. A longitudinal study of the Finnish 1987 age cohort shows that over the 2003-12 period, almost one fifth of Finnish NEETs (19.4%) had utilised secondary in- or out-patient mental health services, compared to only 7.6% of non-NEETs (Larja et al., 2016[19]).

1.3.4. Duration of NEET status

Longer NEET spells are comparatively rare in Finland. From 2012-15, about one in three Finnish NEETs spend more than twelve months as NEETs (Figure 1.12). This is well below the one in two NEETs across European OECD countries for which the information is available, though above the one in four youth in Iceland. Longer NEET spells can have lasting and profound negative effects on young individuals' educational and employment outcomes and well-being.

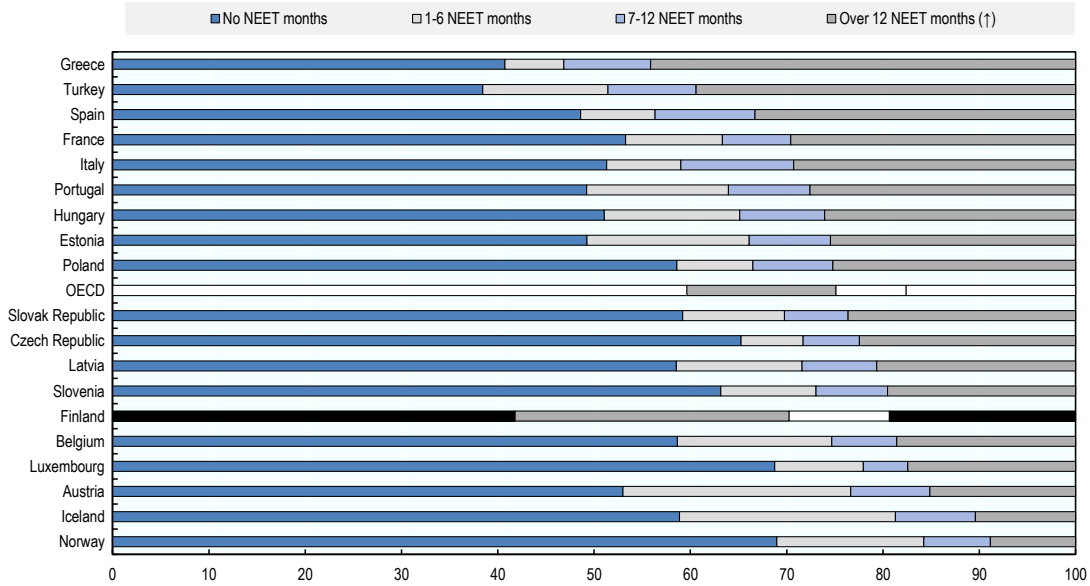
Low education and low parental education are risk factors for remaining inactive for prolonged periods. Data from a study of the 1987 cohort shows that youth that did not experience any NEET episode over the 2003-12 period rarely had parents that only completed basic education and themselves mostly progressed past secondary education (Figure 1.13, Panel A). In comparisons, among young people that were NEET for one year over the same period, the share with low educational attainment already doubled to 15%. Among individuals with two to ten years of NEET status over the period, the same share reached 41%. Differences in the share with parents with basic education, in contrast, exist but are less pronounced. Other measures indicative of a more disadvantaged socio-economic background rise more strongly with the length of the NEET status. For example, the share of youth whose families had received social assistance more than doubles from 28% among those without any NEET spells to 57% among those that were NEETs for two or more years (Larja et al., 2016[19]).

The correlation between poorer health and NEET status is particularly strong for young Finns that remained NEETs for longer periods. Youth that are in poor health are around 3.5 as likely to be NEETs for more than twelve months over a four-year period compared to healthy youth. Regarding mental health, the share who have benefitted from outpatient mental health services increases by 50% for those that were NEETs during one year compared to those that were not (from 8% to 12%), and then almost doubles (to 23%) among those that remained NEET for two or more years (Figure 1.13, Panel B). Unless non-NEET youth are drastically less likely to use mental health services than NEET youth with similar mental health issues, this suggests that the likelihood of having mental health problems rises with the length of the NEET spell. Two different mechanisms likely

contribute to this outcome: First, young people with mental health problems likely have more difficulties finding or holding down a job or pursuing a degree, making it more likely that they become (long-term) NEETs. Second, the social isolation and lack of perspective that NEETs may experience can in themselves, contribute to the onset of and exacerbate existing mental health problems.

Figure 1.12. The share of young Finns with long NEET shares is comparatively small

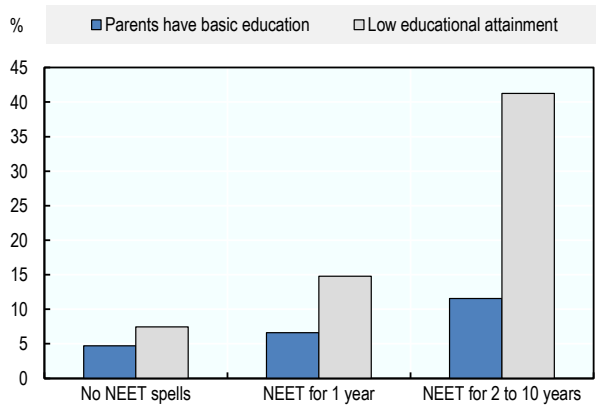
Distribution of youth across NEET durations, 2012-15



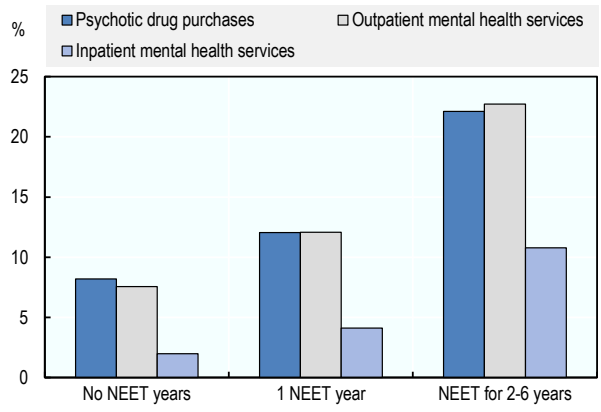
Note: Countries are arranged by the share of youth that were NEET for more than 12 months during the 48 observed months. Censored NEET periods are included in the calculations as the observed lengths. The sample consists of youth aged 15-29 in 2015. The OECD average refers to the average for the listed European countries only.
Source: Calculations based on the longitudinal 2015 European Union Statistics on Income and Living Conditions (EU-SILC).

Figure 1.13. Youth with longer NEET spells tend to have lower education levels and receive more mental health treatment

A. Share of youth with low parental or own education



B. Share of youth having received mental health support



Source: Larja et al. (2016[19]).

1.4. Wrap-up

Despite the Finnish economy recovering from a near-decade of economic shocks, employment remains low compared to other Nordic countries. For example, the employment rate of young Finns aged 15 to 29 stood at 54.6% in 2017, slightly above the OECD average of 53.3%, but well below the rates observed in Norway and Sweden. The pattern is similar among other working-age adults. While persistently weak labour market performance partly reflects a lagged response to recent economic recovery, policy settings play an equally important role in holding back labour supply. The combination of quite generous working-age benefits and high income taxes reduces work incentives and, consequently, employment. The compressed wage distribution further reduces incentives to hire low-productivity workers, affecting people with low education or low skills in particular. As a result, Finland's labour market performance has always been markedly weak compared with other Nordic countries, with employment and unemployment rates performing barely above OECD averages.

Youth unemployment rates for the age group 15 to 29 reached 14.7% in 2017, placing Finland seventh highest in the OECD ranking, just behind France and Portugal. The high unemployment rate is not only the result of the economic recession; the large number of students searching for part-time employment in Finland contributes to this relatively high youth unemployment rate, as in other Nordic countries. An alternative indicator for youth labour market performance is the share of young people who are not in employment, education or training (NEETs). While unemployed students are not included in this rate since they are in education, the NEET rate does cover young people who are inactive, a group the unemployment rate does not capture.

In 2017, 11.9% of the Finnish youth population aged 15-29 were NEET, a rate below the OECD average of 13.4%. The majority of NEETs (60%) are currently not looking for work (they are considered inactive NEETs) – a share close to the OECD average– but only one third will remain NEET for more than one year – well below the one in two on average across European OECD countries. The difficult economic conditions of the past decade had only a limited impact on the risk to become NEET: between 2007-17, the

NEET rate rose by 2.4 percentage points. This is equal to the increase between 2007-09, but in 2015, the rate was another two percentage points higher.

Youth who have low educational attainment or who have health concerns are at a higher risk of becoming NEETs. For example, young people who failed to complete upper secondary education account for nearly half of all NEETs, and they are three times more likely to be NEET than those with tertiary education are. (Mental) health concerns and substance abuse are widespread among NEETs, and the situation is worse in Finland than in many other OECD countries. NEETs are much more likely to feel depressed than their peers, and secondary in- and out-patient mental health service and psychiatric drug use is common. The use of such services also increases significantly with the length of NEET spells.

Improving the labour market outcomes for young people and making better use of their economic potential as workers requires reforms in a range of policy areas. The remainder of the report first explores how the transition from school to work can be improved, including through preventing school dropout, ensuring good foundation skills and easing the transition from secondary to tertiary education and to the labour market. Then, the report will discuss how government support for young people can be strengthened, including through offering more integrated services.

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Chapter 2. Improving the transition from school to work in Finland

This chapter takes an in-depth look at the transition from school to work in Finland. It first examines early school leaving and identifies ways to raise completion rates in (vocational) upper secondary education and improve outreach to early school leavers. The chapter then discusses how to ease the transition from upper secondary to tertiary education, by reforming the highly selective tertiary education admission system, improving the student financial aid system and widening the options for vocational students in postsecondary education. Finally, the chapter investigates ways to speed up labour market entry, through tighter collaboration between education providers and the labour market and more attention to mental health in tertiary education.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Introduction

In a labour market that demands ever higher levels of qualifications and skills, low education levels are decisive factors in becoming unemployed or inactive. On average, Finnish NEET rates are three times higher among young people educated to lower-secondary level than among their highly educated peers with tertiary degrees (see Chapter 1). Ensuring that all young Finns obtain at least an upper secondary degree that entitles them to pursue their studies or gives them the vocational skills to succeed in the labour market is essential (see Box 2.1 for an overview of the Finnish education system).

Box 2.1. The education system in Finland

The Finnish education system starts with early childhood education and care, provided for children under six, and is followed by one year of compulsory pre-primary education for all 6-year-olds. Basic education consists of nine years of comprehensive schooling and is compulsory for all children aged between seven and 16. Basic education is free of charge and free school meals are provided to all children.

After completing the compulsory nine-year basic education, young people can choose to continue their educational track either in general upper secondary education or vocational education and training. Upper secondary education has general tracks (academic study programmes) and tracks that have specific orientation to subjects such as music or sports (specialized study programs). At the end of the general upper secondary education, the students take a national matriculation examination. Vocational education and training include seven fields: natural resources, technology and transport, administration and commerce, hotel, catering, and home economics, social and health care services, culture, and humanities and teaching. These fields contain sub-fields that have different study programs leading to vocational qualifications.

The scope of the syllabus in upper secondary education is designed so that it usually takes three years for students to complete them and all tracks give eligibility to higher education. General and vocational upper secondary education is publicly funded and mainly free of charge for the students (students only pay for the textbooks and personal study equipment and materials).

Higher education in Finland comprises universities and universities of applied sciences (UAS). The mission of universities is to conduct scientific research and provide education based on it, while universities of applied sciences provide more practical education that aims to respond to the needs of the labour market. Universities, offering higher scientific and artistic education, award Bachelor's and Master's degrees as well as postgraduate degrees, i.e. licentiate and doctoral degrees. Universities of applied sciences award UAS Bachelor's degrees and UAS Master's degrees.

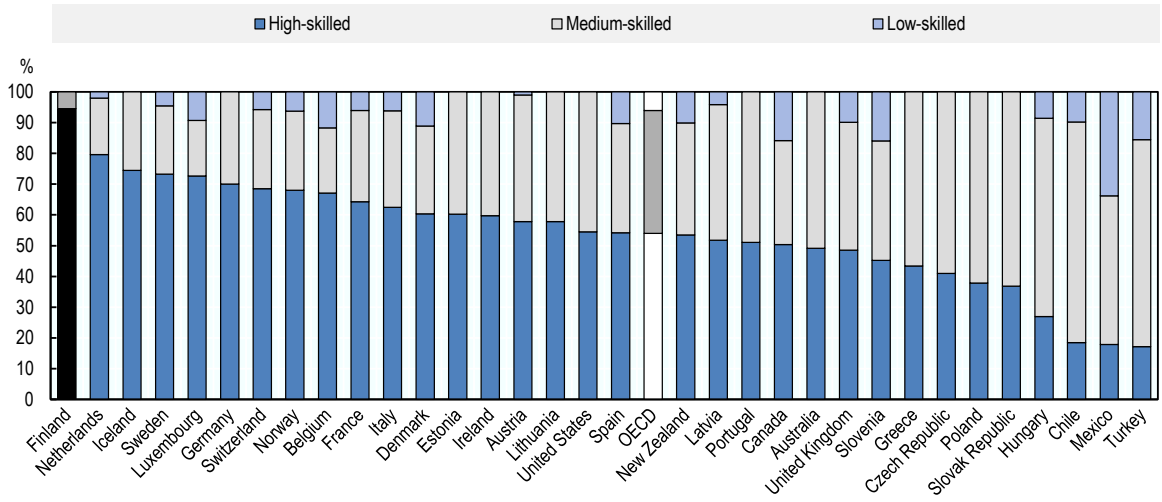
Source: Ministry of Education and Culture: https://minedu.fi/en/education-system#ecec; and Virtanen (2016[1]), Essays on post-compulsory education attainment in Finland. Aalto University publication series Doctoral Dissertations 87, Elinkeinoelämän tutkimuslaitos, Sarja A, Nro 49.

Finland is the OECD country where high-skilled workers are most needed: nine out of ten jobs in shortage are of the high-skilled type (Figure 2.1). The introduction of new technologies and a significant restructuring in the way jobs and tasks are carried out in the workplace contributed to strong shortages in high-skilled jobs, such as those that

necessitate administration and management knowledge, leadership or other soft skills, such as "co-ordination with others" (OECD, 2018[2]).

Figure 2.1. Finland faces the strongest shortage of high-skilled workers in the OECD

Share of employment in high demand by skill level, 2015 or latest available year



Note: High, medium and low skilled occupations are ISCO occupational groups 1 to 3, 4 to 8 and 9 respectively. Shares of employment in each skill tier are computed as the corresponding employment in each group over the total number of workers in shortage in each country.
Source: Figure 2.1 in OECD (2018[2]), *Skills for Jobs,* OECD Publishing, Paris. https://www.oecdskillsforjobsdatabase.org/

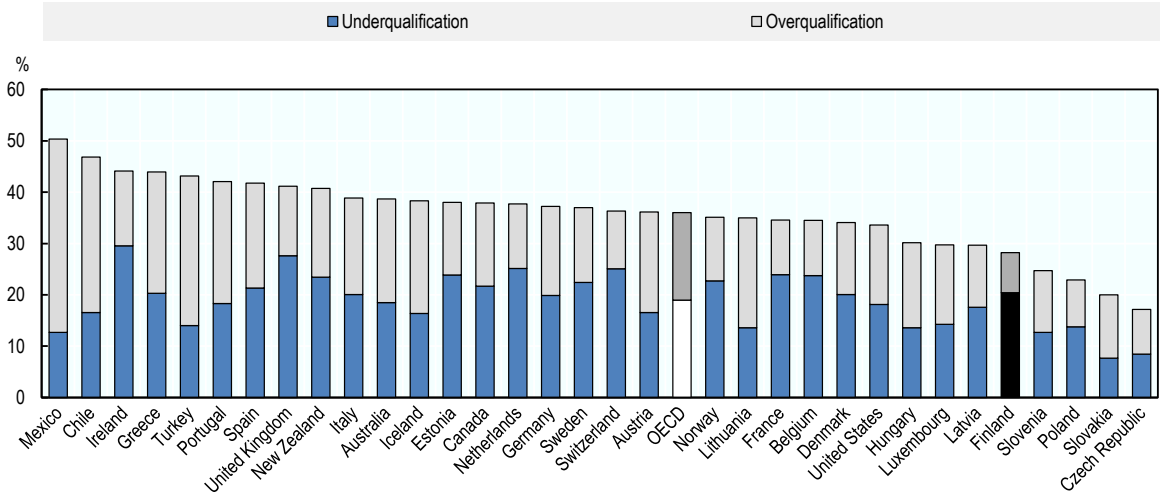
Overall, the qualification mismatch in Finland is substantial. Although the total share of workers whose qualification level is not aligned to that required in their job is lower than in the average OECD country, the share of under-qualified workers is higher: more than one out of five Finnish workers show qualifications that are lower than those usually held by workers in their jobs (Figure 2.2).

Remedying this skill imbalance entails addressing two challenges. First, there is room for raising completion rates in upper secondary education, especially in vocational education and training. Although the completion rate in vocational education is higher than the OECD average, it remains fairly low in absolute terms: one third of vocational students do not finish their programme on time, i.e. within three years, and one fourth have still not graduated five years after having entered the programme (OECD, 2017[3]).

Second, it is critical to ease the transition from upper secondary to tertiary education and speed up labour market entry. Finland has one of the most selective higher education systems in the OECD, delaying the start of studies and forcing applicants to take unwanted gap years. As a result, the share of Finnish adults under 25 who enter tertiary education is below the OECD average, and even declining (OECD, 2018[4]). Delayed entry in turn contributes to a first-time tertiary graduation rate among Finnish adults under 30 that is only average. Despite the fact that Finland shows one of the highest proportion of adults with a tertiary degree OECD-wide, the proportion of Finnish people under 30 who enter the labour force for the first time with a tertiary qualification is close to the OECD mean (OECD, 2018[4]).

Figure 2.2. Finland has a high share of under-qualified workers

Share of workers who are either over- or under-qualified in their national labour market



Source: 8.1 (Panel A) in OECD (2018[2]), *Skills for Jobs,* OECD Publishing, Paris. https://www.oecdskillsforjobsdatabase.org/

This chapter takes an in-depth look at the transition from school to work in Finland. It is structured as follows: Section 2.1 examines early school leaving in Finland and identifies ways to raise completion rates in (vocational) upper secondary education. Section 2.2 discusses how to ease the transition from upper secondary to tertiary education, by reforming the highly selective tertiary education admission system, improving the student financial aid system and widening the options for vocational students in postsecondary education. Section 2.3 investigates options to speed up labour market entry, through tighter collaboration between education providers and the labour market and more attention to mental health in tertiary education.

2.1. Raising school completion rates in upper secondary education

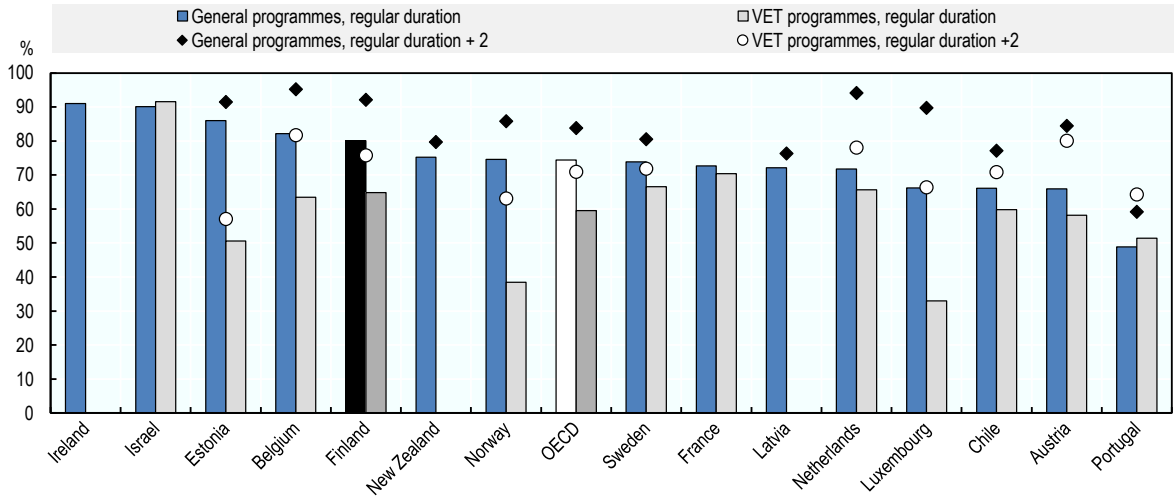
Nearly all Finnish children (99.7%) graduate from compulsory education (Virtanen, 2016[1]) and more than 95% of these graduates make the transition from compulsory to upper secondary school (Pekkarinen and Myllyniemi, 2018[5]). Approximately 55% of the students who start upper secondary education chose the general curriculum, while the remaining 45% enrol in vocational education and training.

The completion rate for students who enter upper secondary education is quite high in Finland compared with many other OECD countries: 71% of students graduate within the regular programme duration and an additional 11% within the next two years. The completion rates in the 15 OECD countries for which data are available average 69% and 8% respectively. As in most OECD countries, students in general programmes in Finland have a higher likelihood of finishing their studies (92% within two years after expected graduation) than students in vocational programmes (76%) (Figure 2.3). While the completion rate for vocational programmes in Finland grew a little more than for general programmes over the period 2007-2014, nearly equal completion rates in countries such as France and Israel show that it is possible to further close the gap between general and vocational education (OECD, 2017[3]). Indeed, despite Finland's comparatively good

performance, still one in four Finnish vocational students do not obtain their upper secondary degree within two years after expected graduation.

Figure 2.3. One fourth of vocational students in Finland have not finished their programme two years after expected graduation

Graduation rates in upper secondary programmes within the regular programme duration and two years later, by programme orientation, in percentages, 2015



Note: Data refers to full-time students who entered upper secondary education for the first time. Completion rates are measured at the end of the standard programme duration and two years later. These are "true cohort data", meaning that the same students are tracked and completion rates are measured at the expected graduation date and two years on. Data refer to 2014 for Finland and to 2013 for France. Data for Belgium refer to the Flemish Community only.
Source: Figure A9.3 in: OECD (2017[3]), *Education at a Glance 2017: OECD Indicators*, OECD Publishing, Paris. http://dx.doi.org/10.1787/eag-2017-en

The Youth Barometer, which is conducted on a yearly basis to study the values and attitudes of young Finns aged 15-29, investigated the perception of learning and education in 2017 and provides some insights on the reasons for dropping out (Pekkarinen and Myllyniemi, 2018[5]). The most frequent answers to the question "How much did the following factors affect your decision to withdraw from studies?" fall into three categories:

- Gap between students' expectations and curriculum, e.g. "I chose a wrong field of study" (56%) and "I did not like the school" (33%).
- Personal and health issues as well as learning difficulties, e.g. "excessive strain caused by matters outside school" (30%), "health-related reasons" (20%), "I had fallen behind in my studies" (18%), and "I did not receive any support for my studies" (14%).
- Myopic behaviour, where adolescents ignore or heavily discount future consequences when deciding to drop out of school, e.g. "I wanted to start working immediately" (20%).

Raising completion rates in upper secondary education would therefore require action along all three dimensions.

2.1.1. Preventing school dropout

Major reform in vocational upper secondary education

The Finnish vocational upper secondary education system underwent a major reform in 2018. The reform was the most extensive in education legislation in decades and aims to make vocational education more competence based and customer oriented in order to meet the changing needs of work-life. Personal study paths, broad-based competence and close cooperation with employers are core issues. A new funding model also encourages education providers to improve the effectiveness and quality of education.

The reform has three mayor features that could help raising completion rates and reducing school dropout. First, the reform gradually introduces a new financing model between 2018 and 2022. Before the reform, funding was based on the number of students enrolled to ensure that education in all fields demanded by students would be available. Instead, in the new model, funding is based less on enrolment and to a greater extent on outcomes, with 50% of the budget as core funding (in function of the number of students enrolled), 35% for performance (based on the number of completed qualifications and modules), and 15% for effectiveness (based on graduates' employment and enrolment in higher education). The focus on outcomes generates strong incentives for schools to support students throughout their studies to increase their chances for graduation. The effectiveness element in the funding distribution furthermore encourages education providers to work more closely with employers and ensure that their qualifications are relevant for the labour market.

Second, the reform reduces the number of qualifications, from 351 to 164, and broadens the qualification content. More broad-based qualifications increase the chances for students to be accepted in the vocational program of their choice and reduce the risk of choosing the wrong field as the reform delays the need for specializing (see below).

Third, the needs and prior skills of the student are taken into account by giving each student an individual study path. By recognising prior skills, the students can focus on the skills they are missing to obtain their degree and the graduation times can be shortened (Ollikainen, 2017[6]). Research by the Finnish National Agency for Education (2017[7]) indeed found that individual study paths are effective ways to reduce drop-out rates and increase the completion of courses.

The wide-reaching reforms in vocational upper secondary education aim to reduce school dropout and raise completion rates, but there may be additional ways to reach this goal, for instance, through cross-age peer career guidance, support for students with additional needs and an increase in the compulsory schooling age.

Closing the gap between students' expectations and curriculum

Admission to upper secondary schools takes place through the centralized application system maintained by the Finnish National Board of Education. Students can simultaneously apply for five different educational institution/track combinations and they are allocated to the predetermined number of open positions based on admission points. As there are generally more applicants than schooling positions, there is a threshold level for each institution-track entry that determines whether students are eligible. Students are offered the highest ranked schooling position for which their admission points are above the threshold level. Those below the thresholds of all of their requests are not offered any schooling position.

Nearly one in five students leaving compulsory education and applying to upper secondary schools are not admitted to their first-ranked schooling position, but only a small proportion of students (4%) receive no offer at all. Even so, admission to a lower-ranked schooling position has a detrimental effect on the probability to complete upper secondary education by engendering gaps between students' expectations and curriculum (Virtanen, 2016[1]). The impact is particularly negative for students with lower levels of prior school performance: being rejected from their first-ranked schooling position decreases their probability to ever graduate from upper secondary education by 10 percentage points.

In this context, strong career guidance prior to upper secondary education seems critical. In France, for instance, a randomized controlled trial has shown that a series of career guidance meetings facilitated by the school principals helped low-achievers to formulate educational objectives better suited to their academic aptitudes. By changing the upper secondary school plans of the less realistic students, the intervention reduced grade repetition and dropout by 25% to 40% (Goux, Gurgand and Maurin, 2016[8]).

Finland already ranks among the best-performing OECD countries in terms of student counselling (Musset and Mytna Kurekova, 2018[9]). Results from the PISA 2012 survey reveal that 80% of 15-year-old students in Finland participate in career guidance activities, be it school-based (e.g. speaking to an adviser in school, filling in a questionnaire about preferences and interests) or employer-led (e.g. internship, job shadowing, career fairs). These shares are well above the average computed for 16 OECD countries for which this information is available (Figure 2.4). In particular, pupils in compulsory education are entitled to both group-based and individual support. The national curriculum affords 76 hours of guidance and counselling during the last three years of basic education. The support is provided by a trained guidance counsellor and covers study skills, school life, self-knowledge, education and training options, occupations, occupational sectors and the world of work. Moreover, the pupils and their parents are invited to meet with the teachers and the guidance counsellor to discuss the pupil's progress and educational choices (Euroguidance, 2011[10]).

To make career guidance in Finland even more holistic, without the need for additional resources, it could be promising to complement standard school-based and employer-led initiatives by cross-age peer counselling whereby upper secondary students mentor last-year lower secondary students. In the United States, this approach has proven to be successful, by providing learning opportunities to both mentees and mentors (Mentoring Resource Center, 2008[11]). This strategy has recently been implemented in Denmark as well, to provide guidance on vocational education and training to lower-secondary students (Box 2.2).

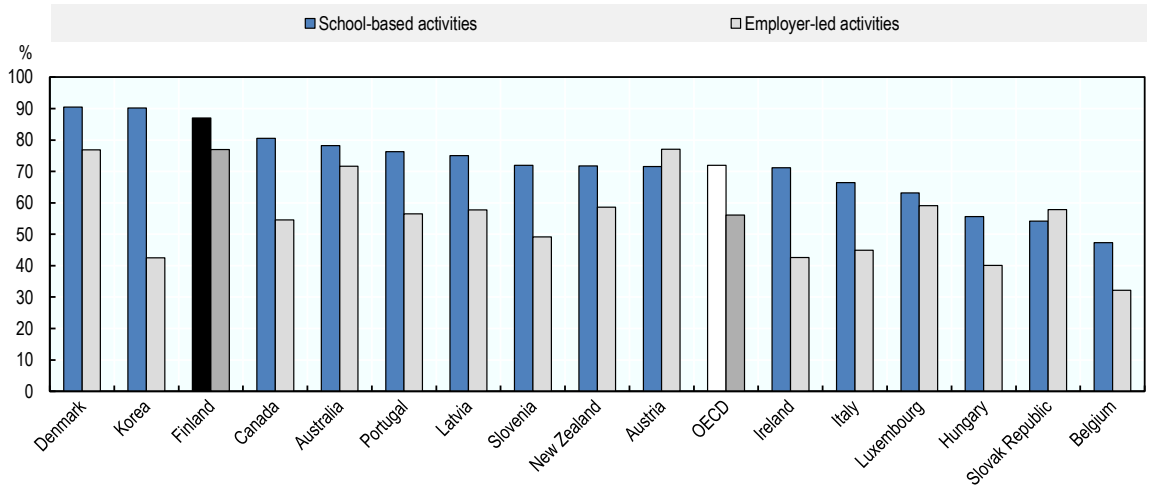
Ensuring sufficient support for students with additional needs

Finnish education is based on a fundamental principle: providing equal opportunities for learning and growth to every pupil or student. In compulsory education (i.e. primary and lower secondary education), support for students includes since 2010 general support, intensified support and special support. Every pupil is entitled to general support, which is a natural part of everyday teaching and the learning process. Intensified support is provided when general support is not enough, often when students struggle with one or more specific subjects, while special support is activated when students are facing social and mental health problems that affect their performance in school. For special support, multi-professional teams composed of teachers, school doctors, school nurses, school

social workers and school psychologists devise an individual learning plan that is tailored to the student's needs. The share of compulsory school pupils who receive intensified or special support among all compulsory school pupils has doubled since the introduction of this policy, from 8.5% in 2010 to 17.5% in 2017 (Figure 2.5).

Figure 2.4. A large share of Finnish students participate in both school-based and employer-led career guidance

Percentage of students having participated in career guidance



Note: Employer-led activities include internship, job shadowing and career fairs. School-based activities include speaking to an adviser in school and filling in a questionnaire about preferences and interests.
Source: Figure 5.2 in: Musset and Mytna Kurekova (2018[9]), *Working it out: Career guidance and employer engagement*, based on PISA 2012.

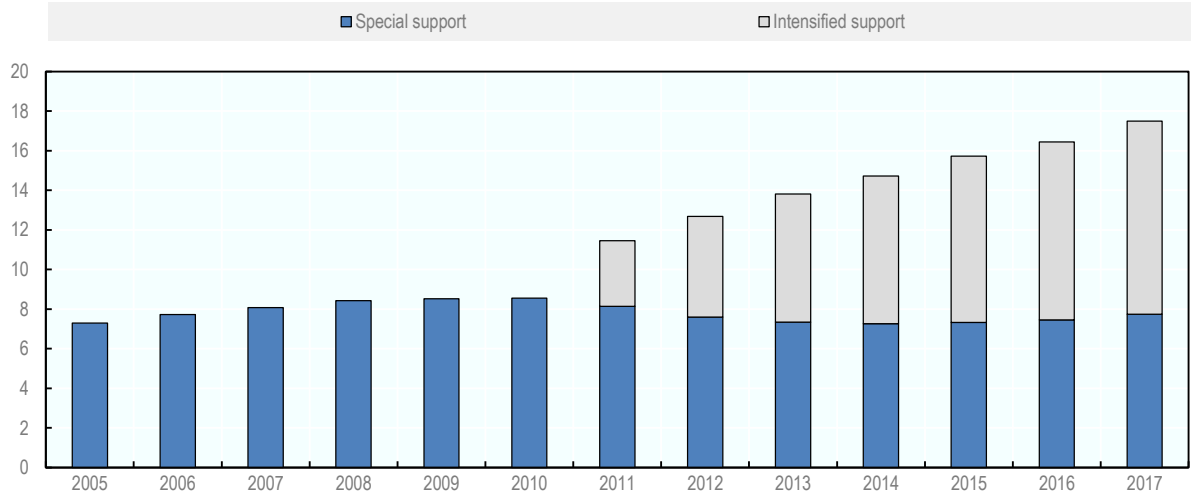
Box 2.2. Cross-age peer career guidance in Denmark

Danish students in vocational education and training act as role models and visit lower-secondary schools to promote vocational programmes through the campaign "The Route to a Vocational Training" that is initiated and led by the Danish Vocational and Technical School Students Union (www.eeo.dk/vejentil/). During the school visit, the young role models present their own experiences on why they chose vocational education or training, their programme and the possibilities they have both within the labour market and for further education. The campaign reflects a partnership between vocational schools, employers and lower-secondary schools to increase first-hand encounters between younger students and older peers able to provide personal insight into vocational pathways.

Source: Erhvervsskolernes ElevOrganisation (2017[12]), "The Route to a Vocational Training", http://eeo.dk/vejentil/om-kampagnen/ (accessed 4 December 2018).

Figure 2.5. Nearly one in six pupils in compulsory schools receive intensified or special support

Percentage of comprehensive school pupils having received intensified or special support among all comprehensive school pupils, 1995–2017



Source: Statistics Finland (2018[13]), Increasingly more comprehensive school pupils received intensified or special support, www.stat.fi/til/erop/2017/erop_2017_2018-06-11_tie_001_en.html.

An upcoming major reform in general upper secondary education aims to strengthen support at the upper secondary education level as well (Box 2.3). The draft reform, which is under discussion at the moment of writing this report, foresees the right for each student in general upper secondary education to receive special-needs education and other support for learning in accordance with their personal needs (Ministry of Education and Culture, 2018[14]). Is it unclear, however, to what extent the support will match the support received by students in compulsory education and whether general upper secondary education providers will receive sufficient funding for the extra-curriculum support.

The reform of vocational upper secondary education introduced in 2018 also encourages education providers to better support students according to their different needs. With a substantial part of the funding depending on graduation rates and outcomes in the labour market, schools have strong incentives to surround the students with guidance and support them with issues that might affect their study performance.

However, a downside of the new financing model is that schools may be discouraged from taking in low-performing students to begin with, since their probability to complete their education programme is lower. As stated by (Ollikainen, 2017[6]), 82% of the education providers admitted that this effect is indeed plausible and nearly half of all providers acknowledged that they would tighten their student selection criteria.

Box 2.3. Reform of general upper secondary education

Completion rates in general upper secondary education are already amongst the highest in the OECD, but the share of students who need additional years beyond the regular programme duration is higher than in other top-performing countries (see Figure 2.3 above). The 2018 reform of the general upper secondary education aims to address those issues, among many other objectives. In particular,

- All students would draw up a personal study plan in the beginning of their studies under the guidance of teachers and career counsellors. The plan determines objectives concerning their studies, matriculation examination and further studies and is updated on a regular basis.
- More funding is devoted to support students who suffer from learning disabilities, such as dyslexia or face personal, family and health issues.
- Anti-bullying programs are not restricted to compulsory education anymore. The new act explicitly states that students in general upper secondary education must also be protected from all bullying, violence, harassment and racism.
- Restrictions on the number of times a matriculation examination may be retaken is removed: while it was set to one before the reform, this number is unlimited after the reform.
- Every student is provided with an opportunity to get acquainted with higher education. General upper secondary schools are required to arrange studies or other activities in cooperation with higher education institutions, in view of giving all students an opportunity to familiarize themselves with higher education studies while still in upper secondary education.

Source: https://minedu.fi/en/reform-of-general-upper-secondary-education.

To remedy this perverse effect, the impact of the new financing model for vocational education providers on the performance of students with additional needs should be closely monitored in the coming years. If needed, the financing model could be adjusted to take into account the additional effort and budget that is needed to support students who face learning problems or social and mental health problems that affect their performance in school. Either a separate budget for special services is foreseen or a budget multiplier is applied for each student who received intensified or special support during compulsory education. The adjusted funding model would allow schools to increase the chances of graduation for all students and takes away the perverse effect of selecting only students without need for additional support. A recent evaluation of Helsinki's positive discrimination funding policy by Silliman (2017[15]) indeed shows the substantial benefits of additional resources for low-performing students (see Box 2.4).

Intervention would generate even higher returns if, simultaneously, more attention is devoted to prevention. For instance, low-threshold questionnaires on mental health status could be administered to all students who begin their general and vocational upper secondary education in order to identify those who are the most at risk of anxiety and depression, and therefore give them special attention. A similar survey is already conducted among students aged 18 to 19 in the framework of a school-based medical examination that aims to assess boys' health status before they enrol in compulsory

military service. Running this survey also at entry of upper secondary education would provide more room for anticipating cases of psychological distress among students.

Box 2.4. Helsinki's positive discrimination funding policy

Since 2008, the city of Helsinki provides extra resources to compulsory schools with a larger share of low-performing pupils, based on the educational status and income level of the pupils' parents, and on the number of immigrant families in the area where the pupils come from. These extra resources are primarily spent on hiring additional support staff such as classroom assistants and school psychologists.

A study has analysed the impact of this positive discrimination funding policy by comparing the evolution of dropout between 2000 and 2015 in positively discriminated schools on one hand, and in a comparison group on the other hand (difference-in-difference analysis). The comparison group is composed of two types of control schools: the set of schools in Helsinki that do not receive positive discrimination funding, and "similar" schools in other large cities in Finland in the sense that they would have received positive discrimination funding based on the background of their pupils if the cities in which they are located had the same policy as in Helsinki.

The results show a significant improvement in transitions to upper-secondary education for low-performing native students and for students of immigrant background. For instance, one in every three immigrant students in Helsinki did not continue their studies after compulsory school before 2008. The positive discrimination funding decreased this share by one-fifth.

Source: Silliman (2017[15]), "Targeted Funding, Immigrant Background, and Educational Outcomes: Evidence from Helsinki's 'Positive Discrimination' Policy", VATT Working Papers 91/2017.

Raising compulsory schooling age

One out of five students interviewed in the framework of the 2017 Youth Barometer justify their decision to drop out of school by the fact that they "wanted to start working immediately". Such a response suggests that they ignore or heavily discount future consequences when they choose to withdraw from studies. Entering the labour market without an upper secondary diploma in Finland is indeed not straightforward: NEET rates are three times higher among young people educated to lower-secondary level than among their highly educated peers with tertiary degrees.

One possible way to limit the impact of myopic behaviour among youth is by raising the compulsory schooling age. Compulsory schooling laws are indeed a common policy tool to achieve greater participation in education, particularly from marginalised groups (Harmon, 2017[16]). As discussed in Box 2.5, the benefits associated with raising compulsory schooling age can be substantial, including increased educational attainment, better employment and income outcomes, positive intergenerational effects as well as indirect effects in the form of lower crime rates and improved mental health outcomes. An alternative option is to consider a variation of compulsory schooling, referred to as a "participation age", which requires students to remain in education or training until the age of 18 (Harmon, 2017[16]). This policy option is used in the United Kingdom and is currently considered by the French government. Yet another approach is used in the Netherlands, where the government introduced a "qualification obligation", whereby

pupils have to stay on at school until they are 18 unless they obtain a basic qualification (OECD, 2014[17]).

Box 2.5. The benefits of raising compulsory schooling age

The intended impact of a change in compulsory schooling is, by and large, to increase the level of education of those most likely to leave school early. If there is strong compliance, this change first translates into a higher average schooling level especially for the most vulnerable populations.

Analysis of various changes in compulsory schooling laws over the period following the Second World War in 12 European countries shows that a change in compulsory schooling translates into 0.3 to 0.4 years of additional education for individuals at the lower end of the educational distribution. But an increase of 0.1 year is also observed among individuals with higher educational attainment, which suggests that better educated individuals react to increases in compulsory schooling by raising their own attainment, possibly in an effort to maintain their educational advantage over the less educated, who are more directly affected by the reforms (Brunello, Fort and Weber, 2009[18]).

A rise in schooling levels typically yields economic returns in the form of higher labour earnings and, possibly, lower wage dispersion (Brunello, Fort and Weber, 2009[18]). Economic returns are also intergenerational. The increase in parental schooling has a positive impact on parental earnings, which feeds through to their children's schooling attainment via better schools, better home environments, and so on. Based on US Census data and state-by-state variation in compulsory schooling laws and their changes, a one-year increase in the schooling of parents lowers the probability of repeating high school grades by between two and four percentage points against an average repeat rate of 15%. This result is robust to other schooling measures such as dropout rates (Oreopoulos, Page and Stevens, 2006[19]).

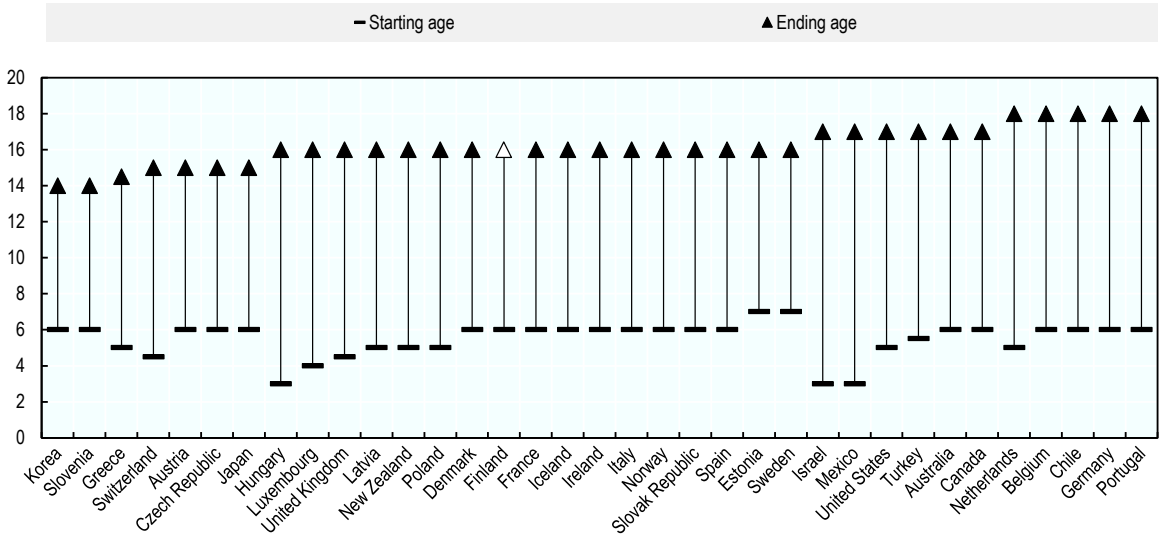
Compulsory schooling laws also improve wider outcomes such as mental health and cognition in older age, financial literacy and crime. Research based on the Survey of Health, Ageing and Retirement in Europe (SHARE) database of older adults in Europe finds a positive impact of compulsory schooling on depression and cognition, as measured by a word recall test (Crespo, López-Noval and Mira, 2014[20]). Evidence for the United States shows that an increase in compulsory schooling age enhances individuals' numeracy skills. As a result, more-educated individuals have fewer financial complications, higher credit scores, and lower probability of mortgage re-financing. Each additional year of compulsory schooling increases the probability of having any retirement income by 5.9% and lowers the probability of bankruptcy (Cole, Paulson and Shastry, 2014[21]). Finally, increases in compulsory schooling changes may reduce crime through at least three channels: (i) education may limit the time available for criminal activity; (ii) more-educated individuals may value the future more than the present and may be more risk averse; (iii) increased labour earnings raise the opportunity costs of illegal activities. Based on the 1972 reform in the UK which raised the minimum school leaving age from 15 to 16, a 10% increase in school leaving age lowers crime by 2.1% (Machin, Marie and Vujić, 2011[22]).

Source: Harmon (2017[16]), "How effective is compulsory schooling as a policy instrument?" IZA World of Labor: 348.

Compulsory education in Finland starts at age six and ends at 16, as is the case in many other OECD countries (Figure 2.6). Even so, six OECD countries decided to raise the ending age to 17 years and five countries have an ending age at 18 years (Belgium, Chile, Germany, the Netherlands and Portugal). Even after the end of compulsory schooling, enrolment rates remain high in many countries, with at least 90% of all 17-year olds enrolled in education in most OECD countries (OECD, 2017[3]).

Figure 2.6. One third of OECD countries have a higher compulsory education age than in Finland

Starting and ending age for students in compulsory education, 2015



Source: Table XI.3 in: OECD (2017[3]), *Education at a Glance 2017: OECD Indicators*, OECD Publishing, Paris. http://dx.doi.org/10.1787/eag-2017-en

Estimations by the Association of Finnish Municipalities and Regions in 2014 suggested that an increase in the compulsory schooling age to 18 would be fiscally neutral (Seuri, Uusitalo and Virtanen, 2018[23]). Since raising completion rates is a priority of the reforms in general and vocational upper secondary education, many of the costs related to increased participation will be incurred anyway, even if the compulsory schooling age is not increased. In fact, the main extra cost induced by a reform of compulsory schooling age would consist in providing learning materials and books for free, a requirement for compulsory schooling in Finland. In turn, free upper-secondary education could further encourage the poorest segments of the population to continue their education.

2.1.2. Reaching out early school leavers

Support networks outside of schools – e.g. social and health services, public employment services and, possibly, non-governmental organisations – play an important role in addressing more severe or long-lasting problems that schools are incapable of dealing with on their own. The range of such services available to youth in Finland is remarkable, including youth outreach workers, youth workshops, integrated services for youth at risk of social exclusion, and comprehensive support for young men excluded from compulsory military service. Even so, services are not equally spread over the country

and there may be room to further develop digital services to reach young people living in distant areas.

Outreach services to reconnect youth with education or employment

Finland has an efficient structure in place to reach out to youth and connect them with the right service. Schools have to report to the youth outreach administration that a young person has dropped out from school (after having done their own efforts to contact the young person) and they can signal to the administration students at risk of dropout, to facilitate preventive action. The main goal is to find people and reconnect them with education or services to help them. Youth outreach services employ social or youth workers who work with a low caseload of 20-50 young people per outreach worker and collaborate closely with other services. For example, they will often try to find a place in a youth workshop, in line with the young person's interests (see below). The outreach service is involved until the young person turns 30 years of age.

However, the caseload of outreach workers varies widely across the country. On average, outreach workers work with 42 youngsters per year, ranging from 29 in Southern Karelia to 54 in Northern Karelia and Northern Ostrobothnia (Figure 2.7). Within regions the disparity can be even larger: in the municipality of Järvenpää, the two outreach workers had to deal with 245 young people, while the two outreach workers in the municipality of Lapinjärvi took care of 16 young people.

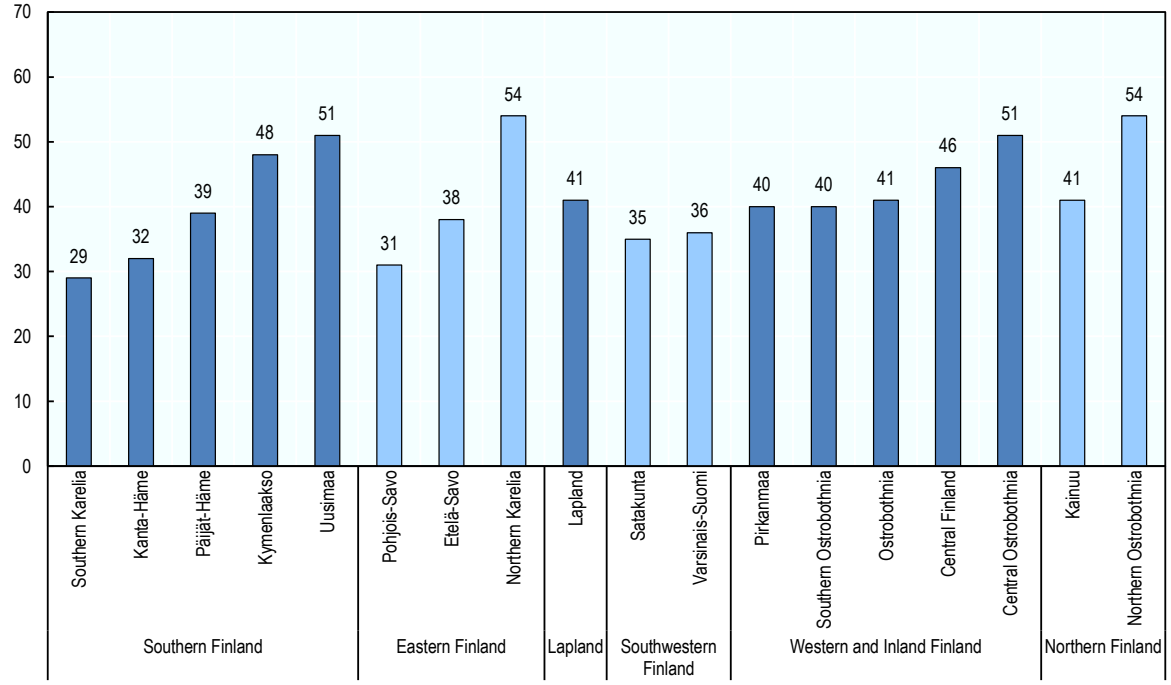
Ensuring a more equal caseload for outreach workers across Finland is key. This objective could be achieved by recruiting more outreach workers and/or reallocating some of them from areas with low caseload to areas with high caseload. This reallocation would be facilitated if a higher number of small municipalities accept to pool part of their resources for youth work, as it is encouraged in the current Youth Act (1285/2016).

Youth workshops for on-the-job training and career guidance

Youth workshops are another independent and quite effective institution in Finland. Over 90% of all municipalities host workshops, targeting young people aged 16-29 years not enrolled in education or having dropped out from it, sometimes several times. Many of these people are very opposed to going back to school even if they recognise their need for education. Workshops provide on-the-job training and career guidance to those people. Some 35% of all referrals to youth workshops are by the public employment service, almost 10% by educational institutions and 28% by youth work or health and social services. Workshops cover all kinds of occupations and sectors but the largest number of training units are in wood and construction, followed by textile and low-threshold services. Municipalities run almost three in four youth workshops, with a minority run by registered associations or foundations. In total, there were 208 workshops available in 2016, servicing 14 870 trainees under age 30 with the help of 1 826 trainers.[1] Youth have an incentive to attend a workshop as they receive EUR 9 per day, in addition to any social assistance.

Figure 2.7. The caseload of outreach workers varies considerably across Finnish regions

Caseload of outreach workers by region (2017)



Note: The caseload is measured as the number of contacts requested (by the young person herself, her family, her school, etc.) per outreach worker.
Source: Data provided by the Ministry of Education and Culture.

Workshop methods include work and individual training. Work training aims at developing the trainee's work capacity, skills needed in working life and general work skills. Individual training supports the development of functional capacity and life management skills. Youth workshops also involve a planning and assessment phase, have a significant health and well-being focus, and cooperate with both educational institutes and private companies.

Most workshops have a few coaches with a Master's or Bachelor's degree. The average/maximum period of coaching is 4.5-6 months and the typical intensity is five hours a day for five days per week (only 1-4 days for people with special needs). Participants receive a detailed employment certificate, which reviews all that they have done; this is important to find a place outside the workshop. The performance is good: one-third of all participating youth move on to education, around 20% to employment and 30-40% to other services. Between one-fourth and one-fifth remain or become unemployed, generally with entitlement to unemployment benefit.

Integrated services for youth at risk of social exclusion

An interesting initiative with a strong focus on integrated services is *Vamos*. The initiative was founded in 2008 by the Helsinki Deaconess Institute and targets socially excluded youth. These people struggle with a range of problems, often including loneliness, mental health issues, addiction problems, homelessness, family problems, criminal backgrounds, and low self-esteem, and will often rely on social assistance payments throughout large parts of their life. Vamos uses intensive group coaching,

individual coaching and youth-centred service integration. Every young client has a personal coach (a youth worker) guiding them through the support process and recognising their individual holistic needs.

Today, Vamos covers seven cities in Finland. Vamos coaches collaborate closely with municipal and other public, private and third-sector actors. With 80 employees, it has helped 8 000 youth in its first ten years, mostly people who have dropped out from school or fallen out of existing services. Around 50% entered employment or education through the coaching process – which is a high success rate given the degree of disadvantage of the target group – and 87% said their life had changed for the better (Sarmia, 2018[24]). An evaluation also found the Vamos working method to be cost-effective (Alanen, Kainulainen and Saari, 2014[25]).

Comprehensive support for young people excluded from compulsory military service

Finland operates since 2004 the '*Time Out! Getting Life Back on Track*' support programme for young people exempted or excluded from military or civil service due to mental health problems – military service in Finland is compulsory for men and voluntary for women. Every year, about 25% of conscripts are excluded from service for various reasons, half of them on mental health grounds (2017 figures from the Ministry of Defence). The military call-up offers an excellent opportunity to reach young men as a cohort in Finland and offer psycho-social support. Time Out operates with personal counsellors specifically trained for the intervention (professionals working in municipal social and health services or outreach youth workers) and offers comprehensive support to address the well-being of those young men. In 2018, 923 young people were referred to Time Out, an increase from 263 in 2011. An evaluation of Time Out has shown that, at one-year follow-up, psychological distress has decreased in the Time Out intervention group more than in the control group (Box 2.6).

Digital support services to complement face-to-face services

Developing a nationwide internet-based guidance service for young people would constitute a useful supplement to face-to-face services. According to the 2017 Youth Barometer, the distance of young people to the nearest youth facility is low on average (4.7 kilometres), and less than 10 kilometres for 90% of Finnish youth. However, a minority live far away from the closest youth facility (over 50 kilometers). This minority would benefit from applying digital media and technology to youth work. Expanding digital youth work would also make youth work more up-to-date and, hence, appealing to young people irrespective of their distance to a youth facility (Verke, 2017[26]).

According to a survey by the national Centre of Expertise for Digital Youth Work in Finland, 61% of municipal youth workers interviewed in 2017 do not fully understand what is expected from them regarding digital youth work (Verke, 2017[26]). Moreover, 51% consider that their workload is not compatible with engaging in digital youth work. While two-thirds of youth workers publicly share information relevant to young people on social media, only half use online or messaging services to give one-to-one counselling to young people. Even less (4%) use digital technology to organize online support.

Box 2.6. Randomized control trial of the 'Time Out! Getting Life Back on Track' programme

The study involved a total of 356 men exempted from military or civil service and 440 young men conscripted for service in Helsinki and Vantaa in Finland. Men exempted from service were randomly assigned to an intervention group (n=182) and a control group (n=174). Respondents in the intervention group were offered a personal counsellor, a professional working in municipal social and health services and providing the support programme as part of their basic duties. The counsellors were specially trained for the intervention. The young men were able to discuss their current life situation with the counsellor, such as mental health, substance abuse and general well-being, as well as receive support and encouragement in resolving the situation.

Various outcomes were measured at the start of the randomized control trial and one year after. The results show that psychological distress decreased more in the intervention group than in the control group. However, the intervention had no impact on alcohol abuse, perceived quality of life or self-esteem.

Source: Appelqvist-Schmidlechner et al. (2010[27]), "Effects of a Psycho-Social Support Programme for Young Men - Randomised Trial of the Time Out! Getting Life Back on Track Programme," *International Journal of Mental Health Promotion,* 12(3): 14-24.

2.2. Easing the transition from upper secondary to tertiary education

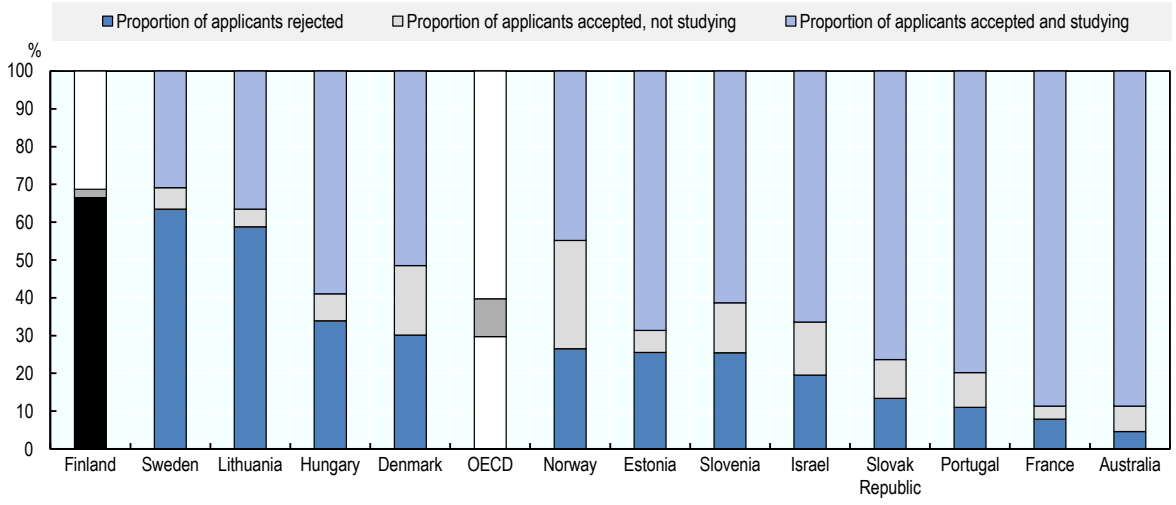
2.2.1. Reforming the highly selective tertiary education admission system

Finland has one of the most selective higher education system in the OECD, but an upcoming reform aims to modify selection procedures. Upper secondary education ends with a matriculation examination in the general curriculum that is strictly comparable across schools, and with vocational qualifications in the vocational system. Nevertheless, most universities (approximately 80%) and nearly all polytechnics rely heavily on entrance exams in their admissions, which require intensive preparation. Among OECD countries that were imposing specific entry criteria in 2016, Finland was the most selective with 67% of applicants rejected, compared with an OECD average of 30% (Figure 2.8). Only five other OECD countries (Estonia, Hungary, Japan, Korea and Portugal) impose a fixed limited number of student positions for all fields of study and all tertiary education institutions (OECD, 2017[3]).

This high selectivity delays the start of studies, forcing applicants to take unwanted gap years and often repeat the tests several times. Only 25% of upper secondary graduates manage to continue their tertiary studies immediately after graduation (Economic Policy Council, 2017[28]), and the average age at which Finnish students enter tertiary education for the first time is amongst the highest in the OECD (Figure 2.9). Delayed entry, in turn, contributes to a late average tertiary graduation age. Given the strong demand for high-skilled workers and persistent shortages in high-skilled jobs (OECD, 2018[2]), the high selectivity and limited capacity of the higher education system do not seem appropriate and could be harmful for the Finnish economy.

Figure 2.8. Finland is the most selective of OECD countries that impose specific entry criteria in higher education

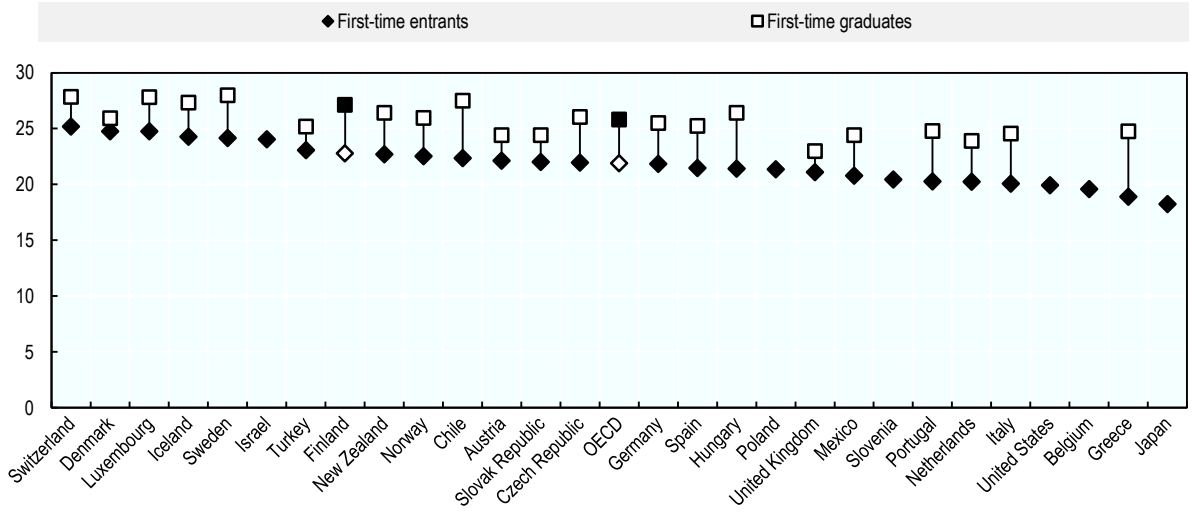
Applicants to first-degree tertiary education by application status, 2016



Source: Figure B4.a in: OECD (2018[4]), *Education at a Glance 2018: OECD Indicators*, OECD Publishing, Paris. http://dx.doi.org/10.1787/eag-2018-en

Figure 2.9. The age at which students enter and leave tertiary education is amongst the highest in the OECD

Median age of first-time entrants and average age of first-time graduates, 2016



Source: Compilation of Figure B4.2 and Table B5.1 in: OECD (2018[4]), *Education at a Glance 2018: OECD Indicators*, OECD Publishing, Paris. http://dx.doi.org/10.1787/eag-2018-en

To improve the transition from secondary to tertiary education, universities and polytechnics agreed to modify their admission procedures. By 2020, matriculation examination results will be the main entry path into tertiary education. The Economic Policy Council (2017[28]) suggested furthermore that universities should develop flexible ways for students who wish to switch between programmes or complement their studies

with selected parts from other programmes. Currently these students are obliged to re-apply for admission in the regular admission system. A report by the European Parliament (2014[29]) also points to the need to assess the admission procedures for non-traditional learners and to allow for recognition of prior learning beyond secondary school qualifications. Given the strong demand for high-skilled workers, Finland may also want to expand the capacity of the higher education system to fill the shortages in high-skilled occupations.

2.2.2. Making the reform of student financial aid work

The Finnish Social Insurance Institution (KELA) grants financial aid to full-time students aged 17 and older, in the form of study grants and government guarantee for student loans. Students renting an apartment can also claim general housing allowances. While upper secondary students can apply for a school transport subsidy, higher education students are eligible for meal subsidies. Student financial aid is normally paid over a period of nine months per year.

The student financial aid system underwent a drastic make-over in 2017, with a shift in focus from study grants to student loans. The amount of government guaranteed student loans was raised from EUR 400 per month to EUR 650, while the monthly grant amount was lowered, with the amounts depending on the age, living conditions and parental income (e.g. the benefit dropped from EUR 337 to EUR 250 for students living alone; see Table 2.1). For low-income students living alone in rental accommodation, the new monthly aid package can reach up to EUR 1 175-1 350, including a study grant payment of EUR 250, a student loan of EUR 650 and a housing allowance of EUR 275-405, depending on the municipality in which they live.

Table 2.1. Study grants were considerably lowered for students without children

Amount of study grant (before taxes) for students in higher education, 2016 and 2019

Students	Amount of study grant (EUR per month)		Is the study grant affected by parental income? (2019)
	2016	2019	
Guardian of a minor child	336.76	325.28	no
Married	336.76	250.28	no
Lives alone, aged 18 or over	336.76	250.28	no
Lives alone, aged 17	163.80	101.74	no (as of 1 August 2019)
Lives with parent, aged 20 or over	137.35	81.39	EUR 183.13 (if parental income EUR 41 100 or less)
Lives with parent, aged 17-19	62.06	0.00	EUR 97.67 (if parental income EUR 41 100 or less) EUR 38.66 (if parental income EUR 41 101 - 44 069)

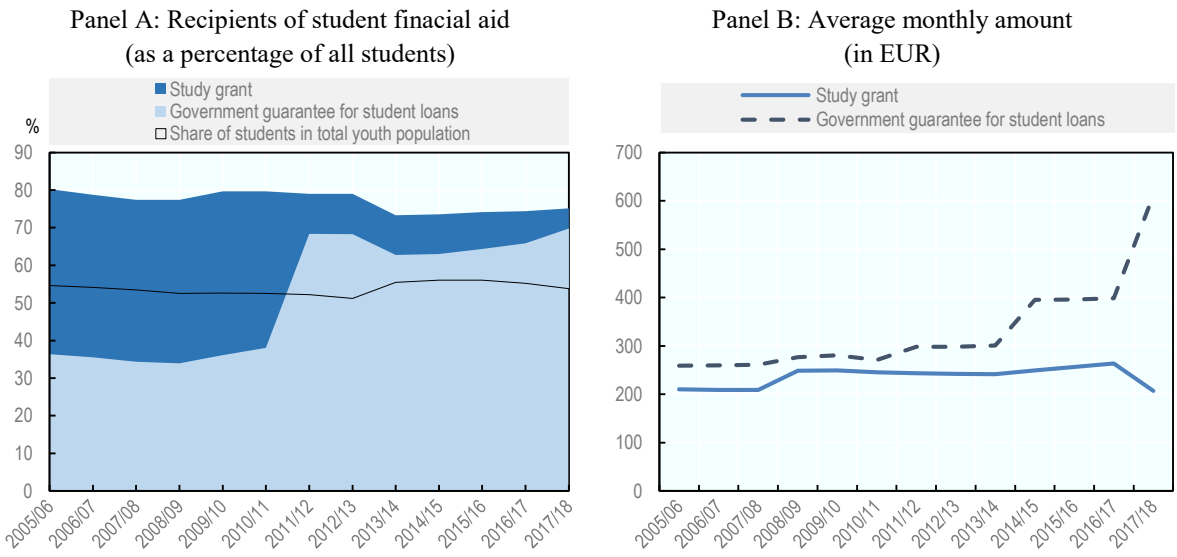
Notes: The study grant amounts for 2016 refer to students who started their first higher education studies after July 2014.
Source: https://www.kela.fi/web/en/financial-aid-for-students-study-grant

Students who receive a study grant KELA have the possibility to take out a student loan from a bank of their choice. The loan guarantee is valid for up to 30 years from the first disbursement of loan funds, and the interest payable on the loan and repayment schedule are agreed between the student and the bank. Should the student not be able to pay the loan back to the bank, KELA accepts responsibility for the repayment of the loan, which avoids that students have to put up any other security. The amount owed under the loan guarantee will then be collected through legal means at a later stage, plus 4% interest. Students can also be temporarily exempted from paying interest during periods when

their average taxable income is below a certain income limit. An exemption from all payments on the debt is only possible if the student is disabled for work (permanently or for a consecutive period of at least five years) and their average taxable income is below a certain income limit.

In the school year 2017/18, 75% of all students aged 20-24 received a study grant and 70% opted for a government-guaranteed student loan (Figure 2.10, Panel A). The take-up of loans experienced a notable increase following the reform, suggesting that students effectively compensated the lower grants with loans. The average monthly grant amount indeed declined, from EUR 263 in 2016/17 to EUR 207 in 2017/18, whereas the average monthly loan rose by more than 50% over the same period, reaching EUR 611 in 2017/18 (Figure 2.10, Panel B).

Figure 2.10. Most students complement student grants with student loans



Note: Data are restricted to the age group 20-24 and cover all post-compulsory education programmes leading to a qualification.
Source: OECD calculations based on the KELA database on financial aid for students (http://raportit.kela.fi/ibi_apps/WFServlet) and Statistics Finland's PX-Web database (https://pxnet2.stat.fi/PXWeb/pxweb/en/StatFin/).

It is unclear to what extent the lower study grant has discouraged students from enrolling in education. Among 20-24-year-olds, the share of those studying decreased from 55.2% in the school year 2016/17 to 53.8% in 2017/18, though there was already a small decline of 0.8 percentage points a year earlier (Figure 2.10, Panel A). This downward trend should be closely monitored in the coming years to verify whether the reform has negative participation effects. This possibility is reinforced by the existence of significant inactivity traps as young people above 18 years old are entitled to social assistance in Finland. The difference between social assistance and the study grant is considerable: respectively EUR 480/month and EUR 250/month for youth living independently. Even youth living with at least one of their parents are independently eligible to social assistance in Finland. In this case, they receive a social assistance benefit equal to EUR 356/month, as opposed to a study grant of EUR 0-183/month that depends on parental income (Hiilamo et al., 2018[30]). The disincentive to enrol in tertiary education is

expected to be particularly strong among youth from poorer families who may face strong financial constraints (Mikkonen and Korhonen, 2018[31]).

To address a possible inactivity trap, Finland may want to exempt students from repaying their loan (and not only interest rates) when their taxable income is too low. In the United Kingdom, this approach has allowed a high take-up of student loans following the shift from a free higher education system to a high-fee, but high-aid, system (see Box 2.7 for more details). According to Azmat and Simion (2017[32]), enrolment in tertiary education in the United Kingdom remained unchanged following these reforms, while Murphy, Scott-Clayton and Wyness (2017[33]) argue that the reforms led to a surge in tertiary education enrolment rates among students from the poorest backgrounds.

Box 2.7. Student loans in the United Kingdom

Until 1998, students studying for an undergraduate degree – typically a three-year programme – could attend university free of charge. Starting in the academic year 1998/99, the government introduced a tuition fee that was just GBP 1 000 per year and means-tested so that only the richer students would pay. The Higher Education Act 2004, effective from 2006, changed the tuition regime again. Tuition fees rose to GBP 3 000 per year, but the major change was that these fees were no longer charged upfront. Students could take out interest-free, income-contingent loans that were to be repaid upon graduation, but only by those working and earning over GBP 10 000 per year. In 2012, university fees were increased to GBP 9 000 per year, again backed by an income-contingent loan with slightly different terms (mainly, the repayment threshold rose to GBP 21 000 per year and a real interest rate was added).

According to Murphy, Scott-Clayton and Wyness (2017[33]), several key features of the UK system have helped to protect enrolment rates and access. First, no student have to pay any fee upfront. Second, all students can access large amounts of liquidity to support themselves through university. Loans for living costs have risen each year, and the poorest students can now access over GBP 8 000 per year in aid, compared with less than GBP 5 000 per year in the period immediately before the introduction of tuition fees. Critical to this situation is the income-contingent loan system, which enables students to safely borrow against their future incomes. Such heavily insured loans are not readily available in other countries like the United States, making tuition fees a greater burden for their students.

Source: Azmat and Simion (2017[32]), "Higher Education Funding Reforms: A Comprehensive Analysis of Educational and Labor", IZA Discussion Paper No. 11083; and Murphy, Scott-Clayton and Wyness (2017[33]), "The end of free college in England: Implications for quality, enrolments, and equity", NBER Working Paper No. 23888.

In addition, a growing body of experimental evidence across various policy domains demonstrates that providing individuals with simplified information, behavioural nudges and access to assistance can lead to more informed decision-making and improved outcomes. For instance, a text messaging campaign in the United States to prompt loan applicants to make more active and informed decisions about their student loan borrowing amounts, and the ability to access to assistance from a financial aid counsellor by simply texting back if they had questions or needed help, had a positive impact on student borrowing behaviour (Barr, Bird and Castleman, 2016[34]).

2.2.3. Providing vocational students with sufficient general training

The acquisition of general skills by vocational students, such as language proficiency, math, reading comprehension, information and communication technology and information-gathering skills, is critical for students who plan to continue their studies at polytechnic or university after completing secondary-level vocational education. Such skills are especially relevant in Finland, where the chances of an applicant with vocational education getting accepted into a polytechnic university have weakened relative to an applicant with general education (Ollikainen, 2017[6]). In the early 2000s, the acceptance rates of applicants with vocational education were on average about 5 percentage points higher than the acceptance rates of applicants with general education. However, from 2004 onwards, the pattern reversed and applicants with general education now have higher chances of getting accepted. The difference in the acceptance rates was as high as 10 percentage points in some years. Even though the acceptance rates for both vocational and general education have gone down since 2008 because of an increased number of applicants, the difference between general and vocational education has endured. This trend does not seem to flow from a selection bias at the entrance of upper secondary education: the number of more gifted students enrolling in general education instead of vocational education has not grown since the early 2000s. The trend rather seems to stem from lower ability of the vocational system to equip students willing to continue in tertiary education with the right skills (Ollikainen, 2017[6]).

The reform of the vocational system may further worsen vocational students' ability to enrol in higher education, for two reasons. By making vocational training more practical and increasing the time devoted to workplace learning, the weight of general skills in vocational education may decrease (Economic Policy Council, 2017[28]). Moreover, the performance funding component of the new financing model, which hinges on the number of completed qualifications and modules (see Section 2.1.1), may generate unintended incentives for the education providers to grant qualification and modules with lower criteria, including lower emphasis on general skills.

To avoid this negative side effect, competence tests are always assessed by representatives of two parties: a teacher and an employer representative. In addition, it is the employer committee's task, at the national level, to participate in the quality assurance of the execution of competence demonstrations and of competence assessment, and to notify the Ministry of Education and Culture of any shortcomings observed.

Reinforcing the general skills of vocational students would not only ease the transition from upper secondary to tertiary education, but also improve their labour market inclusion more broadly speaking. Empirical evidence shows that practical training increases employability early in a career but that those with more general training perform better later on: the employment rates of recent vocational graduates are high but decline to a level below those with general training among older age groups (Hanushek et al. (2016[35]); Woessman (2017[36]). These findings suggest that general skills are critical to help students who work right after their vocational upper secondary school qualification adapt to labour market needs later in their career (Economic Policy Council, 2017[28]). Foundation skills indeed counter the risk of practical skills obsolescence when a worker changes employer or occupation. They are also critical should adapting to a changing work life require re-training.

2.2.4. Widening the options for postsecondary vocational education

In the Finnish vocational education system, there are three types of qualifications: upper secondary vocational qualifications, further vocational qualifications and specialist vocational qualifications. All qualifications are composed of units of learning outcomes and students can complete entire qualifications, parts of them or smaller units, or combine parts of different qualifications based on their needs. Further and specialist qualifications comprise only vocational units and the necessity for common units is assessed when preparing the personal competence development plan.

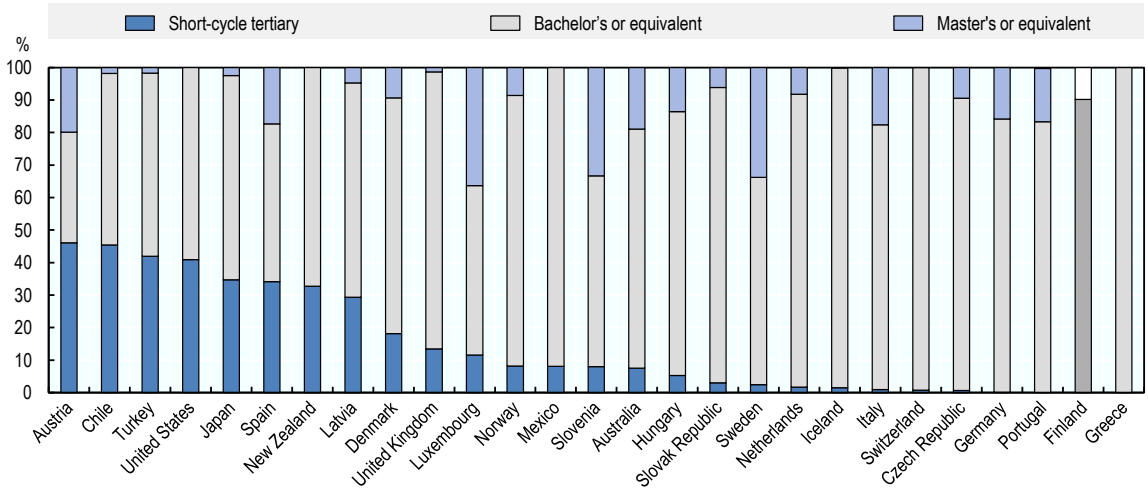
While the system does not make a difference between youth and adults, the further and specialist vocational qualifications are mainly intended for people with work experience rather than for upper secondary school-leavers (Eurydice, 2015[37]). As such, Finland does not really have short-cycle higher education programmes where vocational upper secondary graduates would pursue their vocational education. Such programmes existed until around 2000, but were then gradually replaced by the bachelor degrees offered by the universities of applied sciences (Stenström and Virolainen, 2014[38]).

As suggested by a previous OECD report on Finland, the development of short postsecondary vocational programmes for upper-secondary graduates would provide an effective way to help vocational graduates to gain more technical expertise, management and other skills, and improve their prospects on the labour market (OECD, 2015[39]). Many professional and technical jobs require no more than one or two years of career preparation beyond upper secondary level, and in some countries as much as 45% of the tertiary students graduate from short-cycle programmes (Figure 2.11). Postsecondary vocational options would also be a way to reduce the waiting lists for the highly selective tertiary education system and speed up the labour market entry for many youth.

Indeed, one of the main features of the most successful vocational systems in OECD countries is the existence of higher level vocational qualifications to which graduates of initial vocational programmes can progress (OECD, 2014[40]). Entrants to vocational programmes need to have the promise of opportunities for further upskilling beyond their initial qualification, partly because that is what students increasingly want and expect, and partly because that is what the labour market needs and demands from graduates of initial vocational programmes. Sweden has been successful at creating short-cycle higher education programmes from scratch and rapidly attracting growing numbers of students (see Box 2.8). Lessons can also be drawn from the specialist vocational qualifications that already exist in Finland for adults, which main strengths are the flexibility of studies, varying teaching methods, and the extensive content of the studies (Aittola and Ursin, 2019[41]).

Figure 2.11. In some countries more than one third of tertiary students graduate from short-cycle programmes

Share of first-time tertiary graduates by level of education, 2016



Source: Based on Table B5.1 in: OECD (2018[4]), *Education at a Glance 2018: OECD Indicators*, OECD Publishing, Paris. http://dx.doi.org/10.1787/eag-2018-en

Box 2.8. The Swedish system of higher vocational education

Higher vocational education in Sweden (previously called advanced vocational education and training) was established in 2001 with enrolment increasing rapidly to reach 31 000 (compared with 140 000 enrolments in professional bachelors and masters programmes). Most programmes require between six months and two years of full-time study with 70% of programmes lasting two years. There appears to be demand from students, support by employers, and interest among providers wishing to run courses. About 80-90% of graduates report being in work one year after graduation. Many different providers can offer higher vocational education if they comply with the established requirements. In 2011, out of 242 institutions providing higher vocational education, roughly half were private while the rest belonged to local and regional authorities. All higher vocational programmes are publicly funded, with no tuition fees.

The model fosters a bottom-up and entrepreneurial approach within a publicly funded framework. Workplace training is obligatory in two-year higher vocational programmes and represents one-quarter of the programme duration. This structure builds partnership with employers into the design of the system, since it is only possible to seek funding for a higher vocational programme when a partnership with employers willing to offer the workplace training is already in place. Each higher vocational programme in every institution has a steering group including employers; employers provide training to students and also advise on provision and programme content. To launch a programme an education provider has to show that there is labour market demand for the skills provided by the programme, and that it has a framework to engage employers. The National Agency for Higher Vocational Education and Training is responsible for the sector, and the social partners are part of a council that advises the Agency on the future demand for

skills and on how this might be met.

Source: Ministry of Education and Research Sweden (2013[42]), Skills beyond School, OECD Review of Vocational Education and Training, Background Report from Sweden, www.oecd.org/edu/skills-beyondschool/SkillsBeyondSchoolSwedishBackgroundReport.pdf; and Kuczera, (2013[43]), *A Skills beyond School Commentary on Sweden, OECD Reviews of Vocational Education and Training*, http://www.oecd.org/education/skills-beyond-school/askillsbeyondschoolcommentaryonsweden.pdf;

2.3. Speeding up labour market entry

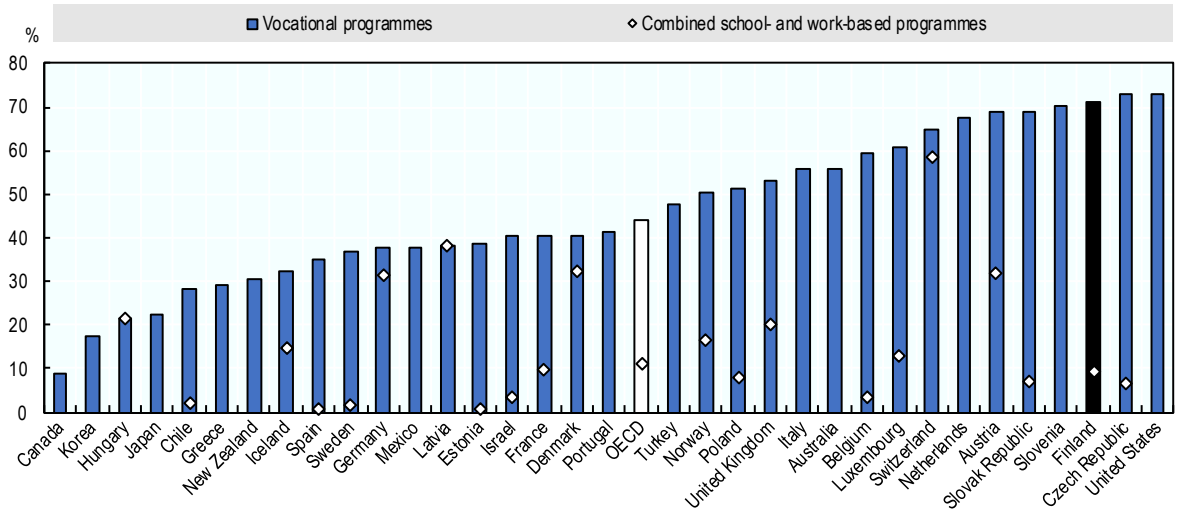
Improving the school-to-work transition in Finland does not only entail raising school completion rates in upper secondary education and easing the transition to tertiary education. It also necessitates a better link between education and the labour market, especially for vocational students, as well as sufficient incentives for employers to offer quality apprenticeships. The time needed to complete tertiary education is rather long in Finland, despite considerable financial incentives in the student financial aid system. Finally, mental health among tertiary students receives insufficient attention.

2.3.1. Promoting collaboration between vocational education and employers

The reform of vocational upper secondary education aims to increase the amount of workplace learning in different forms.[2] In 2016, only one out of eleven upper secondary students did an apprenticeship in Finland, despite the country's high share of vocational students in an OECD comparison (Figure 2.12).[3] Statistics for 2018, when the new training agreement model was introduced, are not yet available.

Figure 2.12. Only one out of eleven young upper secondary students did an apprenticeship in Finland, despite the importance of vocational education

Percentage of upper secondary students in vocational programmes and in combined school- and work-based programmes, 2016



Source: Table B1.3 in: OECD (2018[4]), *Education at a Glance 2018: OECD Indicators*, OECD Publishing, Paris. http://dx.doi.org/10.1787/eag-2018-en

The new workplace learning model allows for different forms of learning at work. Student can have longer or shorter-term work placements through apprenticeships, training agreements, projects or short visits to see how a company works. A personal competence development plan is drawn up for each student, charting and recognising the skills previously acquired by the student and outlining what kind of competences the student needs and how they will be acquired in different learning environments. Skills acquired through training agreements or apprenticeships are demonstrated in practical work situations and competences are assessed by teachers and working life experts (Cedefop, 2018[44]).

The stronger focus on workplace learning should be conducive to a better alignment of labour supply with labour demand. Apprenticeships and training modules indeed act as a link between the labour market and the training system, as young people cannot choose occupations that employers are not willing to train (OECD, 2018[45]).

Training agreements differ from apprenticeships as students are not employees and nor the student nor the employer receive compensation. A training agreement always applies to a single qualification unit, while an apprenticeship may be used to gain all skills required for a qualification. Apprenticeships are based on a fixed-term employment contract and the apprentice is therefore employed. Apprentices receive pay for their work and their employer receives compensation for the training. The apprenticeship agreement can cover all parts of the qualification, but may also cover a qualification unit or even a smaller part of the qualification (Ministry of Education and Culture, 2018[46]).

However, the main question is how to engage employers for this new workplace learning model. Employers' interest in apprenticeships has always been limited in Finland. Between 2015 and 2018, employers were paid a training compensation for students who transferred directly from comprehensive schooling to apprenticeship training. The compensation was EUR 800 per month for the first year of apprenticeship, EUR 500 per month for the second year and EUR 300 per month for the third year. The experience gained has shown that even this increased compensation did not have much effect on the willingness of employers to offer places to young apprentices. Student numbers did not increase to any significant extent. For decades, it has been the culture of the Finnish education system to use public funding to train a skilled workforce that businesses can then employ. Similarly, it is not the culture of Finnish businesses to participate in the education provision and, in that way, to contribute to the costs of making skilled labour available.

The collaboration of employers is essential for a well-functioning workplace learning model (OECD, 2018[45]). Employers are in a strong position to see if qualifications and curricula meet current labour market needs and they can guide their adaptation to changing requirements. To encourage their engagement with workplace learning and ensure that programmes suit their needs, social partners, notably professional bodies, should be involved in the design and implementation of workplace learning schemes (see Box 2.9 for some examples).

Box 2.9. Social partners in apprenticeship policy development

Norway

Employers and trade unions play a very active role in policy development at national, regional (county) and sectoral levels in Norway. The National Council for Vocational Education and Training advises the Ministry of Education on the general framework of national vocational education. The Advisory Councils are linked to the nine vocational programmes provided at upper-secondary level and provide counselling to the national authorities on programme content and future skill needs. The county vocational training committees advise on quality, provision, career guidance and regional development.

Source: Kuczera, M. et al. (2008[47]), *OECD Reviews of Vocational Education and Training: A Learning for Jobs Review of Norway 2008*, OECD Publishing, Paris. http://dx.doi.org/10.1787/9789264113947-en

Switzerland

The apprenticeship system in Switzerland is steered at the national level by the Confederation, cantons and professional organisations (employers, trade associations and trade unions). This arrangement is stipulated by law. The Confederation ensures quality and strategic planning and development of programmes, while 26 cantonal agencies implement and supervise apprenticeship programmes. Professional organisations establish the course content, develop qualifications and examinations, and play an important role in the provision of vocational education and training by encouraging employers to offer apprenticeship places.

Source: Hoeckel, K., S. Field and W. Grubb (2009[48]), *OECD Reviews of Vocational Education and Training: A Learning for Jobs Review of Switzerland 2009*, OECD Publishing, Paris. http://dx.doi.org/10.1787/9789264113985-en

In addition, competition between apprenticeships and training agreements needs to be fair (OECD, 2018[45]). Firms may see few reasons to offer apprenticeships if publicly funded vocational programmes provide a pipeline of skilled workers. They may prefer to hire unskilled workers and train them on the job or employ graduates of school-based programmes and top up their skills with training. Apprenticeships must therefore be of high quality to compete with alternative pathways. High-quality apprenticeships where apprentices develop useful occupational skills, reflected in credible qualifications, will lead to good employment outcomes. For individuals considering different options, an apprenticeship then becomes an attractive pathway to skills; and for employers, it becomes an attractive way of securing a skilled workforce. In 2018, the Council of the European Union adopted the Recommendation on a European Framework for Quality and Effective Apprenticeships to improve apprenticeship schemes across the European Union (see Box 2.10 for more information).

Employers will only participate in workplace learning when they believe that the benefits outweigh, or are at least equal to, the costs (OECD, 2018[45]). Empirical evidence on costs and benefits for Finnish employers could reveal the cost-benefit balance of the different workplace learning options and could underpin policy choices to improve their engagement – see Mühlemann (2016[49]) for further information and concrete recommendations.

Box 2.10. A European Union approach to high quality apprenticeships

The Council of the European Union adopted the Recommendation on a European Framework for Quality and Effective Apprenticeships on 15 March 2018. The overall objective of the Recommendation is to increase the employability and personal development of apprentices and to contribute to the development of a highly skilled and qualified workforce, responsive to labour market needs. The specific objective is to provide a coherent framework for apprenticeships based on a common understanding of what defines quality and effectiveness, taking into account the diversity and traditions of vocational education and training systems and policy priorities in the various Member States. The Framework outlines 14 criteria for quality and effective apprenticeships: seven for learning and working conditions and seven for framework conditions. Member States have three years to implement the Framework.

Source: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32018H0502%2801%29

The balance between costs and benefits is particularly relevant for discussions about financial support for employers. As discussed in detail in OECD (2018[45]), there is certainly a strong case for public investment in workplace learning, but the Finnish government should be cautious with universal tax breaks or subsidies aimed at employers. With the possible exception of well-designed and implemented employer-driven levy systems, the government would be better served by targeting funding at measures to increase how quickly students develop skills and become fully productive. Measures designed to help improve the quality of in-company training and reduce administrative costs can make a difference and are especially important for smaller employers. Non-financial options to support employers include training of apprentice supervisors and the establishment of external bodies that take over some of the tasks related to the provision of workplace learning (see Box 2.11 for some examples on the latter).

Box 2.11. External bodies supporting apprenticeship training

Australia

Group training organisations in Australia are predominantly not-for-profit organisations supported by public authorities, with some charges to host employers. Group training organisations employ apprentices and hire them out to host employers, sometimes focusing on a particular industry or region. Their tasks include: selecting apprentices adapted to the needs of employers; arranging and monitoring training both on and-off-the job; taking care of administrative duties; and ensuring that apprentices receive a broad range of training experience, sometimes by rotating them to different firms.

Source: OECD (2010), *Learning for Jobs, OECD Reviews of Vocational Education and Training*, OECD Publishing, Paris. https://doi.org/10.1787/9789264087460-en

Norway

Training offices (*opplæringskontor*) in Norway are owned by companies and funded through state grants (firms typically pay half of the apprenticeship subsidy they receive to training agencies). The role of training offices is to establish new apprenticeship places, supervise training firms, train apprentice supervisors and deal with administrative tasks.

Many training offices organise the theoretical part of training and sign the apprenticeship contracts on behalf of firms. About 70-80% of firms with apprentices are associated with training offices. Research has shown that training offices played an important role in supporting apprenticeships and ensuring their quality.

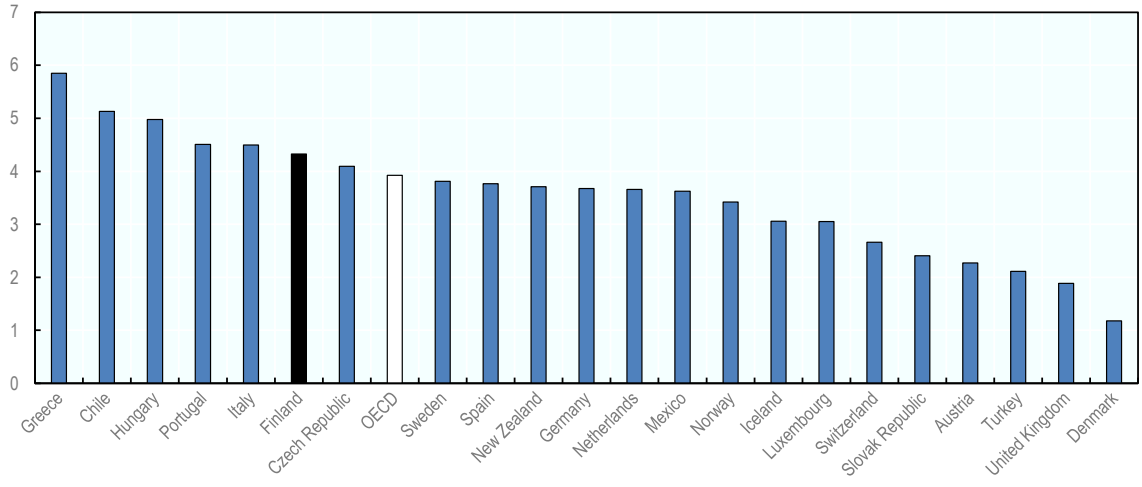
Source: Høst, H. (2015), Kvalitet i fag- og yrkesopplæringen, Sluttrapport, Faforapport 2015:32, www.fafo.no/index.php/zoo-publikasjoner/fafo-rapporter/item/kvalitet-i-fag-og-yrkesopplaeringen-sluttrapport-2.

2.3.2. Fastening completion time in tertiary education

Speeding up labour market entry also requires fastening completion time in tertiary education. The difference between the average age of first-time entrants into tertiary education and first-time graduates is indeed slightly higher than the OECD average (Figure 2.13). Part of the difference may be related to the lack of short-cycle tertiary education programmes in Finland, but that effect may again be offset by the lower share of students who continue to a master's degree (Figure 2.11 above).

Figure 2.13. Students in Finland need more time to complete tertiary education than those in the OECD on average

Differences in the average age of first-time graduates and first-time entrants into tertiary education, 2016



Note: The average age of the students refers normally to 1st January for countries where the academic year starts in the second semester of the calendar year and 1st of July for countries where the academic year starts in the first semester of the calendar year. The average age of new entrants is then slightly overestimated and the average age of graduates slightly underestimated (e.g. students will generally be between six and nine months older than the age indicated when they graduate at the end of the school year).
Source: Compilation of Table B4.2 and Table B5.1 in: OECD (2018[4]), *Education at a Glance 2018: OECD Indicators*, OECD Publishing, Paris. http://dx.doi.org/10.1787/eag-2018-en

The student financial aid system has substantial financial incentives for on-time graduation through the student loan compensation feature. When students complete their tertiary degree within the target time, KELA pays back part of the student loan.[4] For instance, for a degree at a University of Applied Sciences or a Bachelor's level university degree, the target time equals the standard time to degree plus one term (i.e. 0.5 academic years). For a Bachelor's plus Master's level university degree, the target time is equal to

the standard time plus one additional academic year. The student loan compensation is equal to 40% of the amount of outstanding student debt exceeding EUR 2 500. However, these financial incentives had almost no effect on the timing of graduation (Hämäläinen, Koerselman and Uusitalo, 2017[50]).

The study grant was also redesigned by the reform in order to reduce the graduation time. The maximum period of time for which financial aid is available for higher education study is shortened from 64 months to 54 months for students who already have earned one degree and who begin studying for another higher education degree in or after autumn term 2017. The maximum duration of aid per degree is shortened as well. In order to get financial aid (on top of the student loan), the student must make satisfactory progress with her studies. Otherwise, KELA can make the financial aid payable for a specified period of time only or stop payment altogether. Financial aid can be recovered by KELA if it is discovered that the student's study progress has been particularly slow and if it is evident that the student never intended to study at all.

2.3.3. Devoting attention to mental illness in tertiary education

Finland has been investing a lot to develop the mental health literacy of teachers and students in primary and secondary education systems through compulsory programs like *Mental Health Power*.[5] A similar focus would be helpful in tertiary education. For many students, university is indeed the first time they live independently and sometimes far away from established networks of family and social support. In adjusting to the student lifestyle, a lot of them struggle to maintain healthy day-to-day routines and are prone to academic, social and financial pressures.

According to the 2016 University Student Health Survey, a cross-sectional survey conducted among Finnish undergraduate students aged under 35 years at four-year intervals, 17% of the female respondents and 14% of male respondents mentioned that they were experiencing psychological symptoms (such as sleep problems, concentration difficulties, tension, depression, anxiety) on a daily basis, and respectively 31% and 24% on a weekly basis (Kunttu, Pesonen and Saari, 2016[51]). According to the results of the 12-item General Health Questionnaire (GHQ-12) – a common instrument to identify mental illness –, 30% of all Finnish undergraduate students suffers from mental problems.

According to international good practices, ensuring that the mental health of tertiary education students is given full attention requires two sets of policies. The first consists in raising mental health awareness across the whole university population and providing effective training for university staff in mental health awareness and referral. According to Universities UK (2015[52]), the collective voice of 136 universities in England, Scotland, Wales and Northern Ireland, awareness-raising and training policies should operate at three levels: (1) whole institutional population to raise awareness for mental health problems and disperse mental wellbeing information; (2) staff and students who have leadership roles to train them in identifying problems and referring people to the right services; and (3) staff specifically employed to work with students with mental health difficulties such as counsellors, mental health advisers, university psychiatrists and medical staff.

The second set of policies entails diversifying counselling services. Face-to-face support is crucial, but developing online help would allow reaching out students who are unlikely to seek other forms of help. Mental health websites can also play an important screening role which should allow better managing counselling service demand in a context of high caseload of mental health counsellors. In Australia for instance, the Australian National

University has been developing a *Uni Virtual Clinic*. The clinic aims to provide a range of mental health interventions across the spectrum from awareness and prevention to treatment and relapse prevention. This initiative includes information on student-specific issues (e.g. exam and study stress, sleep issues, moving away from home, relationship problems, etc.), links to support services within the university, online treatment programs embedded within the clinic as well as external links to other sources of help outside of the university. The Clinic also provides a complex problem-solving tool to help students identify issues they are struggling with and follow a path of tailored information generated from their responses (Orygen, 2017[53]).

Peer counselling also seems promising. A number of higher education institutions in Australia, Canada, the United Kingdom and the United States have developed innovative peer mentor programs, particularly to support first-year students in their adjustment to a new learning setting. In Canada, for instance, the *Jack Project* supports peer-to-peer talks, student summits and student chapters which drive their own mental health programs and awareness-raising activities in high schools and universities (CACUSS/ASEUCC and Canadian Mental Health Association, 2013[54]). Similarly, *Active Minds* in the United States is a national peer-to-peer organization dedicated to raising awareness about mental health among university students and encouraging them to get help as soon as it is needed (The Jed Foundation and Education Development Center, 2011[55]).

Of course, universities need to reinforce healthy behaviours in words and in practice. While universities might offer advice on sleep, nutrition, physical activity, stress management and coping strategies, they can also help students to act on this advice. This commitment might include the following set of behavioural nudges: not having libraries open all night to reinforce the need for students to get sufficient sleep, having healthy foods in vending machines to encourage healthy eating, or providing many opportunities on campus for low-cost physical activity and exercise.

Finally, to encourage higher education institutions to reinforce healthy behaviours, the Finnish government could commit to reward them, based on their ability to deliver improved student mental health and wellbeing outcomes. For instance, the United Kingdom launched the University Mental Health Charter in June 2018 with the aim to recognize and support higher education institutions that adopt a baseline of good practice, including early intervention and closer working links with local health services.[6]

Round-up and recommendations

Finland is renowned for the excellent results in its compulsory schools, ranking amongst the highest OECD countries in the latest PISA survey on skills of the 15-year-olds. Even so, the transition from school to work is not straightforward for many young Finns. Low-skilled youth face severe constraints in finding a job in an economy dominated by high-skilled jobs, while a very selective higher education system delays the entry into tertiary education. These barriers do not only contribute to high unemployment rates, but also translate into a qualification mismatch. Nine out of ten jobs in shortage in Finland are of the high-skilled type, and more than one out of five Finnish workers have qualifications that are below those usually held by workers in their jobs – one of the highest shares in the OECD. With a comparative advantage in knowledge-intensive industries, the economy displays a strong need for high-skilled workers, which the education system seems unable to deliver.

Raising completion rates in upper secondary education

Even though overall completion rates in upper secondary education are quite high in Finland compared with many other OECD countries, one in four vocational students do not obtain their upper secondary degree within two years after expected graduation. A mayor reform of the vocational upper secondary education system in 2018 aims to create a more customer-oriented and competence-based system and to improve efficiency. The funding model will encourage education providers to adopt measures to raise completion rates and reduce school dropout, but there may be additional ways to reach this goal:

- *Introduce cross-age peer counselling.* To reduce the gap between students' expectations and curriculum, Finland could complement standard school-based and employer-led career guidance by introducing cross-age peer counselling, whereby upper secondary students mentor last-year lower secondary students. Such approach is used in Denmark and the United States.
- *Closely monitor the impact of the new financing model for vocational education providers on the performance of students with additional needs and adjust if needed.* The vocational reform encourages education providers to better support students throughout their studies, as a substantial part of the funding now depends on graduation rates and outcomes in the labour market. However, a downside of the new financing model is that schools are discouraged from taking in low-performing students, since their probability to complete their education programme is lower. To remedy this perverse effect, the financing model could be adjusted with a budget multiplier for each student who received intensified or special support during compulsory education. The alternative is a separate budget for special services.
- *Raise the compulsory schooling age to 18 years.* Compulsory schooling laws are a common policy tool to achieve greater participation in education, particularly from marginalised groups. Since raising completion rates is a priority of the reforms in upper secondary education, many of the costs related to increased participation will be incurred anyway, even if the compulsory schooling age is not increased. In fact, the main extra cost induced by a reform of compulsory schooling age would consist in providing learning materials and books for free, a requirement for compulsory schooling in Finland. In turn, free upper-secondary education could further encourage the poorest segments of the population to continue their education.
- *Ensure that youth in all regions are adequately served by youth support networks.* Support networks outside of schools – e.g. social and health services, public employment services and, possibly, non-governmental organisations – play an important role in addressing more severe or long-lasting problems that schools are incapable of dealing with on their own. The range of such services available to youth in Finland is remarkable, including youth outreach workers to reconnect youth with education or employment, youth workshops for on-the-job training and career guidance, integrated services for youth at risk of social exclusion, and comprehensive support for young men excluded from compulsory military service. However, the caseload of such services varies widely across the country and not all regions are properly served.
- *Develop digital services to reach young people living in distant areas.* Nationwide internet-based guidance service for young people would constitute a

useful supplement to face-to-face services. While two-thirds of youth workers publicly share information relevant to young people on social media, only half use online or messaging services to give one-to-one counselling to young people. Even less use digital technology to organize online support.

Easing the transition from upper secondary to tertiary education

Finland has one of the most selective higher education system in the OECD, delaying the start of studies and forcing applicants to take unwanted gap years and repeat the tests. Only 25% of upper secondary graduates manage to continue their tertiary studies immediately after graduation and the average age at which Finnish students enter tertiary education for the first time is amongst the highest in the OECD.

- *Reform the admission procedures for tertiary education.* Universities and polytechnics agreed to modify their admission procedures by 2020 and use matriculation examination results as the main entry path into tertiary education. The admission system could be further improved by developing flexible ways for students who wish to switch between programmes or complement their studies with selected parts from other programmes and to allow for recognition of prior learning to encourage participation of non-traditional learners.
- *Expand the capacity of the higher education system to fill the shortages in high-skilled occupations.* Finland is among the very few OECD countries that impose a fixed limited number of student positions for all fields of study and all tertiary education institutions. Given the strong demand for high-skilled workers and persistent shortages in high-skilled jobs, the limited capacity of the higher education system does not seem appropriate and could be harmful for the Finnish economy.

A reform of the study financial aid system in 2017 shifted the focus from study grants to student loans and an increase in the take-up of loans in the year following the reform suggests that students effectively compensated the lower grant amounts with student loans. However, it is unclear to what extent the lower study grant has discouraged students from enrolling in education. With Finland's generous social assistance system, there is indeed a trade-off for young people, in particular those coming from poorer families, between paying for higher education or opting for generous social assistance benefits.

- *Carefully monitor the trend in education enrolment and adjust the study financial aid system if necessary.* If the enrolment rate continues to drop, Finland could consider exempting people whose taxable income is too low from repaying their student loan, and not only interest rates as is currently the case. A similar approach has proven successful in the United Kingdom, not only to keep enrolment in tertiary education high, but especially to encourage participation from the poorer segments of the population.

Improving the pathway from vocational education to employment

The vocational education reform aims to increase learning in the workplace by allowing for different forms of learning at work and making apprenticeships more attractive. While the stronger focus on workplace learning should be conducive to a better alignment of labour supply with labour demand, employers' interest in apprenticeships has always been limited in Finland. The main question therefore is how to better engage employers.

In 2016, only one out of eleven upper secondary students did an apprenticeship in Finland, despite the country's high share of vocational students.

- *Involve social partners in the design and implementation of workplace learning schemes.* The collaboration of social partners is essential for a well-functioning workplace learning model. Employers are in a strong position to see if qualifications and curricula meet current labour market needs and they can guide their adaptation to changing requirements.
- *Undertake a cost-benefit analysis of employer participation in workplace learning.* Empirical evidence on the costs and benefits for employers would offer a better understanding of the cost-benefit balance of the different workplace learning options and could underpin policy choices to improve employer engagement.
- *Offer support to employers.* The government should be cautious with universal tax breaks or subsidies aimed at employers. With the possible exception of well-designed and well-implemented employer-driven levy systems, the government would be better served by targeting funding at measures designed to help improve the quality of in-company training and reduce administrative costs. Such measures are especially important for smaller employers.
- *Ensure high quality apprenticeships.* Competition between apprenticeships and training agreements needs to be fair and the quality of apprenticeships must be of higher quality to compete with alternative pathways. Otherwise, firms may prefer to hire unskilled workers and train them on the job or employ graduates of school-based programmes and top up their skills with training.

In the Finnish vocational education system, there are three types of qualifications: upper secondary vocational qualifications, further vocational qualifications and specialist vocational qualifications. While the system does not make a difference between youth and adults, the further and specialist vocational qualifications are mainly intended for people with work experience rather than for upper secondary school-leavers. As such, Finland does not really have short-cycle higher education programmes where vocational upper secondary graduates would pursue their vocational education.

- *Develop short-cycle postsecondary vocational programmes for upper secondary graduates.* Short postsecondary vocational programmes would provide an effective way to help vocational graduates to gain more technical expertise, management and other skills, and improve their prospects on the labour market. Finland could learn from Sweden, where such programmes have been created from scratch and rapidly attract growing numbers of students. Postsecondary vocational options would also be a way to reduce the waiting lists for the highly selective tertiary education system and speed up the labour market entry for many youth.

Notes

[1] People over age 30 can also attend workshops. The total number of trainees in 2016 was 25 770; hence, the share of trainees under age 30 is close to 60%.

[2] https://minedu.fi/en/reform-of-vocational-upper-secondary-education

[3] Finland has approximately 250 000 students in vocational education and training and three quarters of them are over 20 years of age. The majority of these students make use of apprenticeship training at least as part of their studies, and for students aged over 40 it is the most popular form of skills acquisition.

[4] https://www.KELA.fi/web/en/student-loan-compensation

[5] https://www.mielenterveysseura.fi/en/kirjat/mental-health-power-youth-workers-guide-promoting-mental-health

[6] https://www.studentminds.org.uk/charter.html

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Chapter 3. Towards integrated services and integrated benefits for young people in Finland

This chapter looks at the services and social benefits available in Finland to support young people who need help in their transition to employment and adulthood after having left the education system. It discusses the impact the unusually generous Finnish benefit system has for those people and how services and infrastructures work around incentives and disincentives created by the system. The chapter pays particular attention to integrated service approaches that ensure disadvantaged young people receive the right type of support when they need it. It also discusses possible consequences and opportunities of a comprehensive health and social services reform, which was planned to be introduced simultaneously with a regional government reform that would divide Finland into 18 counties.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Introduction

The Finnish education system is among the top in the OECD area with regard to the quality of teaching and the quality of student outcomes. However, also the Finnish system cannot prevent a significant share of the youth population – some 10-15% of each cohort – from leaving school with poor or low education and having very poor chances in the job market, thereby contributing to further discouragement and a downward cycle. All OECD countries, including Finland, have services and social benefits in place to help those young people in getting their feet on the ground and making a successful transition into employment, possibly but not necessarily including education and training later in life.

Finland is in a somewhat particular position insofar as it probably has the most generous benefit system for young people of all OECD countries with almost four in five young people aged 16-29 years receiving *some* benefit and almost one in three of them receiving an out-of-work benefit (see section 3.2 for more details). This setup means services and supports not only have to help those young people making a plan for their life, direct them to the right place or service provider, and compensate the disadvantages they face, but in doing so they also have to overcome considerable disincentives to action and activation that these benefits create. This extra challenge does not contradict the fact that those young people who receive benefits tend to face a considerable low-income risk, also in Finland.

This chapter discusses the benefit system and its consequences for young people as well as the services in place to support them. It concludes that policy makers in Finland have a big task ahead. Persistent problems for disadvantaged young people demand comprehensive and structural solutions, including streamlining of available benefits and services and shifts in the way benefits and services operate. The chapter also infers that the planned but currently halted health and social services reform would offer opportunities to improve the situation for young people if it would at the same time successfully integrate effective structures and services already in place.

3.1. A comprehensive but fragmented income support system

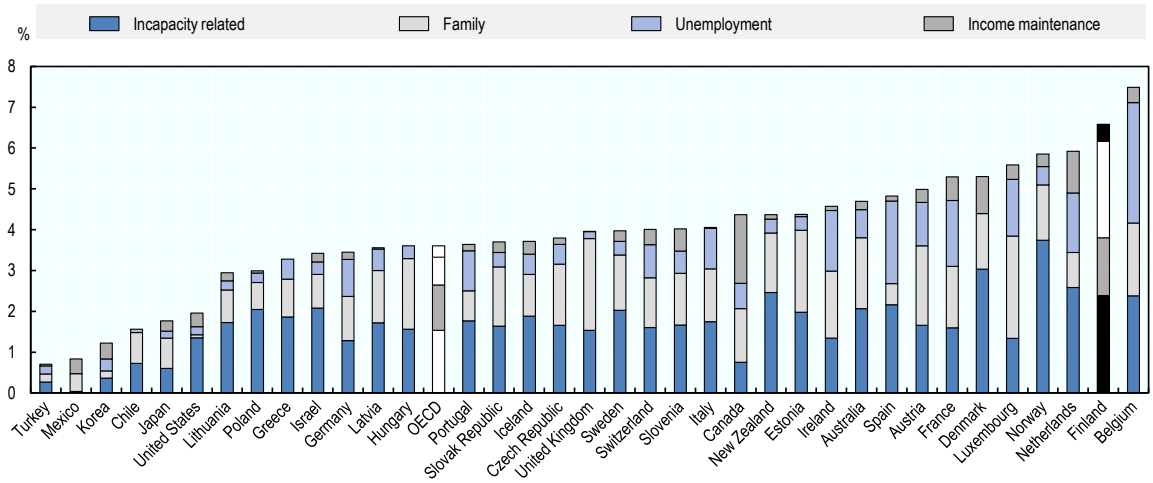
Cash benefits play a key role in guaranteeing a minimum standard of living and a safety net for people with no steady income from work. In Finland, public expenditure on social benefits is one of the highest in the OECD. At 6.6% of GDP in 2015, Finland spends much more on social income support than OECD countries on average (3.6%), most of which going to unemployment and disability benefits (Figure 3.1). However, while Finland has a very comprehensive income support system, the system is highly fragmented and the various different benefit payments are not well integrated or coordinated.

All Finnish residents have a legal right for basic income support that guarantees a minimum standard of living. For unemployed jobseekers, two types of payments exist. Those with sufficient work history are eligible for a basic unemployment allowance paid through the Finnish Social Insurance Institution (KELA) and a voluntary earnings-related allowance paid through an unemployment fund. Unemployed persons who do not meet the work requirements, or have exhausted the maximum period of unemployment allowance, are eligible for a means-tested labour market subsidy, the level of which is identical to the level of the basic unemployment allowance. Individuals whose work capacity is limited are eligible for sickness and rehabilitation allowances in case of time-limited problems or a disability benefit in case of long-term and permanent work

incapacity. A means-tested social assistance payment is also available as a last resort for low-income individuals with insufficient resources to cover their basic daily expenses and needs.

Figure 3.1. Finland's public social expenditure is among the highest in the OECD

Public social expenditure on cash income support to the working-age population as a percentage of GDP, by broad policy area, 2015 or latest available year



Note: Data are for 2015 except for Poland (2012).
Source: OECD Social Expenditure Database (SOCX), http://www.oecd.org/social/expenditure.htm.

3.1.1. Unemployment insurance for young people with work history

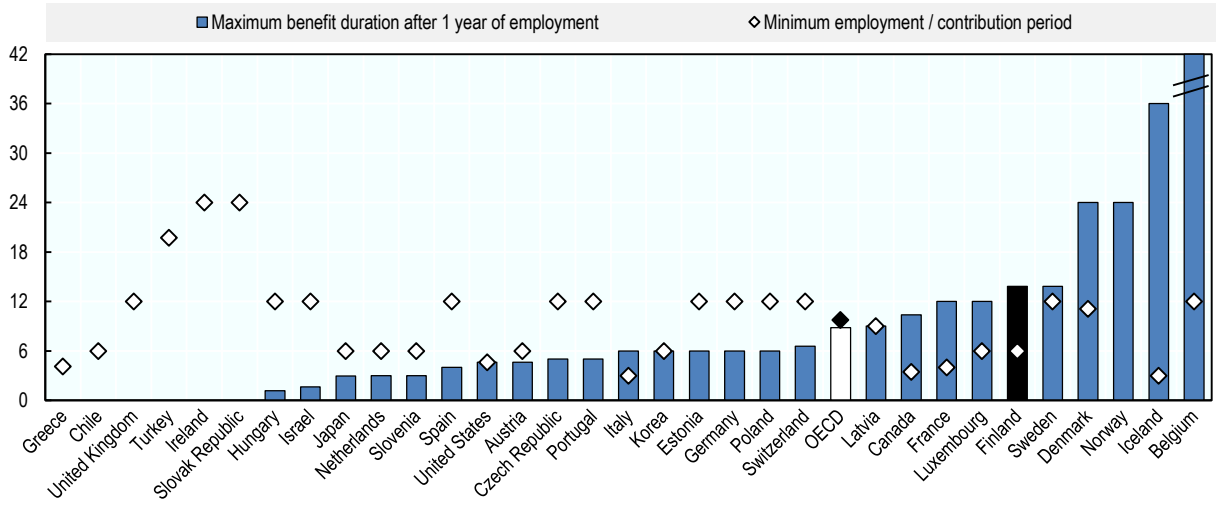
From age 17 onwards, Finnish youth are entitled to a basic unemployment allowance, provided they have been employed for a minimum of 26 weeks and completed at least 18 work hours per week during the past 28 months preceding unemployment.[1] Eligible claimants must register as unemployed jobseekers, be apt for work, look for full-time employment and accept any employment or training opportunities offered to them.

At 14 months for a 20-year-old jobseeker with one year of employment (and 18.5 months after three years of employment), the maximum benefit payment duration for young jobseekers in Finland is relatively long, compared to the OECD average of eight months (Figure 3.2). However, it is shorter than in the other Nordic countries, except Sweden: young jobseekers in Norway and Denmark are entitled to no less than 24 months of unemployment benefits and in Iceland even 36 months.

Unemployment benefit payments are less generous in Finland than in many other OECD countries. The net replacement rate (i.e. the proportion of previous net income replaced through benefits) is 58% for a jobseeker with annual earnings of 67% of the average wage (Figure 3.3). Taking into account the additional, means-tested housing allowance that unemployed jobseekers with previous earnings at that level would qualify for, lifts the net replacement rate (NRR) to 67% or slightly above the OECD average but it remains lower than in many countries in the north and south of Europe and in East Asia.[2]

Figure 3.2. The minimum required contribution period for unemployment benefits is rather short in Finland while the maximum payment duration is relatively long

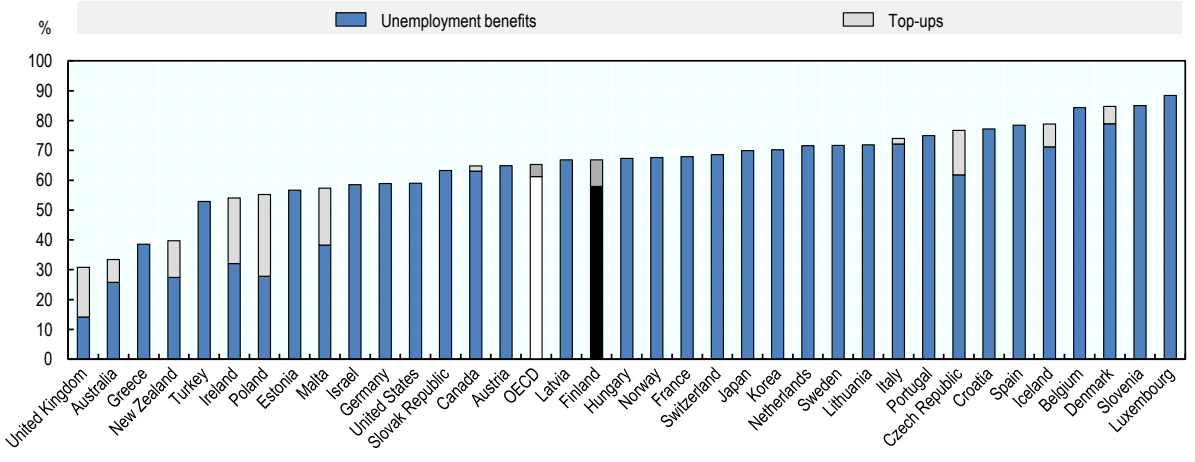
Minimum contribution or employment period and maximum duration of unemployment insurance benefits (both measured in months) for a 20-year-old jobseeker after one year of employment, 2016



Note: In Belgium, Ireland, the Slovak Republic and Turkey, 20-year-olds with a one-year contribution record do not qualify for unemployment insurance benefits. In Greece, social insurance contributions in each of the previous *two* years are required. No maximum benefit duration applies in Chile. Results for the United States are for the State of Michigan. No results are available for Mexico. There are no unemployment insurance schemes in Australia and New Zealand. The OECD average refers to countries where such a limit exists.
Source: OECD Tax-Benefit Models, www.oecd.org/social/benefits-and-wages.htm.

Figure 3.3. Unemployment benefit levels in Finland are similar to the OECD average

Net replacement rates in the 2nd month of unemployment for a single 20-year-old with previous earnings at 67% of the average wage, as a percentage of previous net income, 2018



Note: Net replacement rate of a single, childless person in continuous employment for 24 months. The benefit replacement rate is net of applicable income taxes and social security contributions. Top-ups may consist of social assistance and housing benefits, with housing costs assumed to equal 20% of the average wage. No results available for Mexico. Based on projected wages and preliminary information on tax rules.
Source: Own calculations using the OECD Tax-Benefit Models, www.oecd.org/social/benefits-and-wages.htm.

Even if payment rates are modest, Finnish youth with sufficient work history and, thus, entitled to unemployment allowance are relatively better off in case of longer spells of unemployment. Whereas in many OECD countries net replacement rates drastically decline with the duration of unemployment, in Finland it remains at its initial level throughout the 14/18.5 months, provided all activation requirements are fulfilled (see also section 3.5.1). The incidence of long-term unemployment among Finnish youth, however, is among the lowest in the OECD: in 2016, only 8.8% of the 15-24-year-old unemployed were out of work for more than one year (OECD, 2018[1]).

3.1.2. Minimum-income benefits for youth with low incomes

Separate income support is available for young individuals with low incomes who do not fulfil the work requirements to qualify for unemployment or the health requirements to qualify for a sickness or disability benefit (see below). Jobseekers whose employment history is too short or who enter the labour market for the first time, qualify for a labour market subsidy. This subsidy is means-tested and takes into account claimants' earnings from employment and other social benefits as well as their parents' income if the jobseeker still lives with them. In 2018, the maximum amount was set at EUR 697 per month, which corresponds to around 28% of the net average wage.

Just like for other unemployment benefits discussed above, entitlements to labour market subsidies are tied to participation in active labour market measures. To receive full benefits, jobseekers must have been employed for a minimum of 18 hours (or earned a minimum of EUR 241 if self-employed) or taken part in at least five days of employment-promoting training and services provided by the Employment Office within the last 65-day period. Age also matters: 16-17-year-olds may receive the labour market subsidy only during participation in employment-promoting services. 18-24-year-olds must have applied to an educational programme and not have turned down any offer for employment or education in order to qualify for the subsidy. There is also a waiting period of five months for those without a vocational qualification (Hiilamo et al., 2017[2]).

Youth and households with low incomes and high costs of housing are also entitled to a separate housing allowance. The allowance applies for both rented and owner-occupied homes and depends on a number of factors, including the municipality of residence, total household income and the number of adults and children living in the household.

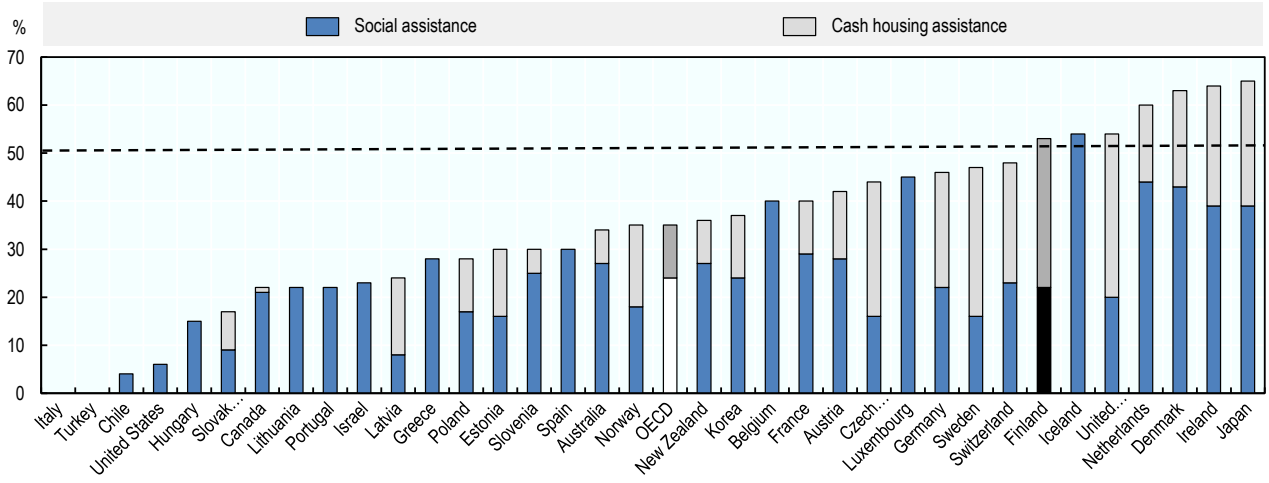
Low-income individuals and families may also receive social assistance in case their earnings are insufficient to cover basic needs of everyday life. Eligibility for this last-resort type of income support depends on the claimants' household income (including other social benefits), their assets and the amount required to cover basic expenses. Social assistance consists of basic social assistance (administered by KELA) and supplementary and preventive social assistance (administered by and at the discretion of municipal authorities). The former covers a basic amount of EUR 491 per month in 2018 for a person living alone and other basic expenses (e.g. housing costs and medical expenses) up to a reasonable amount. The latter two cover specific expenses not covered by basic social assistance such as expenses related to the specific needs and circumstances of the family. Parents' earnings have an effect on the eligibility for social assistance for 16-17 year olds, but not for those aged 18 years and over – even if they still live with their parents.

Minimum-income benefits are generous in Finland compared to other countries. For a single childless person, for example, the total benefit corresponds to 54% of the median equivalised household income, just above the poverty line of 50% and the third-highest

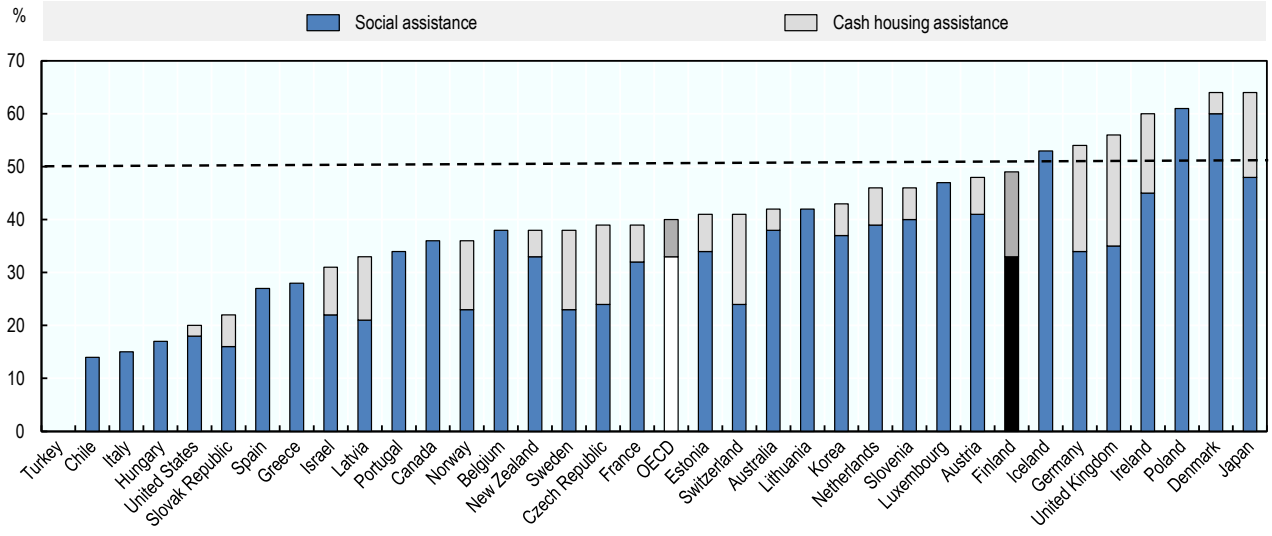
level in the OECD (Figure 3.4, Panel A). Couples with one child fare slightly worse in Finland, but the payment of 50% of the median income remains far above the level paid in its Nordic neighbours as well as the OECD average of 30% (Figure 3.4, Panel B).

Figure 3.4. Minimum-income benefits in Finland lift people just above the poverty line

Panel A. Net levels of social assistance for a single childless person as a percentage of median income, 2018



Panel B. Net levels of social assistance for a couple with two children as a percentage of median income, 2018



Note: The dotted line indicates the poverty threshold of 50% of the median equivalised household income. Income levels account for all cash benefit entitlements of a family with no other income source and no entitlements to primary benefits such as unemployment insurance. They are net of income taxes and social contributions. "Cash housing assistance" represents cash benefits for a household in privately rented accommodation with rent plus other charges amounting to 20% of average gross full-time wages. Calculations for families with children assume that the children are four and six years old and consider neither childcare costs nor benefits. Where benefit rules are not determined on a national level but vary by region or municipality, results refer to a "typical" case (e.g. Michigan in the United States, the capital in some other countries). US results include Food Stamps. The 2018 values are based on projected wages and preliminary information on tax rules. The latest year is 2016 for Chile and 2017 for Canada, Korea and Turkey.

Source: Own calculations using the OECD Tax-Benefit Models, www.oecd.org/social/benefits-and-wages.htm.

3.1.3. Income support for youth with reduced work capacity

Youth with reduced work capacity due to illness, injury or disability are eligible for sickness and/or rehabilitation allowance or a rehabilitation subsidy or a disability benefit[3] and possibly a separate disability and/or care allowance. Sickness allowance compensates for loss of income due to short-term incapacity for work (less than one full year). In cases of prolonged illness, sickness allowance can be combined with, and followed by, a partial sickness allowance (where an individual returns to work on a part-time basis following a medical leave of absence); or a rehabilitation allowance or subsidy, along with rehabilitation services, rehabilitative psychotherapy (reimbursed by KELA), or vocational services. The aim of these payments is to enhance and support the individual's capacity to return to work. Rehabilitation subsidies are a special form of time-limited disability benefit. In cases of permanent or long-term incapacity to work after rehabilitation or medical leave, individuals are entitled to a regular disability benefit.

16-19-year-old youth whose capacity to study, work, or choose an educational programme has considerably weakened due to illness or disability are eligible for a youth rehabilitation allowance (established in 1999). Youth rehabilitation involves an individual education and employment plan composed in the recipient's municipality of residence, and supports youth's education or participation in workshop activities, work trials or job coaching (Hiilamo et al., 2017[2]). Youth aged 20 and over who are incapable of work due to illness, injury or disability are entitled to a rehabilitation allowance during rehabilitation, a fixed-term rehabilitation subsidy, or a disability benefit in case of long-term, permanent disability, just like other working-age adults. The minimum amount of any of these payments in 2019 is EUR 784 per month.

3.2. Benefit receipt among youth is high and benefit traps are significant

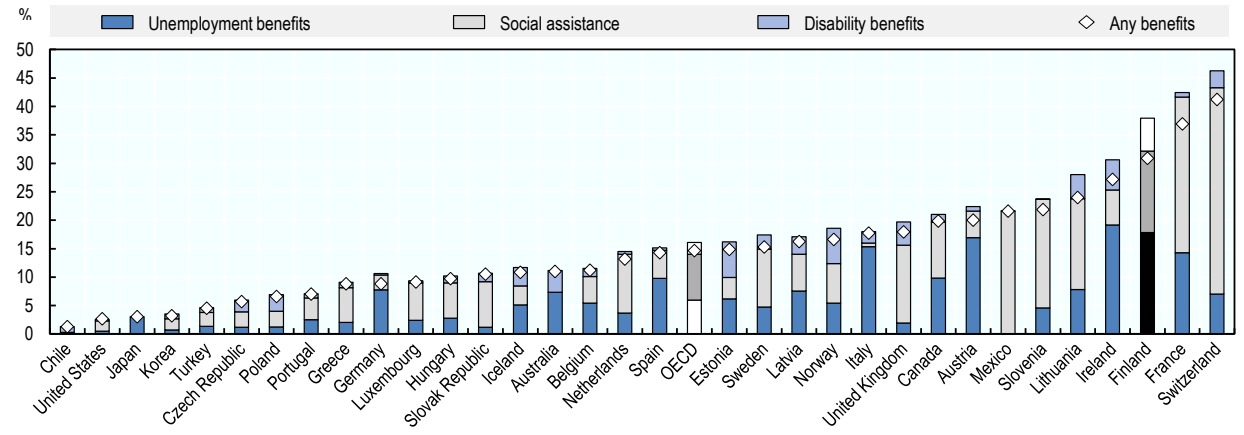
Eligibility rules say little about the actual coverage of income-support programmes. A large share of youth in Finland, in particular those who are NEETs, receive benefits, which can often be a major barrier to seeking education and employment, as people are reluctant to lose their benefit entitlement, which would usually happen when they start working.

Finland has the third-highest rate of all OECD countries of the share of young people, aged 16-29 years, receiving out-of-work benefits. In 2017, 30.9% of Finnish youth received some type of out-of-work benefit, a share much higher than in other Nordic countries and twice the OECD average of 14.7%. The shares of Finnish youth on either unemployment (17.8%), social assistance (14.3%) or incapacity-related benefits (5.8%) are all relatively high (Figure 3.5, Panel A). The high rates may be due to a number of reasons: Finnish youth leaving parental home earlier than elsewhere; difficulties in transitioning to the preferred upper-secondary or tertiary education programme (see Chapter 2); or benefit traps that discourage individuals to seek employment or education and move out of benefits.

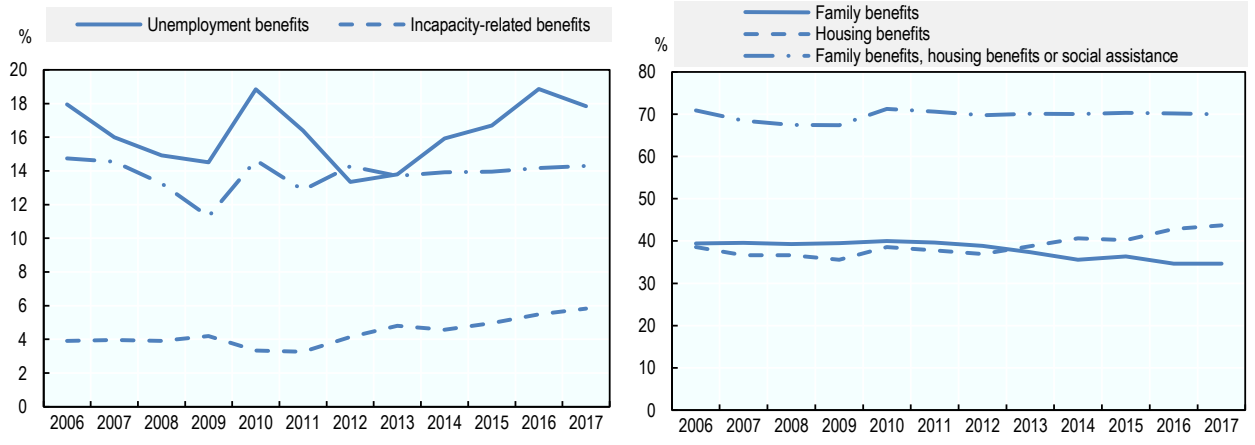
High rates of benefit receipt in Finland are not a new phenomenon. The proportion of young Finns on out-of-work benefits was already high ten years ago, when the benefit system was largely the same as it is today (Figure 3.5, Panel B). The business cycle has a strong effect on the unemployment benefit caseload and some effect on other benefits. The global financial crisis in 2008/09 led to a strong increase on the share of youth receiving unemployment benefits (Hiilamo et al., 2017[2]). While it rapidly fell back to its pre-crisis level until 2011, it has since continued to increase again (see also Chapter 1).

Figure 3.5. Receipt of unemployment and social assistance benefits are both high in Finland

Panel A. Percentage of 16-29-year-olds receiving out-of-work benefits, 2017 or latest available year



Panel B. Benefit receipt rates in Finland, as a percentage of all 16-29-year-olds, 2007-2017



Note: Benefit receipt rates give the number of young people who report having received a positive amount of benefits (either individually in the case of unemployment and incapacity-related benefits, or who live in a household that received family benefits, housing benefit or social assistance) during the past year as a share of all 16-29 year-olds. For Panel A: Data on Canada refer to 2011, for Japan to 2012, for Korea to 2014, for Australia, Iceland and Turkey to 2015 and for Ireland, Mexico, Norway and the United States to 2016.
Source: OECD calculations based on the European Union Statistics on Income and Living Conditions (EU-SILC) survey, Household, Income and Labour Dynamics in Australia (HILDA) Survey, Chile National Socio-Economic Characterisation Survey (CASEN), and the US Current Population Survey (CPS).

The share of young disability benefit recipients has increased continuously, from 3.9% in 2006 to 5.4% in 2016. This is a considerable trend increase – a 72% increase over a period of one decade – and quite alarming, for several reasons. First, disability benefit is a permanent lifetime payment in most cases. Second, this increase is attributable to mental disorders which account for the vast majority of disability benefit claims among youth in Finland (Kokkonen and Koskenvuo, 2015[3]; Koskenvuo, 2018[4]); Third, the overall share of disability benefit claims in the working-age populations has decreased since the 2000s (Rantala et al., 2017[5]).

This trend is not unique to Finland. The share of disability benefit recipients among young people has increased in several OECD countries, including Denmark, the

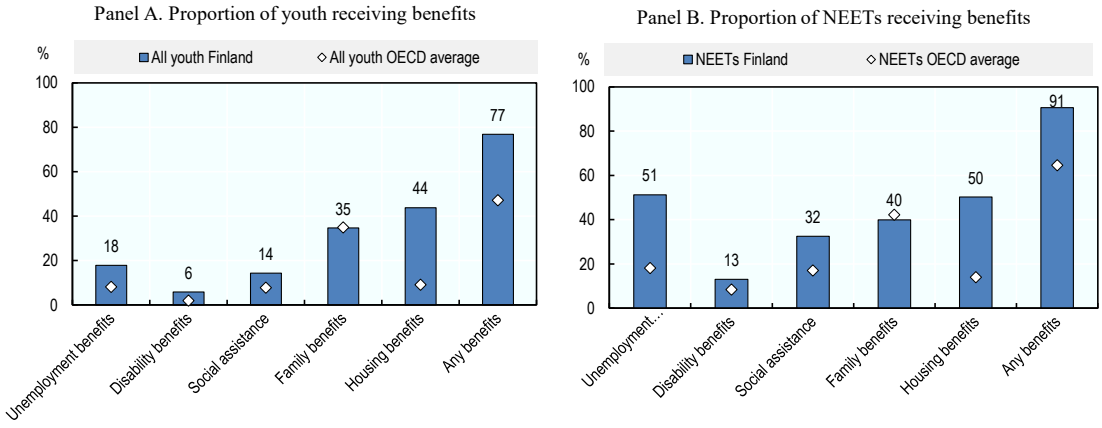
Netherlands, Norway and Switzerland (OECD, 2015[6]). The causes of such rise, however, are not easily traceable. On the one hand, this increase may reflect better access to health and social services for the youth population or the system's improved ability to identify their problems and needs early on. On the other hand, the increasing rates of youth's disability benefit receipt due to mental disorders may reflect increasing pressure and changing demands in education and employment for young people and resulting increases in the prevalence of mental ill health (Talouselämä, 2017[7]; OECD, 2018[8]). Finally, this trend could also reflect better awareness of mental health conditions and a tendency of the main institutions to underestimate the work capacity of young people with such conditions (OECD, 2015[6]).

3.2.1. Does the Finnish benefit system target vulnerable youth?

In assessing the efficiency and adequacy of the Finnish benefit system for young people, various questions arise. A first question is whether the system reaches all those who need help and avoids paying benefits to those who would not need them. The high overall benefit coverage rates suggest that the system is rather more likely to err on the side of generosity in access even though some youth might be more difficult to reach.

With the exception of family benefits, Finnish youth are far more likely to receive benefits than youth in other OECD countries (Figure 3.6, Panel A). The overall benefit receipt rate is more than one and a half times higher for 16-29-year-old youth in Finland than the average across OECD countries. The picture is similar for Finnish NEETs, the youth population likely to be in greater need: in Finland, 91% of all NEETs received at least some type of benefit in 2017, compared to 65% of NEETs in the OECD on average (Figure 3.6, Panel B).

Figure 3.6. Finnish NEETs are well covered by benefits compared with other countries



Note: Number of young people who report having received a positive amount of benefits during the past year (either individually in the case of unemployment and disability benefits, or because they live in a household that received family benefit, housing benefit or social assistance) as a share of all 16-29 year-olds or the NEET population in that age group. Data for Finland is for 2017. The OECD average is based on the latest available year for each county.
Source: OECD calculations based on the European Union Statistics on Income and Living Conditions (EUSILC) survey, Household, Income and Labour Dynamics in Australia (HILDA) Survey, Chile National Socio-Economic Characterisation Survey (CASEN),), the Korean Labor and Income Panel (KLIPS) and the US Current Population Survey (CPS).

High shares of recipients of family and housing benefits are driving Finland's overall youth benefit receipt rate upwards; for instance, close to one in two young people in Finland live in a household that receives housing benefit, compared to one in ten on average across the OECD. The high share of Finnish NEETs on benefits, on the other hand, is largely a result of the high share of them in receipt of unemployment and social assistance benefits, both compared to Finnish youth overall and NEETs in other OECD countries. Over 50% of all NEETs in Finland receive unemployment benefit compared to 18% among Finnish youth overall and a similar share of just under 20% among NEETs across the OECD. The difference in benefit receipt rates between NEETs and youth overall is larger in Finland than on average across the OECD not only for unemployment but also for social assistance payments. This finding suggests Finland's unemployment and social assistance benefits target well those young people who are most vulnerable and struggling to find employment. Disability benefit receipt is also more than twice as high among NEETs.

3.2.2. Does the Finnish system create benefit traps?

The various income support schemes support Finnish youth well, but the generosity and the fragmented nature of the different benefits, as well as the bureaucracy involved in navigating them, may create benefit traps that stop individuals from seeking education or employment (OECD, 2018[9]). This negative effect risks reinforcing benefit dependency and locking individuals into long-term disadvantage and inactivity (Prime Minister's Office, 2018). Speaking from the point of view of youth, this would imply locking young people in a NEET status or even generating a larger number of NEETs in the first place.

Government measures taken since the late 1990s have been somewhat effective in reducing benefit traps and encouraging job search and employment (Viitamäki, 2015[10]). According to Honkanen et al. (2007[11]), the number of households "trapped" in unemployment decreased by approximately 17% from 1995 to 2004. Yet, the number of households faced with unemployment traps remains considerable. Some studies estimated their proportion to be as high as 15% of the total working-age population (Hakola-Uusitalo et al., 2007[12]) and even one-third of all single-parent households (Kärkkäinen, 2011[13]).

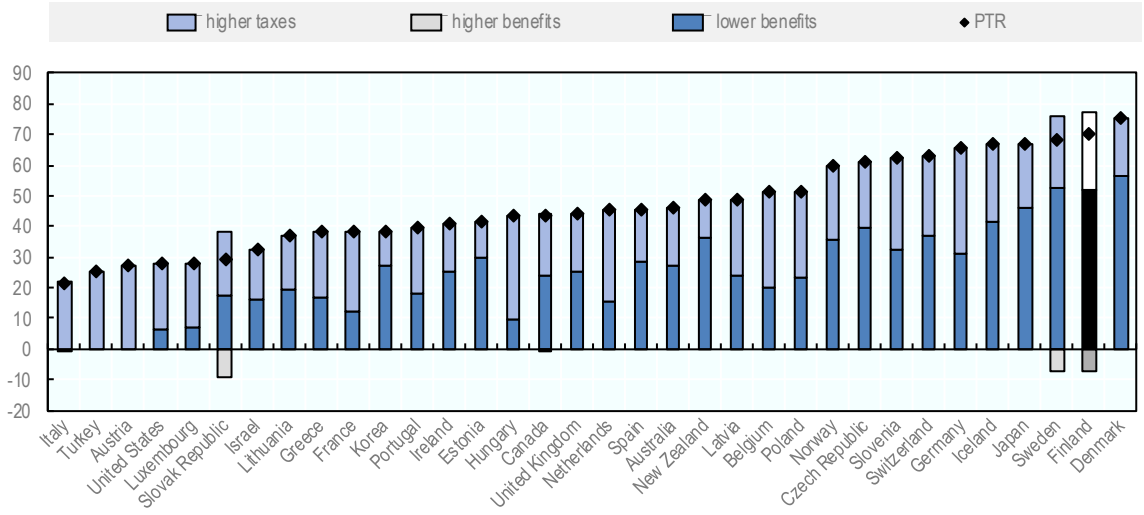
Finland's low overall employment rate in comparison with other Nordic countries is partly attributable to the weak work incentives caused by the interaction of generous social benefits and high taxes on income (OECD, 2018[9]). Indeed, Finland has one of the highest participation tax rates (PTR) – i.e. the proportion of earnings lost to higher taxes or lower benefit entitlements when an individual moves into work – for youth without any work experience in the OECD (Figure 3.7). At 70%, Finland's PTR was the second highest among all OECD countries in 2018. Working does not necessarily pay and incentives to move off benefits remain relatively weak for young Finns.

Benefit traps are a particular concern for young people with low qualifications and limited work experience who are unlikely to earn high salaries. For example, the current benefit system can discourage youth from pursuing upper-secondary education, given that the monthly amount of student allowance is lower than that of social assistance. For a young person living independently, the difference between these two benefits is considerable: in 2018, a student in secondary education receives EUR 250 per month compared with EUR 491 for youth receiving social assistance.[4] This difference might be larger in reality because, unlike social assistance, student allowances are taxable income.

However, students can also access a student loan (EUR 650 per month for students older than 18 years) that complements the student allowance (Hiilamo et al., 2017[2]).

Figure 3.7. High taxes and generous benefits pose a considerable challenge for re-activating youth in Finland

Participation tax rates for a young person who has never worked when moving from inactivity to employment at 67% of the average wage, 2018



Note: Participation tax rates (PTR) measure the fraction of any additional earnings that is lost to either higher taxes or lower benefits when individuals take up a new job. They measure the extent to which taxes and benefits reduce the financial gain from moving into work. Estimates for Finland include earned-income allowance and earned-income tax credit, which are in-work benefits that are automatically available for all workers; they lower the PTR for this group (youth moving into low-paid employment) by just under ten percentage points.
Source: Author's own calculations using standard outputs from the OECD tax-benefit web calculator, http://www.oecd.org/els/soc/benefits-and-wages/tax-benefit-web-calculator.

Youth receiving unemployment benefits face greater disincentives to pursue education than those on social assistance. The difference between unemployment benefits and the student allowance is even steeper: the maximum amount of the labour market subsidy is EUR 697 per month for youth without sufficient work history. Eligibility criteria for social assistance and labour market subsidy may also discourage youth from (re-)educating themselves, as they only allow completing studies *other* than those leading to a degree. Moreover, youth without vocational qualification may have an incentive to begin their studies only when they turn age 25 rather than studying earlier. This is because they are entitled to a labour market subsidy (which is much more generous than a student allowance) for a maximum period of 24 months for studies leading to a degree.

The relative generosity and the means-tested nature of benefits can also discourage youth from actively seeking and taking up employment. For example, youth receiving student allowance may only earn up to EUR 8 004 per year, provided they receive an allowance in all 12 months of the year.[5] Similarly, any income above EUR 300 per month leads to a 50% reduction of an unemployment benefit entitlement. Rehabilitation subsidies also depend on other sources of income, and can lock youth into disadvantage. Taking part in four hours of rehabilitative work activity per week is sufficient to qualify for a full unemployment benefit, which potentially discourages youth from seeking more

substantial employment. Transitioning from rehabilitative work to a work trial also triggers the loss of certain benefits (e.g. transportation and travel allowances).

Is long-term benefit receipt a concern in Finland?

Benefit traps can discourage young people from continuing education or seeking full-time employment. This is particularly dramatic if such behaviour turns into long-term benefit dependency from which it is difficult to escape. The analysis presented in the following tables draws on official statistics of benefit recipients provided by the Social Insurance Institution, the National Institute of Health and Welfare and Statistics Finland.

Table 3.1 provides an overview of the number of youth recipients of unemployment benefits in 2016 and the duration of benefit receipt, broken down by the three types of unemployment benefit (earnings-related allowance, basic allowance, and labour market subsidy). Labour market subsidies are by far the most common unemployment benefit for 17-29-year-old youth, because many young people lack the work experience required to qualify for the other two types of payment.

The vast majority of young people who receive one of the two types of unemployment allowances receive benefits for less than 27 weeks. The duration of receipt is much longer for the majority of youth who receive a labour market subsidy. Notably, the proportion of long-term recipients of labour market subsidies (27 weeks and longer) is high among both 20-24-year-olds (50.3%) and 25-29-year-olds (65.1%) (Table 3.1). These high shares are likely to capture especially lower-skilled youth at risk of long-term disadvantage and benefit dependence. To receive a labour market subsidy for a longer period implies that these young people have already participated in several (mandatory) active labour market measures, thus facing either financial disincentives to, and/or significant trouble in, securing employment or a place in an educational programme.

Table 3.1. The duration of unemployment benefit receipt is long for young people in Finland

Recipients of earnings-related unemployment allowance, basic unemployment allowance and labour market subsidy in 2017 (year-end), by age and length of unemployment period

Age	Recipients	Distribution of recipients by length of ongoing period in weeks (in %)						
	Total	*0-4*	*5-12*	*13-26*	*27-52*	*53-104*	*105-*	*157-*
	Earnings-related allowance							
17-19	130	53.1	30.0	13.1	3.8	0.0	0.0	
20-24	6523	28.1	27.5	25.1	12.0	7.1	0.1	
25-29	14760	21.4	21.9	26.0	16.3	14.2	0.3	
	Basic unemployment allowance							
17-19	286	36.4	42.3	20.6	0.7	0.0	0.0	
20-24	5270	23.8	24.9	27.4	14.4	9.0	0.5	
25-29	7228	16.0	18.8	26.1	19.8	18.0	1.3	
	Labour market subsidy							
17-19	7212	18.3	22.9	29.3	24.4	5.0	0.1	0.0
20-24	24693	15.4	13.7	20.6	21.6	20.5	5.8	2.4
25-29	27074	7.5	10.1	17.3	19.8	25.5	11.8	8.0

Source: Social Insurance Institution.

Table 3.2 looks at the duration distribution of social assistance receipt among Finnish youth. Generally, benefit duration is much longer for social assistance spells than they are for unemployment benefit spells although the number of young people receiving social assistance is only about one-third of the number of youth receiving a labour market subsidy. Among 20-29-year-olds, many social assistance recipients received benefits for a period of 10-12 months: one in four of the 20-24-year-olds and close to 30% of the 25-29-year-olds.

Table 3.2. Escaping from social assistance receipt is more difficult for youth in Finland than escaping from unemployment benefits

Recipients of primary social assistance, by age and duration of social assistance, 2017

Age	Recipients	Distribution of recipients by length of ongoing period in months (in %)					
	Total	*1*	*2*	*3*	*4-6*	*7-9*	*10-12*
18-19	2842	18.1	14.3	10.3	22.0	16.5	18.9
20-24	8765	16.8	12.3	9.5	18.8	16.7	25.9
25-29	6243	16.2	11.6	8.9	18.9	16.3	28.2

Source: Social Insurance Institution.

Table 3.3 sheds light on the number of 18-29-year-olds *entirely* dependent on social transfers (i.e. cases where social benefits account for more than 90% of the recipients' gross income) and the proportion of those with prolonged dependency of four consecutive years. Prolonged dependency on social transfers is relatively widespread and, in 2016, affected over one-fifth of the youth benefit population (22.6%). Prolonged dependency was highest among recipients of sickness and disability as well as child and family benefits but also affected one in four recipients of an unemployment allowance or a labour market subsidy. These high shares suggest that income support schemes lock young people in welfare dependency and discourage them from seeking employment or educational opportunities.

Table 3.3. Long-term dependence on social security is frequent among youth in Finland

18-29-year-olds by basic social security dependency and main income source, 2016

Type of income support	Recipients entirely dependent on basic social security	Share of recipients with prolonged dependency (in %)
All social transfers (total)	70802	22.6
Unemployment benefits	30347	24.7
Sickness and disability benefits	13872	30.8
Student financial aid	18154	10.1
Child and family benefits	7999	29.3
Other social transfers	372	20.7

Note: 18-29-year-olds. Year of reference 2016. Unit of analysis is the individual. Income refers to equivalent household disposable cash income. Entirely dependent on basic social security: basic social security benefits more than 90% of gross income. Prolonged dependency: entirely dependent for four consecutive years.
Source: Statistics Finland, Income and Consumption Database.

Of particular concern in this regard is the Finnish Child Home Care Allowance (CHCA), introduced in the mid-1980s with the intention to provide more choice to parents (a choice between using public day-care or staying at home with a child under age 3) and to reduce childcare costs (as cash for care is cheaper in the short term). Subsidising home

care is controversial as it can create an inactivity trap for women ((Hiilamo and Kangas, 2009[14]). The introduction of CHCA is, therefore, seen as a compromise between political groups (Sipilä, Repo and Rissanen, 2010[15]). The take-up of CHCA is high and rather stable over time: more than 90% of all children born in Finland are cared for at home for some time and, in any year CHCA is received for more than half of all children between nine months and three years (Duvander and Ellingsæter, 2016[16]). More than 90% of all recipients are mothers. Financial considerations matter: low qualified people with low income and many children are overrepresented among CHCA recipients (Ellingsæter, 2012[17]) and take-up is highest in those municipalities that provide a significant CHCA top up (Kosonen, 2011[18]). The impact on female labour supply is considerable. At around 50%, employment rates of mothers of young children in Finland are relatively low; long-term unemployment rates are especially high among mothers with children aged 3-6, i.e. after expiry of CHCA; and mothers with a temporary job or no job at the time of childbirth struggle most in returning to employment (Haataja and Nyberg, 2006[19]). The influence of children on the gender employment gap is particularly large in Finland, comparable to Italy or the United Kingdom (OECD, 2018[20]). However, CHCA not only affects vulnerable women as research has repeatedly demonstrated the positive long-term effects of quality day-care for children from disadvantaged families, i.e. those using CHCA most (Cornelissen et al., 2018[21]).

There is no particular analysis available on the impact of CHCA on very young mothers and especially those with unfinished education. EU Statistics on Income and Living Conditions Survey data for 2017 show that almost half of all young mothers aged 15-29 with young children are NEETs (see Chapter 1). The CHCA can render staying at home more financially advantageous than engaging in training or paid employment, especially in municipalities that pay significant CHCA top ups. This is likely to have long-term consequences on the level of education and skills young women with children will achieve and, in turn, their employment and income trajectories. This adds to other evidence available that also points to a need to revisit the functioning of the CHCA.

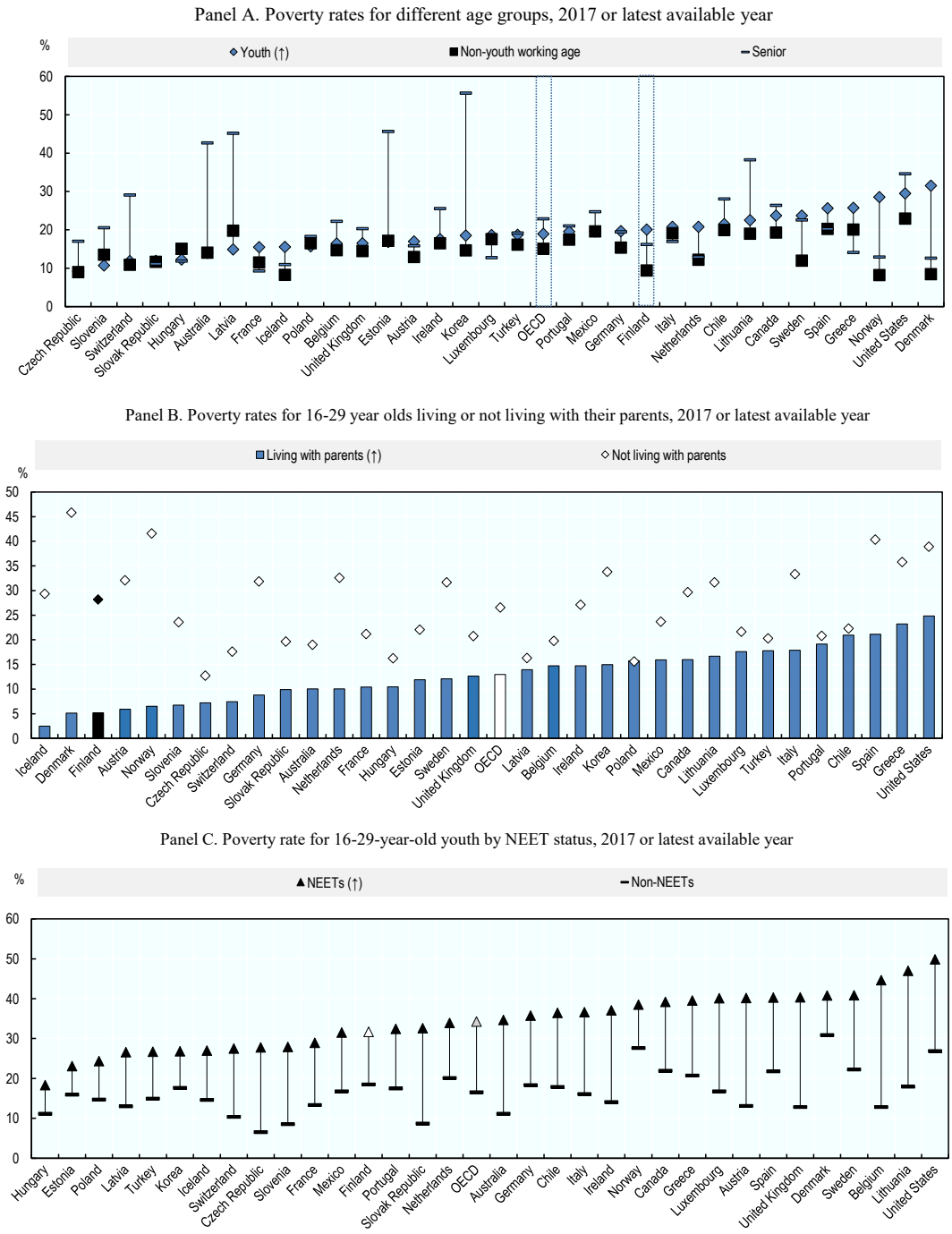
3.3. Youth poverty is relatively high despite a generous benefit system

Benefit dependence closely relates to youth poverty, which is also high in Finland. In 2017, 20% of the 16-29-year-olds in Finland lived in households with equalised incomes below 60% of the median income, commonly defined as the threshold for low income or relative poverty (Figure 3.8, Panel A). This compares with an OECD average for this age group of 18.9% and is in stark contrast with the poverty rate of the working-age population (9.4%) and of senior citizens (16.2%) in Finland, which are both below the corresponding OECD averages (15.1% and 22.8% respectively). Child poverty in Finland (children under age 15) is also among the lowest in the OECD, second only to Denmark (OECD, 2018[22]).

While the share of youth who are relatively income poor is higher in Finland than in most OECD countries, it is lower than in other Nordic countries, including Denmark (31.5%), Norway (28.5%) and Sweden (23.7%). High rates of youth poverty across the Nordic region are a phenomenon driven by the fact that youth tend to leave parental home much earlier than in most other OECD countries. In 2016, for example, according to Statistics Finland only 17% of 20-29-year-olds in Finland still lived with their parents. Accordingly, there is a stark contrast in Finland (as well as other Nordic countries) in poverty risks between youth who live with their parents (5%) and those who do not (28%) (Figure 3.8, Panel B.). Moreover, like in other Nordic countries, education is a key driver

of the low-income levels among Finnish youth living independently (Okkonen, 2018[23]; OECD, 2018[8]).

Figure 3.8. Youth poverty is high in Finland because young people leave parental home early



Note: Individuals are poor if they live in a household with an equivalised household income (income adjusted by the number of household members) below 60% of the median. The poverty rate of seniors in Australia appears to be high because many retirees draw their pensions as a lump sum instead of receiving monthly payments. Data on Canada refer to 2011, for Korea to 2014, for Australia and Turkey to 2015 and for Iceland, Ireland, Mexico, Norway, Switzerland and the United Kingdom to 2016.
Source: OECD calculations based on the European Union Statistics on Income and Living Conditions (EUSILC) survey, Household, Income and Labour Dynamics in Australia (HILDA) Survey, Chile National Socio-Economic Characterisation Survey (CASEN), the Korean Labor and Income Panel (KLIPS) and the US Current Population Survey (CPS).

Not only do students constitute the majority of this group but they also, typically, finance their living through a combination of student grants, housing allowance and student loans. Unlike student grants and housing allowance, however, student loans do not count as income. On top of this, student grants are means-tested, which limits the amount of income students can earn during their studies.[6] The 2017 student allowance reform put even stronger emphasis on student loans, rather than allowances, which may have an indirect effect on youth poverty rates in the coming years.

Like in all OECD countries, also in Finland the low-income risk is higher among NEET youth than non-NEETs (Figure 3.8, Panel C.). The gap between these two groups, however, is smaller in Finland (as well as the other Nordic countries) than elsewhere: in 2016, 21% of NEET lived in poverty, compared to 14% of non-NEETs. The NEET poverty rate is also lower than the OECD average (24%), in stark contrast with the above-average rates for non-NEETs and youth overall. These trends likely reflect the overall generosity of Finnish income support, and the fact that different types of social benefits constitute a primary source of income for a significant number of (NEET) youths living independently.

3.4. Challenges for an easily accessible and generous benefit system

Finland allows young people to access a large range of benefits. This setup has a number of significant consequences. Some of the consequences are very positive but others are potentially highly problematic. The income support system in Finland successfully ensures that unemployed and inactive youth have a minimum standard of living. Benefits also target young people most in need quite effectively, reflected in much higher benefit receipt rates of the NEET population compared with other youth in Finland. On the downside, the benefit system is complex and disjointed, and creates traps and dependence that result from significant disincentives to seek work and leave benefit.

Three aspects are critical, all of them suggesting that significant reform may be necessary. First, easily accessible benefits allow young Finns to leave the parental home very early in life. Many of them appear income poor but 50% of median household income or a little less than this, which is the income that young persons on benefits will avail of, is enough for a very young person living alone to make ends meet. However, the system may also push some less mature young people into independence, often in a city far away from their home, at a critical time of life. This implies that comprehensive and integrated services need to be available to support those young people who need help.

Secondly, the easy access to benefits creates considerable benefit take-up. In turn, the system itself may not only support NEETs in a difficult period of life but may contribute to a larger than necessary size of the NEET population. To avoid benefit generation and benefit dependence, such a system must go hand-in-hand with a very strong activation regime to ensure young people actively engage in further education or seek employment.

Activation of benefit recipients, however, is rather weak in Finland and several of the benefits are available without any obligation attached to them. Not surprisingly, the result is that the average duration of benefit receipt is relatively long and that the system locks a significant share of the beneficiary population in long-term benefit dependence.

Thirdly, the system is fragmented and disjoint, with no direct connection between different types of payments and limited connection between benefits and employment services. The latter hinders the implementation of a stronger activation regime, while the former implies that young people may face different incentives to seek work depending on the type of benefit they receive and may seek to access the most generous payment with the least obligations attached. This phenomenon is visible in the continuous increase in Finland in the disability benefit caseload even though this increase probably also has a number of other causes. Streamlining the benefit system and merging all benefits into one single payment could be a response, thereby ensuring all young people have the same level of income support and the same engagement and job-search obligations that ensure strong incentives to move off benefit. Earlier OECD reports have proposed to streamline benefits for the population more generally (OECD, 2010[24]), but overcoming the fragmentation of the system would seem an especially powerful and necessary step for youth as benefit dependence early in life has dramatic implications for employment prospects later in life.

In this context, a universal payment that might pay less than the benefits currently available but is not withdrawn when the recipient moves into work or increases the work effort – similar to the basic income trialled in Finland in the past two years – could represent one possible solution, as discussed in OECD (2018[9]) and Hiilamo et al. (2017[2]). For youth, a universal participation income of such kind could remove the disincentives to work or to study stemming from the existence of four rather different income support schemes (social assistance; student allowance; unemployment benefit; disability benefit). Any universal payment should be conditional on participating in obligatory activities and support services, or employment. Such conditionality would also allow the authorities to reach out and provide adequate services to some of the most vulnerable youth, i.e. youth who struggle to find employment, or at least a connection to society, but who do not claim public benefits. Today, vulnerable young people not claiming any social benefit will often remain unidentified and unsupported.

Preliminary results of a thorough evaluation of the first year of the Finnish basic income experiment, exploiting register, survey and interview data, find no effect on i) the number of days spent in employment and ii) the income received from self-employment. At the same time, recipients self-report better general health and lower levels of stress (Kangas et al., 2019[25]). The Finnish experiment thus appeared to be employment-neutral while enhancing wellbeing, with limited impact on total public spending. Applying this finding to the youth population, however, is not possible, for two reasons. First, the experiment only included longer-term unemployed who received a social benefit; the behavioural reaction of other groups including people not receiving any benefit is unknown. Secondly, the results refer to people of all ages; specific results for youth and young adults are unknown and people under age 25 were not even included in the experiment. Any attempt to replace benefit entitlements for youth and young adults with a conditional universal payment would necessitate an expansion and re-evaluation of the basic income experiment.

3.5. Connecting benefits and employment services

Moving towards a single benefit payment, more generally or only for young people up to a certain age, is conceptually very promising but implementing such change requires a major transformation and broad societal agreement on the direction of travel. For this reason, only few OECD countries have taken such steps and where they did they have merged only some benefits to reduce the array of different payments and streamline the system but have shied away from moving towards just one payment. For instance, countries have merged all their means-tested payments (e.g. Universal Credit in the United Kingdom), their health-related payments (e.g. Ireland and Norway), or their unemployment benefits (e.g. Germany). New Zealand probably came closest to introducing a single working-age payment but, with its welfare reform in 2013, ended up with three main benefits with some differences in payment rates and the degree of obligations and job-search requirements attached to them.

Especially for young people who have either no or a very short work record, the case is weak for having an array of different benefits in place, including benefits with limited or no employment support and activation mechanism. This is why some countries such as Denmark, for example, are in the process of replacing disability benefit payments for young people by a strong rehabilitation approach for this group, to prevent benefit dependence and achieve a higher degree of social and employment integration (OECD, 2015[6]).

3.5.1. Activation could be strengthened in the Finnish system

Even if the number of benefits available remains unchanged, the Finnish government can take a number of steps to streamline the benefit system by strengthening activation and making available benefits similar in terms of job-search and participation requirements. Activation generally is a weak point in the Finnish benefit system compared to other OECD countries because the society does not really tolerate the concept of benefit cuts, the logical counterpart of activation requirements. Unemployment benefit recipients in Finland have an obligation to register with the local office of the Public Employment Service (PES), to prepare an employment plan and follow the plan, and to look for jobs and accept decent job offers. However, practically jobseekers rarely meet their counsellor and not fulfilling participation requirements has only relatively modest consequences. Activation and sanctions are weaker for those receiving social assistance and non-existent for recipients of a disability benefit or a student allowance.

The activation model for unemployment security in Finland, in effect since January 2018, has strengthened the activation component but in international comparison, the regulation is very mild. Unemployed people will now lose part of their entitlement after three months of being passive but the loss in benefit can never surpass 4.65% of the person's entitlement[7] and requirements to circumvent a sanction are rather modest. Just 18 hours of work over a 65-day period of benefit receipt, for example, or five days of participation in services or activities proposed by the local employment office will suffice to avoid a sanction. These requirements and the corresponding sanction are not enough to trigger significant change in behaviour[8] – even if the PES reviews the behaviour of the benefit recipients periodically, every three months. It is likely that people will continue to exhaust their comparatively long unemployment benefit entitlement (300 days of benefit receipt for a young person, which corresponds to a period of 14 months). Rigorous activation has shown to be very effective in reducing unemployment duration, also in comparable countries like Denmark.

A related critical issue for Finland is to strengthen the connection between the authorities responsible for benefits and for employment services, i.e. between KELA and the PES. The current disconnection between the two authorities reflects the limited focus on activating jobseekers and those further away from the labour market. KELA refers persons entitled to benefits to employment services and, possibly, other services but it is up to the persons themselves to contact those services. This disconnection is particularly problematic for people with multiple needs, who would have to approach a multitude of authorities to get all the support they need. Even within KELA, which operates most social benefits, the system suffers from fragmentation: different units manage different types of benefits, but case files of the same recipient are not connected and caseworkers have no overview of the different benefits a person receives, or has received.

3.5.2. The impact of social assistance reform remains to be seen

A recent reform of social assistance has potentially complicated matters further by delinking the payment of last-resort benefit from the provision of social services. Since January 2017, KELA is responsible for paying and determining eligibility for social assistance, which often complements other social benefits such as housing allowance or unemployment benefit. However, social services or tailored social work interventions, which about one in two of the recipients of social assistance need, remain in the hands of the municipalities.[9] Like with other benefit recipients, KELA redirects recipients in need for social services to the municipal social work but it is up to the people to seek municipal support. The aim of the reform was to centralise social assistance and reduce local discretion, ensure equality across Finland, and lower non-take up caused by the stigma around application for social assistance. The reform may increase the number of people receiving such a payment without increasing the number among them who receive the support they need, including especially support in getting ready for and accessing the labour market. On the other hand, municipal social workers have less administrative work than in the past (as they no longer have to deal with benefit matters) and should therefore have more time for their clients.

It will be important to monitor and evaluate the impact of the social assistance reform on take-up rates as well as the chances of those receiving a payment for a temporary period to move off benefit and into the labour market. Understanding and responding to the evaluation results is particularly important for youth and young adults who, as discussed above in detail, are much more likely in Finland than in most other OECD countries to receive social assistance: in 2017, 18% of the 18-24 year olds were entitled to social assistance. They also face particularly large disincentives to seeking work or continuing education due to the level of payment, which is comparatively high in both absolute terms and relative to the wage these young people could potentially earn in the labour market. Evaluations will also have to look into the extent to which the reform has affected large regional differences in the take-up of social assistance (which ranges from 10% to 26%) and its persistence. Longer-term benefit dependence at a young age can have significant negative effects on those people's employment paths.

3.5.3. A multitude of services and initiatives but they still operate in isolation

Better linking benefits and services is critical, especially for a generous system, to avoid benefit dependence and facilitate employment integration. Currently, KELA and the PES are two distinct organisations with distinct interests and portfolio. Other countries have made significant efforts to bring the employment service and the benefit authority closer together, by either strengthening co-ordination or implementing a one-stop-shop principle

(OECD, 2010[24]). The United Kingdom, for example, merged the Benefits Agency and the Employment Service in 2002 to offer a single point of entry for jobs, benefits advice and employment support. Norway merged the Insurance Administration and the Employment Service in 2006 into a new national agency, the Labour and Welfare Administration, which also collaborates very closely and on the same premises with the local welfare offices.

Finland also recognised the need for service integration in the early 2000s, when it was facing high levels of structural unemployment, but shied away from structural reform. Acknowledging the roles and powers of KELA, the PES and the municipalities, instead new units were formed in 2004 – the Labour Force Service Centres (LAFOS) – that sat between the already existing institutions.[10] The 39 LAFOS, in place until 2015, offered multi-professional services to difficult-to-place unemployed people with special needs. They operated as one-stop-shops for clients referred from either the municipality or the PES, which each provided 50% of the LAFOS staff and collaborated, as necessary, with KELA and the municipal health services. With a staff of around 670 people, they served about 25 000 clients every year. The LAFOS target group were long-term jobseekers who exhausted their unemployment entitlements, i.e. people unemployed for over two years, and long-term recipients of social assistance. LAFOS intervention was generally directed to employment in the intermediate labour market (subsidised work), with the aim to prepare disadvantaged groups for employment in the open labour market at a later stage. However, LAFOS caseworkers could access all PES schemes as well as basic health services provided by the municipalities.

LAFOS units are going through major reform since the ratification of the 2015 *Act on multi-sectoral joint service*, also sometimes referred to as "New LAFOS". New LAFOS is a permanent network bringing together PES services, municipal social and health services, and KELA's vocational rehabilitation, and operating under a unified, binding framework. This framework includes a tripartite appointment to start the assessment and draw up a multi-sectoral employment plan (the mapping phase), dual appointments to carry out the plan, and tripartite appointments to review the plan and discontinue the service, where appropriate (Liski-Wallentowitz, 2016[26]). The new approach shall provide well-integrated services to some 90 000 people every year, a much larger client number than in the past, including a larger number of young people with multiple needs. An evaluation of the implementation and success of the reform is not available at this moment.

Well-integrated services are particularly important for young people with multiple needs. A recent study found sobering results on how the use of PES measures has affected young people: participating in interventions did not seem to change young people's situation significantly (Sutela et al., 2018[27]). Rather, people with considerable disadvantage – which includes low education, a high prevalence of health and especially mental health issues – seem to rotate between different benefit systems and PES interventions. The study also found that 75% of the 1987 birth cohort has registered as unemployed at least once in the period 2005-15 and that less than 40% had participated in PES interventions. Only the most employable youth have benefitted from the interventions measured through the number of workdays before and after intervention.

One big challenge is to ensure that the many different services available to youth reach them at the right time and in the right way. Another challenge is to improve the provision of integrated services, which combine employment and job-search support with mental

health services and treatment as well as social services. KELA runs a number of initiatives to help young adults into better life paths:

- One such initiative is a project to develop rehabilitation services for discouraged NEETs. The entrance criteria for vocational rehabilitation organised by KELA changed in 2019 to make it easier for young people to qualify. During 2018, KELA ran several trials to test how functional impairment can determine eligibility without requesting the young person to present a diagnosis or a medical certificate (Löfstedt, 2018[28]). The initiative could be an important step in raising the number of young people participating in vocational rehabilitation, including basic, vocational or higher education, job coaching and work try-outs, in addition to intensive medical rehabilitation and rehabilitative psychotherapy.
- A second KELA initiative is the Young Adults project, the aim of which is to design a new approach to identify young people at risk of marginalisation; reach out to them and direct them to the right service; and work together with other actors, especially municipal social and health service (Paimen, 2018[29]). KELA has comprehensive information about every person's circumstances through its benefits register, including about unemployment (unemployment benefit); lack of income (social assistance); teen parenthood and custody cases (family benefits); exemption from conscript service (conscript's allowance); and medication use (reimbursement for medicine costs). The idea of the project is to make use of that information and identify new ways of contacting and guiding young people at risk.
- A third interesting project is a case management service trial which was run in the first half of 2018 and targeted unemployed persons under age 30 at risk of marginalisation. The aim of the trial was to test the potential of KELA-provided case management for this group; understand customers' needs; learn what kind of expertise case management requires; and target resources to those with the greatest needs – with the ultimate goal to develop and implement an appropriate and effective case management approach at KELA (Hokkanen, 2018[30]). Importantly, it should be possible to start a case management approach whenever indicated, at any moment during KELA's customer service process.

All three KELA projects are part of a broader response to the piecemeal service approach for young adults in Finland. Earlier findings suggest that stigma around needing benefits and support is still high; that available information is often outdated and incomplete, as family and friends are the first source of reference; and that 20-25% of young people have mental health problems, affecting their organisational and life management skills. Addressing mental health problems, therefore, should be a priority (see Box 3.1). A main problem also with the new KELA projects could be their poor connection with existing services and initiatives – echoing KELA's general problem of its distance from other actors – thus adding to the fragmentation of services rather than overcoming it.

Box 3.1. Employment support for young people with mental health issues

Young people with health needs are not the main and first target for either PES or LAFOS intervention. This is interesting in view of a very high prevalence of mental health issues, often undiagnosed and unidentified, among young people – with between one in four and one in five affected at any point in time, with the majority of mental health issues being of a mild-to-moderate nature. Among young benefit recipients, especially those receiving social assistance, the share can be much higher and often reach 50% or more – as was found in many OECD countries (OECD, 2015[6]). Addressing mental health barriers is therefore critical for the provision of effective employment services.

Mental disorders are also the leading cause of work disability among young adults in Finland, as in other OECD countries. A recent Finnish study found that the most common diagnoses among recipients of a temporary disability benefit aged 18-34 years were mood disorders (39%), schizophrenic disorders (34%) and bipolar disorder (14%). Half of those adults had been attached to the labour market before claiming a disability benefit; also one half had received work-oriented intervention or at least had such intervention in the treatment plan; and 40% had received psychotherapy or had a plan for it (Mattila-Holappa, 2018[31])]. Only one in five worked six years later and most of those who worked had both planned psychotherapeutic and work-oriented interventions. This suggests that in many cases the work capacity was considered low from the very beginning – again a phenomenon that is found in many OECD countries (OECD, 2015[6]).

Caseworkers from KELA, PES, LAFOS and the municipalities need significant mental health competence and corresponding mental health training to understand and recognise people's capacities and barriers to (re)integration and be able to refer them to the right types of services, which, especially for youth, will often include mental health services.

3.6. Unlocking the potential of the Youth Guarantee

Over the past two decades, the Youth Guarantee was the biggest and most visible effort in Finland – just like in most European countries – to help young people struggling to make a smooth transition into employment. The Youth Guarantee is a general framework with considerable funding from the European Social Fund during the past decade to tackle high rates of unemployment of youth resulting from the 2008-09 crisis to prevent them from becoming a lost generation. The challenge for the coming decade will be to make interventions and institutions introduced under the Youth Guarantee more accessible and effective throughout the country and to maintain the funding for those initiatives.

The Finnish Youth Guarantee scheme which inspired the EU Youth Guarantee was first introduced in 1996 and underwent major revisions in 2005 (when a social guarantee was added), 2010 (when significant EU funding became available) and 2013 (when it was relaunched and extended to 25-29 year olds), and it is currently rebranded and remodelled again into a *Community Guarantee*. In its current form, it makes two important promises to young Finns to prevent their exclusion from the society or, at least, reduce their risk of exclusion – via a training and a youth guarantee. In addition, it made a temporary offer, valid for three years, to those under age 30 who had already left the education system without a degree prior to the 2013 relaunch (Youth Guarantee Working Group, 2013[32]):

- Within three months of becoming unemployed, each young person under age 25 and recent graduates under age 30 will be offered a job, a work trial, a study place or a period in a youth workshop or in rehabilitation ("youth guarantee").
- Every person completing lower-secondary education has a guaranteed place in upper-secondary school education, vocational education, apprenticeship training, a youth workshop, rehabilitation or some other form of study ("training guarantee").
- Young people aged 20-29 years who completed basic education before the training guarantee came into effect and who have not completed any degree get additional possibilities to complete initial vocational education ("skills programme").

The training guarantee has helped to increase the number of young people moving directly to upper-secondary education, voluntary additional lower education or preparatory training, through an increase in vocational education places and by giving priority to those places to people who have completed comprehensive school without upper level vocational qualification. Among those people who finished their lower-secondary education in 2014, only 2.5% did not apply for further studies and among those who applied, almost 99% received a place (Youth Guarantee Working Group, 2015[33]). The skills programme – which was in force until the end of 2016 – has also reached its targets.

3.6.1. Youth guarantee performance outcomes are in line with those elsewhere

Other results are more difficult to establish, partly because of the difficult economic situation in Finland in the past few years and because of several other parallel reforms, especially the reforms of the PES (see Box 3.2). Both youth and overall unemployment have increased after 2013 (more than in any other EU country) contrary to a trend decline in unemployment over that period in a majority of EU countries (see Chapter 1).

EU countries have to measure the performance of the Youth Guarantee regularly through a number of agreed indicators, including the share of people reached by the youth guarantee (coverage); the share still in the Youth Guarantee after four months (implementation); and the outcomes achieved immediately after exiting the Youth Guarantee services and also six months afterwards (outcomes). Information on the longer-term outcomes achieved is not available for Finland because follow-up date are not collected. Other indicators suggest that the outcomes are in line with those of other EU countries or slightly better (Figure 3.9):

- Finland's Youth Guarantee reaches a high share of its NEET population: in 2016, it reached 75% of all NEETs, the second highest proportion after Austria;
- The share of people still in the Youth Guarantee four months after they started it was 49% in 2016 (six months after the start this share was still 24% and 12 months after the start it was 8%); these shares equal the averages among the 28 EU countries.[11]
- The share of people leaving Youth Guarantee services with a positive outcome is 48% in 2016, which is slightly higher than the EU average of 44.5%.
- Of those leaving with a positive outcome, 57% have left into employment, which is below the EU average of 72% and among the lowest values of all countries.

Box 3.2. Recent reforms of the Public Employment Service

With the introduction of the Youth Guarantee, the Public Employment Service of Finland shifted more of its attention to the youth population. Over the same period, however, the PES went through a series of more structural reforms not targeted on young jobseekers but affecting them as much as all other jobseekers. Especially the various reforms started in 2013 affected the way in which the PES operates, with three major changes.

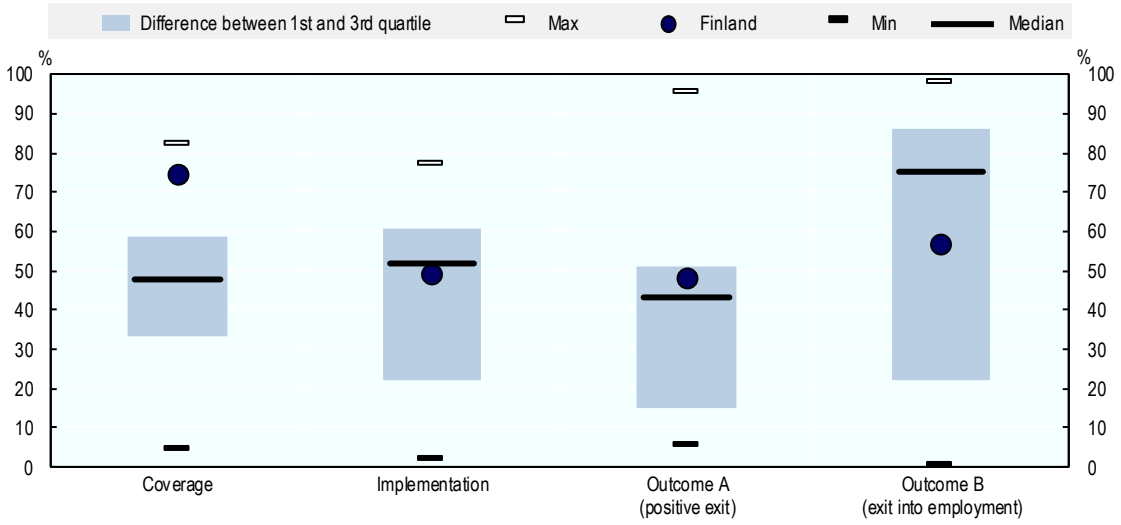
First, the PES introduced a new profiling system, which assigns jobseekers to one of three groups and directs them to one of three service lines. These are: i) low-threshold services matching job-ready jobseekers quickly to available vacancies; ii) competence development services for people struggling to find a new job because if outdated or insufficient skills; and iii) subsidised employment services for hard-to-place jobseekers. Profiling has become a standard procedure for employment services in many OECD countries but Finland has gone a step further by also establishing three parallel, independent service lines. Potentially this approach could ensure that jobseekers with greater difficulties receive services better tailored to their needs. Young people could especially benefit from a quick transfer to competence development services, if they have left the education system without a degree. However, the success of the reform hinges on the quality of the profiling tool. Fluidity between service lines and repeat assessments to identify barriers and corresponding services are, therefore, important, as has been found in other countries such as Australia (OECD, 2015[34]). A quantitative assessment of the impact of this change is not available. A first qualitative evaluation found considerable problems initially in implementing the new structure: concentration on internal matters and procedures hindered a stronger focus on collaboration with external partners (Arnkil, 2014[35]).

Second, the PES has gone through a process of re-regionalisation. While PES operations have long been in the hands of local governments, as of 2013 more power was given to 15 new-formed regional units, the so-called ELY centres. The new regional units receive guidance from the national level and have to provide guidance to the 120 local units, the so-called TE offices (OECD, 2016[36]). The reform aims for higher service efficiency and service improvements for disadvantaged jobseekers by harmonising nation-wide services and reducing local discretion (Weishaupt, 2014[37]). Evaluating the impact of the reform will be critical. Monitoring its effectiveness is especially relevant because the reform has anticipated the much larger forthcoming reform of health and social services as part of a broader administrative reform (see below). Initial evaluation suggests considerable lack of clarity in the division of responsibility and labour between local TE offices and regional ELY centres (Arnkil, 2014[35]).

Third, the PES has seen a gradual shift in the past few years towards online services, not only for the initial registration but also for part of the subsequent interaction with the PES. This shift also needs careful evaluation. The sharp increase in the jobseeker caseload i.e. the number of jobseekers per PES counsellor, from 80 in 2010 to around 160 in recent years, suggests that cuts in PES resources may have been the main driver of this reform (OECD, 2016[36]). For some jobseekers, communicating online is normal and thus easier but for others face-to-face contact is critical to develop their skills and competences and to find a new job. Young jobseekers may be in a better position to benefit from this change.

Figure 3.9. Finland's Youth Guarantee reaches a large share of its NEET population, with outcomes broadly in line with those in other EU countries

Key standard outcome measures on three dimensions of Youth Guarantee services: coverage, implementation and outcomes, 2016



Note: Coverage = Annual number of young people in YG services as a share of the NEET population. Implementation = Proportion of young people in YG services beyond the 4-month target (for Finland: 3-month). Outcome A = positive and timely exits from the YG service. Outcome B = share of exits leading to employment.
Source: Administrative data from the European Commission.

Between 2014 and 2016, coverage has further increased from the already high level, suggesting a continuously increasing awareness of the Youth Guarantee. However, the average duration people spend in services has increased and the outcomes have worsened. Presumably, the deteriorating employment outcomes are largely a result of worsening economic conditions. Several studies conclude that the Youth Guarantee has encouraged and forced the PES and other actors to focus on young people and their specific needs (Eurofound, 2015[38]; Eurofound, 2012[39]).

These comparative data refer to the age group 15-24 years only, the target group for the Youth Guarantee in most other EU countries (European Commission, 2018[40]). Results for Finland for 25-29-year olds suggest that they participate in the Finnish Youth Guarantee as much as their younger counterparts but tend to stay longer to achieve comparable outcomes. Gender-specific data suggest young women in Finland participate less often but if they do, they achieve slightly better outcomes (54% positive exits for women, 44% for men).

A more qualitative evaluation of the Youth Guarantee has identified a number of promising practices across Finland aimed at preventing the social exclusion of young people, as well as at promoting young entrepreneurship, preventing the exclusion of young immigrants, and promoting the cooperation with employers (Keränen, 2012[41]). The study demonstrates that the implementation of the Youth Guarantee and the public-private-people-partnership models developed vary substantially across Finnish regions and municipalities. Promising features of the good practices identified include flexible operating models, individually tailored solutions, shifting to meaningful and work-

oriented training, and services that are easily accessible for young people and employers alike.

3.6.2. The effectiveness of active labour market programmes is limited

The Finnish Youth Guarantee scheme focuses largely on ensuring to draw up personalised plans for young people quickly, to prevent unemployment and social exclusion. Initially, the PES alone was obliged to carry out the scheme, including an assessment of needs and identification of the corresponding support, within the first three months after a young person has registered as unemployed (Eurofound, 2015[38]). The PES in Finland did not develop special programmes for young people as a response to the Youth Guarantee but made more efforts to ensure young people can access all active labour market programmes (ALMPs) already in place. These programmes include:

- Employment subsidies (up to ten months) and start-up incentives (up to 12 months).
- Labour market training (up to more than a year) and self-motivated studies (up to two years, provided jobseekers are eligible for an unemployment benefit).
- Apprenticeships (up to two to three years).
- Various types of traineeships such as work try-outs (for one to three months), coaching (up to 40 days per year) and rehabilitative work experience (for three months).

There are no data available on the use of PES services linked only to the Youth Guarantee. Maybe because of the Youth Guarantee, in Finland young people under age 30 are more likely to be on an ALMP measure than older jobseekers: in 2017, for example, the so-called activation rate (i.e. the share of those on ALMP out of all registered jobseekers) was 33.9% for those under age 30 (Figure 3.10, Panel A). This rate was twice the rate of jobseekers over age 50 who have rather poor chances of finding new employment and face high levels of long-term unemployment. The overall activation rate was 28%. However, this "relatively" high activation rate of young people in Finland registered with the PES also implies that, nevertheless, in a given year more than two-thirds of them are not on any support measure. In the past two years, the activation rate has increased for jobseekers over age 25 but not for those under that age. Moreover, for young adults under age 30 the activation rate in 2017 is still lower than the corresponding rate in 2008, prior to the great financial crisis. Additional investments brought into the system through the Youth Guarantee have not been enough to compensate the per capita decline in PES resources experienced after 2008-09, which has led to a doubling of the caseload from around 80 jobseekers per PES counsellor prior to 2009 to around 160 jobseekers from 2015 onwards (OECD, 2016[36]).

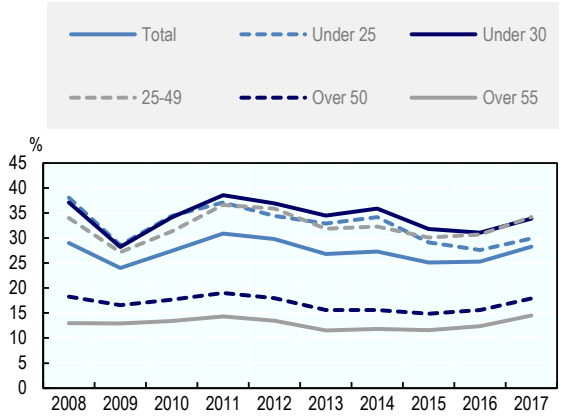
There is also some variation in the activation rate by region but regional differences are surprisingly small: the activation rate for the under-30s varies from 30% to 40%, suggesting the approach taken by regional and local PES offices may be similar (Figure 3.10, Panel A). Of all ALMPs provided to young people, around 40% fell into the training category, 30% into the work practice category, 24% into the employment subsidy category, and the remaining 6% were apprenticeships (Figure 3.10, Panel B). Available outcome indicators suggest that six months after the end of a training measure, about one in three participants are in employment (OECD, 2016[36]); age-specific programme outcomes are unavailable. Across all ALMP measures, the share in employment six months afterwards is just over 20% and for work try-outs, only 10%. The relatively

disappointing overall programme outcomes are in part due to inactivity traps arising from the benefit system (see above).

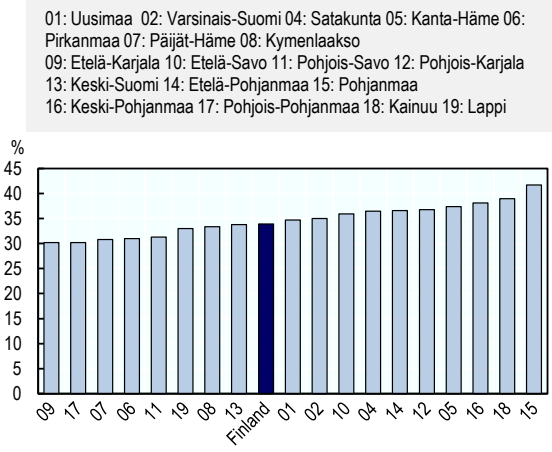
Figure 3.10. Only one in three young jobseekers in Finland are in labour market programmes

A. Activation rates: ALMP participants in % of all jobseekers and ALMP participants, 2008-17

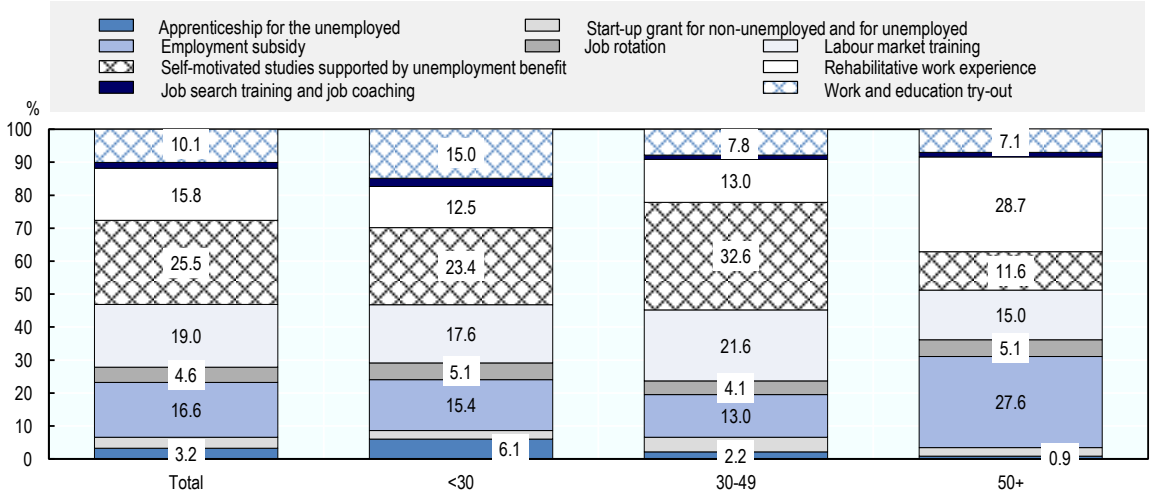
By broad age group, 2008-17



By region, persons under age 30, 2017



B. Participation in ALMPs by age of the unemployed person, programme distribution (in %), 2015



Note: ALMPs = Active Labour Market Programmes.
Source: Administrative data provided by the Ministry of Economic Affairs and Employment.

The PES in Finland could take several steps to achieve improvements in the outcomes of services that it provides. A first change refers to its data collection and profiling approach. The PES has no information on the previous experience of new entrants or customers and, therefore, no information on repeat participation. Collecting this information systematically and using it in the profiling process could enhance efficiency and the effectiveness of services. Similarly, the PES is not following-up on those leaving its services or leaving benefits. Hence, it cannot provide in-work follow-up support, which is often cost-effective and effective in preventing repeat unemployment.

Secondly, the Finnish PES is weak on the skills side: it is not assessing jobseekers' skills systematically nor is it applying a system of recognition of prior learning. This shortcoming may be a bigger problem for mature jobseekers but it can also hinder the best possible intervention for youth who have left the education system a while ago.

Thirdly, contrary to other countries the Finnish PES is not working with schools directly. This is an untapped potential. There are a number of interesting cooperation examples in other OECD countries. Some of them aim at engaging with schools to help in the transition to higher education, like Austria's "Youth coaching" (OECD, 2015[42]) or Japan's "Hello Work" (OECD, 2017[43]). Other examples include Norway's "NAV youth workers" who reach out to students with multiple barriers (OECD, 2018[8]); and Denmark's "Building bridges to education" programme that is aimed at reengaging social assistance clients with vocational schools (European Commission, 2016[44]).

Finally, Finland must do more to measure the outcomes and assess the effectiveness of the many initiatives, projects and programmes offered by public authorities, including the employment and training measures offered by the PES but also rehabilitation programmes offered by KELA. Systematic impact assessment is critical for effective investment choices and informed decisions about the expansion of successful and the elimination of ineffective programmes.[12] Evaluations seem costly but they can lead to very considerable savings in the medium term. While only few OECD countries do evaluations on a systematic level – e.g. Belgium (Flanders), Estonia, Germany, the Netherlands and Norway –, Finland could learn from the United States where the government has been instrumental in promoting impact evaluations based on robust, scientific methods to promote reliable, evidence-based policy-making. US laws that provide funding for programmes often include specific requirements for programme performance tracking and impact evaluation. The evaluation could include methods at three levels of excellence, depending on available time and data and the resources set aside for programme performance assessment (OECD, 2016[45]):

- Well-designed randomised controlled trials that evaluate the impact of an intervention on participants compared to a control group (tier one);
- Quasi-experimental settings whereby the control group consists of individuals excluded from the programme because of programme rules (tier two);
- Statistical descriptive studies on programme outcomes (tier three).

3.6.3. Strengthening the powers of the Ohjaamo centres

Over the years, Finland has taken more and more responsibility for the Youth Guarantee out of the hands of the PES and concentrated its efforts on the introduction and expansion of One-Stop Guidance Centres (Ohjaamos), which offer multi-agency services to young people up to age 30 to help them in matters related to work, education and everyday life. The multi-agency collaboration under one roof, which involves the PES (which continues to play a key role), is a recognition of the striking fragmentation in Finland of services and benefits available for youth and the need for cooperation between various authorities.

Ohjaamos are a big step ahead in a variety of ways and acknowledged as good practice in virtually every comparative report on the matter produced by the European Commission in the past few years (European Commission, 2016[44]). The basic idea is that Ohjaamos provide information, advice and guidance to young people on any service available for them, including employment services offered by the PES, benefits provided by KELA, rehabilitation and other services offered by KELA, health and mental health services,

services for substance abusers, municipal social services, study counselling, job coaching, outreach youth work, and youth workshops. The immediate aim of the Ohjaamo service is to shorten unemployment spells by helping young people navigate the system, claim all benefits they are entitled to, and access all services available to them.

The medium-term aim is to go beyond what is currently available and beyond the capacity of every authority involved. First, by providing case-managed support to help users identify a comprehensive, holistic service package. Second, by building effective local networks and partnerships and facilitating the development of new services and interventions if needed, such as study counselling and psychosocial services. Third, by building own capacity in the regional Ohjaamo, for instance by hiring occupational therapists and psychologists to address jobseekers' health needs quickly.

Määttä (2018[46]) compiles insights on the development path of the Ohjaamos between 2014 and 2017. Ohjaamos have received wide support by the government, the regional and local offices of the PES, KELA and local authorities, but also from NGOs and businesses who all joined up to develop a multi-agency concept and on-the-ground leadership with the aim to challenge and change conventional practices and operational cultures. The report builds on the notion that service provision in silos in which every system follows its own agenda and objectives is economically inefficient, if not unsustainable, and highly inefficient from the perspective of a youth customer with multiple barriers and in need of multiple services.

The government has taken several steps to make the ambitious aims and promises possible. For example, it enhanced the funding for youth workshops and youth outreach work, increased the number of places in vocational rehabilitation, and broadened the availability of student counselling also to graduates. Other measures included a higher compensation for employers offering apprenticeship training and an expansion of subsidised employment for young jobseekers to lower the hiring barrier for employers.

Notwithstanding such improvements, Ohjaamos face a number of critical challenges. They include three related aspects in particular: their actual functionality and effectiveness; their heterogeneity across the country; and the sustainability of funding.

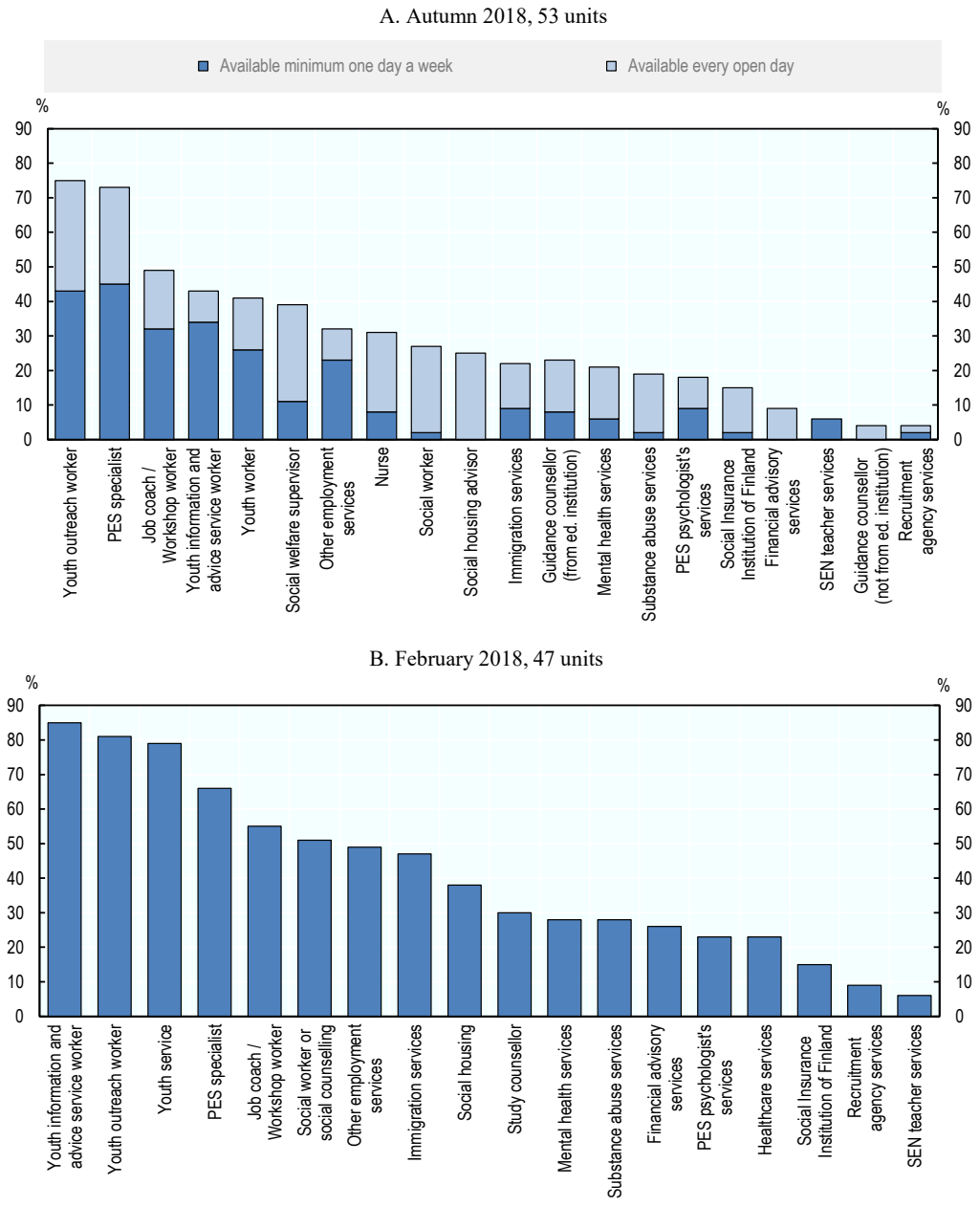
Critics claim that most Ohjaamos are not offering a multi-agency service, certainly not in their initial phase, but are merely a juxtaposition of workers from different bodies and institutions who each follow their own agenda. In other words, they are a continuation of the service fragmentation in a new dress. This situation may still hold in smaller offices. The government has published guidelines on what Ohjaamos should be, how they should work and what services they should offer and it provides coordination and training services for Ohjaamos to help them change their working culture.

Another challenge is heterogeneity across the country. There were 40 Ohjaamos in place in late 2016; by late 2018, their number has increased to around 55-60. In other words, they are covering a larger and larger part of the country but still not all of the population. Existing Ohjaamos vary significantly in size, service portfolios and staff resources. Around 75% of them offer youth outreach work. PES specialists are also available in three of four centres, municipal social and youth work in less than half, and KELA representatives in no more than 15% of them. Health and mental health services are available in around one in four Ohjaamos and study counselling and housing services in around 30% (Figure 3.11). Moreover, many services, including the key services, are only available once or a few days a week, especially in more recently opened centres. Consequently, what help and advice a young person can receive depends on the region or

municipality he or she lives in. Geographical inequalities and rural-urban differences are therefore likely to be immense. Online services are currently developed to serve young people living in remote areas where Ohjaamos are unavailable or not offering a sufficient set of services.

Figure 3.11. The range of services offered in Finland's Ohjaamo centres is very diverse

Share of One-Stop Youth Guidance Centres (Ohjaamos) offering various types of services, early/late 2018



Source: Määttä (2018) and Ministry of Economic Affairs and Employment.

The third challenge, closely related to both the functionality and heterogeneity of services, is funding. While the government spends EUR 60 million on the Youth Guarantee every year[13] to improve access to and the quality of all kinds of services, the Ohjaamos receive limited funds (funding is secured until 2021). The endowment of a particular Ohjaamo will depend more on local interest and circumstances. In 2018, total Ohjaamo staff was approximately 350-person years or seven person-years per centre (around 40 of these person-years are supplied by the PES). Data records for 2017 suggest face-to-face services in Ohjaamos were used by young people nearly 120 000 times (Määttä, 2018[46]); these numbers would correspond to around 2 400 visits per centre and 340 visits per full-time caseworker per year.[14] Over half of those visits were for group meetings. There are also other users who receive guidance and advice by phone, email and online. In addition, Ohjaamos also provide guidance to parents, guardians and other people involved with the young person, face-to-face or through other means. About 35% of all requests concern employment, 23% are about training and 10% involve health and wellbeing issues.

To provide a level-playing field for youth in all parts of Finland, it will be critical to ensure that: i) all youth have access to an Ohjaamo; ii) all Ohjaamos offer a minimum set of services for a minimum amount of time; and iii) Ohjaamos receive the funding needed to implement and maintain that service at the necessary quality. It also means the role and duties of the Ohjaamos will have to be clarified and the question be answered whether they shall be more than an interface or a platform for the multitude of actors available in Finland to support youth. The strong need for integrated multi-agency services and certain gaps in the availability of services in Finland, especially health and social services, suggests a broader and growing role for Ohjaamos in the coming years.

Systematic evidence on outcomes from services provided by Ohjaamos are not available. Surveys among users reveal a relatively high level of satisfaction. For instance, over 80% of all customers say their plans for the future are clearer and their confidence in finding a job or study place has increased. Results are almost equally good for customers satisfied with their life and those who are not. Indicative transition data from a small number of Ohjaamos compiled in 2017 suggest that 22% of all transitions are into employment in the open labour market, 43% started some type of work, 32% started or applied for training of some type, 18% had transitions indicating some health issues, and 7% found a place to live (Määttä, 2018[46]). These transition data, however, are neither complete nor representative and do not, for example, include any information on the number of people not making any successful transition. Systematic outcome and transition data collection will be critical.

Ways to overcome the challenges the Ohjaamos are facing must start with the funding question. To be functional and efficient, Ohjaamos not only need funding sustainability but also a joint budget and a common management with considerable discretion and decision power. If responsibilities of Ohjaamos continue to increase, it will be of utmost importance that one-stop guidance centres are available everywhere for everyone. Ohjaamos have great potential because they are low-threshold institutions where young people can get (walk-in) help without an appointment and without any formal registration. As a result, monitoring outcomes and following-up on service users is difficult, however. Measuring success will therefore require synthesising and linking register data. A first quantitative evaluation of the effectiveness of Ohjaamo services will become available in 2019.

3.7. Making the most of the forthcoming regional government reform

At the same time as Finland must work towards well-integrated benefits and well-integrated services, for youth and more generally, the country was preparing a major administrative and regional government reform, which intended to reshuffle and reshape the institutional landscape. As part of that reform, which came to a temporary halt with the resignation of the Finnish government in early 2019, a major change was planned in the provision of health and social services.[15] It will be up to the next government to decide whether the reform will be implemented and in what form.

This so-called SOTE reform[16] would have changed responsibilities, service organisation and funding mechanisms and thus affected policy implementation and outcomes in many different ways. This section argues that any change in the way health and social services are delivered must ensure to close existing service gaps and overcome continuing silo approaches, to improve social and employment outcomes for young people.

3.7.1. The SOTE reform in brief

In brief, the SOTE reform intended to transfer the responsibility for public social and health services as of January 2021 from 190 municipal and joint municipal authorities to 18 newly created autonomous counties.[17] Counties would have become responsible for all tax-financed health and social services, such as healthcare, hospital services, dental care, mental health and substance abuse services, maternity and child health services, social work, child protection, services for persons with disabilities, housing services, home care and rehabilitation. Employment services have been restructured and re-regionalised a few years ago already but would have been affected again by the regional government reform as the 18 counties would have taken over the responsibilities of the regional and local employment entities, the regional ELY centres and the local TE offices.

The main aim of the SOTE reform's regionalisation of services was to ensure that people received the same or at least comparable type and quality of support throughout the country, and to address current concerns about inequality in access to services across Finland and service inefficiency. The state would have primary responsibility for financing the counties (which would not be allowed to levy taxes, contrary to the municipalities), with the aim to curb the increase in total government spending through expected efficiency gains resulting from the use of bigger operating entities with better resource capacity.

The implications of the reform would be considerable, for those seeking services as much as for those providing them. Counties would make autonomous decisions on the use of funds but with more central government steering than is currently the case. Services would be organised by the county and provided by public, private or NGO entities, including the county itself. Counties would also become responsible for ensuring that their residents have access to sufficient information. The reform would go hand-in-hand with various other changes:

- The integration of services, especially between health and social services, would improve at all levels and with a strong client orientation.
- Multi-channel financing of health and social services would become easier.
- People would have more freedom of choice, through the creation and promotion of a (private) market for health and social services.

- The use of digital services would increase and the flow of information between service providers would improve.

3.7.2. Criticism to the SOTE reform plans

Inequalities in Finland's public healthcare system are beyond question (OECD, 2015[47]). However, experts have criticised the heavy reliance on private providers foreseen in the reform (fearing a private monopoly of multinational corporations) and an unclear administrative structure (Kalliomaa-Puha and Kangas, 2016[48]). Other criticism concerned the large number of counties that are too small for an effective pooling of risks, the dominance on healthcare in the reform discussions, and the possibility that the private service market would leave the high-risk population to the public sector (Kangas and Kalliomaa-Puha, 2018[49]).

A study prepared for the government looking at redistribution of power and responsibility resulting from the reform expressed concerns about a risk that the new county structure could reinforce territorialism and increase rather than reduce regional differentiation in access to services and their outcomes (Antikainen et al., 2017[50]). Overall, bringing more responsibilities under one roof – i.e. under the control of the counties – should make it easier to provide integrated service solutions but the interface between the municipalities and the counties will also be critical for both clients and cost effectiveness. The study also looked at the link between the forthcoming administrative reform and the 2013 reform of the PES through which various employment tasks were re-regionalised or re-centralised. From 2021 onwards, counties would also be responsible for employment matters, implying in some cases a decentralisation of certain recently centralised tasks, with a risk of reducing efficiency and jeopardising cost containment.

It is difficult to judge the feasibility of the reform's objectives and to anticipate the degree of enforcement and implementation of different elements of that reform. Repeated delays in the various steps of the decision process – partly because the parliament had rejected initial proposals for the reform as unconstitutional – have also changed the momentum in a way that makes it difficult to predict in what form the reform could eventually pass, provided the reform process continues. In any case, various important elements of any such reform, including the exact way in which the system would compensate providers for the provision of health and social services, would yet have to be settled.[18]

3.7.3. Repercussions of the SOTE reform for youth and youth services

The SOTE reform would not have a particular youth focus, but the changes in the institutional landscape and decision structures and powers would have considerable implications for youth services and for recent and ongoing developments in the youth area. The role of various entities would change or responsibility be taken over by others. These changes would also affect the six Regional State Administrative Agencies, which have a considerable regional executive, steering and supervisory role, also in the youth area. More particular, their role includes the development of workshop activities for young people and hobby activities for children and youth, support for multi-sectoral cooperation between local authorities, outreach youth work and counselling services, among others. The coming years will show how this role will be executed in the future. The large number of counties would mean that all hitherto regional tasks would actually go through a process of decentralisation, from currently six units to 18 units, rather than concentration. It would be important to ensure that such a shift would not conflict with

the aim to improve equality in access and availability of services as well as spending efficiency.

One big question is how the SOTE reform would affect recent developments in the youth area and how the reform could promote rather than hinder those developments. The most important development in the youth field in Finland in the past few years was the creation and expansion of the Ohjaamo centres, as one-stop-shop entities that guide youth through a rich but also complex and confusing system of services and benefits. Put differently, these centres are an attempt to overcome an otherwise highly fragmented system of services and benefits that is impossible to navigate, especially for disadvantaged youth. Ohjaamos are still far away from best practice because they differ hugely across the country – from good practice to merely a drop in the ocean – and are not available everywhere and for everyone. However, they are an important achievement and if expanded in a way that addresses the remaining weaknesses (see above), Ohjaamos have the potential to connect young people quickly, and with no particular entrance requirements, to the services they need.

With the SOTE reform, the future of the Ohjaamos would become highly uncertain, financially and administratively. Ohjaamos are a local initiative nourished and resourced by local stakeholders. Counties would have to find a way and be given the right incentives to maintain that service structure and to expand it further, to ensure that everyone in the region can benefit equally. In the past, the expansion of Ohjaamo centres across Finland was possible with considerable funding from the EU, through its Youth Employment Initiative. This funding stream will dry out, at the same time as Finland will need to multiply the resources to make sure that one-stop-shop counselling services are available everywhere and each of them resourced sufficiently to offer the full set of expertise needed to support young people. [19] It will be a challenge to achieve the necessary increase in funding when everything else is changed and responsibilities moved from local to county level. The challenge would be twofold because not only was there a risk that within-county differentials would remain but also that cross-county variation – in type, availability and outcomes of services – would remain and increase. Geographical mobility has always been low in Finland and would be unable to neutralise regional disadvantages.

Finally, there is also considerable uncertainty about the impact of the SOTE reform on youth, social and employment services because of the new focus on freedom of choice for the client and the creation of a (competitive) service market. The discussions around this issue have so far focussed on health services and the healthcare market only, a market in which private actors are already present. Presumably, however, the developments could be similar in the youth, social and employment service-provider markets. Even one-stop-shop counselling services could be run by different and competing entities (public and/or private and/or NGO). Finland has limited experience in creating and fostering markets for services but can draw on experiences from other OECD countries, especially Australia which has outsourced all of its employment services but also youth outreach and youth mental health services (OECD, 2016[51]). These experiences show that private providers are well able to provide employment and other services if the market is well regulated and supervised and market failures addressed forcefully. Experiences from these countries, however, also show that bringing competition into the service market, with the aim to drive costs down, is difficult. The Finnish discussion around these questions is still pending.

3.7.4. Aligning the SOTE reform with benefit reforms

Key stakeholders in Finland are well aware of the need for reforms to streamline benefits and reduce the disincentives to work that the benefit system creates. However, little is happening in this regard partly because the SOTE reform was overshadowing all attention and consuming all reform capacity. This situation is problematic, not only because benefit reform itself should also be a priority but because the SOTE reform could further complicate benefit reform if it further disconnects rather than unites the provision of services and the operation of benefits.

Countries across the OECD have embraced the critical importance of strong activation of jobseekers and other benefit claimants for a functional social protection system, including regular counselling meetings with those people, significant job-search and participation requirements in line with people's work capacities, and strong enforcement regulations. Reflecting the recognition of the importance of activation and to facilitate activation, many countries have made efforts to bring benefit authorities and employment services closer together, in extreme cases even merging them into one institution. Finland's system is weak in activating jobseekers and benefit claimants, as discussed above, and strengthening activation will be critical. The SOTE reform, however, could be a major barrier to improving activation and bringing benefit procedures and employment services closer together. To the contrary, the SOTE reform would freeze the current disconnection between these two sides of the same coin: employment services would become a county matter and benefit operations would remain a national matter. Turning the SOTE reform to success would consume major resources and the energies of many stakeholders, leaving no space for any efforts to bring KELA and the PES closer together. These circumstances could be very problematic.

Finland will have to seek alternative ways to improve the functioning of its welfare system, in line with and complementing any future SOTE reform. One problem with the possible future setup is that the new counties would lack the financial incentives to invest in effective and high-quality services, while having an intrinsic interest to shift harder-to-place clients onto (permanent) social benefits – thereby reducing their own task and costs at the expense of the national administration.

Denmark can serve as an example for Finland for both what is likely to happen under such circumstances and how to improve the situation. The Danish municipalities are in charge of the entire employment and benefit system. Initially, the costs of benefits were (almost fully) reimbursed to the municipality by the national administration – a rather unhealthy financial setup, which unsurprisingly has led to an increase in benefit caseloads and an underinvestment in efforts to help disadvantaged groups into employment. The same could happen in Finland, with considerable negative impact on NEETs and other youth with labour market disadvantage or barriers. Subsequently, Denmark made multiple efforts to rectify the incentives of municipal actors, by encouraging them to invest in activation and rehabilitation while making it increasingly costly for the municipality to shift clients onto long-term benefits. Yet again, it was not an easy process and evidence is clear that municipalities in Denmark used any possible loophole in the system – as long as loopholes existed – to escape their costs, irrespective of the overall outcome for their constituents. Ultimately, the system became very rigorous and today, longer-term benefit receipt is by far the most costly option for a Danish municipality, an option every municipal authority would prefer to avoid (OECD, 2016[52]). Early intervention and sufficient investment in (re)integration supports is the best way to achieve this.

Learning from the Danish experience, Finland will have to design its new system and the corresponding funding mechanism in a way that ensures sufficient investment by the new counties in prevention and early intervention services, to achieve good labour market outcomes and prevent rising benefit caseloads. These conditions are particularly important for youth and young adults who suffer for a long time from lacking early intervention and who generate high benefit costs if not supported promptly. As counties in Finland cannot collect their own taxes, funding mechanisms have to mimic a situation in which county actors have the same incentives and interests as the national authorities.

There is also a second and related lesson that Finland can learn and adopt from Denmark. Making actions taken and outcomes achieved at the county level fully transparent is a good way to make municipal efforts, successes and failures visible. Denmark has a constantly updated online database that is publicly available to everyone which allows identifying detailed outcomes on the municipal level (OECD, 2013[53]). This database supports the national administration in its guidance and supervision function and facilitates a process of cross-municipal learning, to ensure good municipal practices spread around the country.

Round up and recommendations

Finland is making considerable investments in social benefits that provide youth with stable income and in services that help them complete meaningful education, address social and health problems, and access employment. Support also targets and reaches disadvantaged youth. Finland's activities in this field did not go unnoticed: the country's Youth Guarantee, a first version of which was introduced in 1996, with a series of reforms since to strengthen its impact, was the blueprint for the Youth Employment Initiative of the European Union.

Overall social and labour market outcomes for young people in Finland, however, do not fully reflect the size of the investments made: youth poverty and youth unemployment rates are high. Youth outcomes relate to the way in which the country operates benefits and provides services. First, benefits are fragmented but also quite generous and accessible, thus creating considerable disincentives to work, at least for some groups of youth. Second, activation of those who receive benefits is very lenient in an international comparison. Third, services are fragmented and often provided in isolation and silos, which contributes to a lower-than-possible degree of effectiveness. In addition, assessing the effectiveness of services is not standard. Fourth, benefits and services are not well connected. Consequently, navigating the system of benefits and services is difficult for youth.

The coming years will be critical for Finland. The regional government reform is a major undertaking aimed to eliminate inequalities across the country in the availability and accessibility of social, health and employment services. The government must make every effort to use the momentum of any such reform to overcome existing barriers between those services and the current disconnection between benefits and services. The challenge is considerable, for two reasons: On the one hand, the regional government reform will bind considerable financial and personal resources, as all stakeholders will be busy for many years with the successful implementation of the reform. On the other hand, the many remaining challenges for services and benefits have not been a target for the reform but they will have to be a priority to avoid making things worse, for youth but also more generally.

Responding to the fragmentation of the benefit system

The large number of different benefits youth in Finland can access and the different rules regulating benefit eligibility and benefit levels are problematic, for a number of reasons. The design of the social protection system leads to high benefit receipt rates among youth, considerable benefit dependency, and substantial and highly variable disincentives to work.

- *Consider streamlining of the benefit system*. The complex and fragmented benefit system is difficult to navigate but also allows people to stay in the system for a long time, possibly by moving between different payments. A more streamlined system with fewer benefits to choose from would address both of these issues and a single working-age payment, as proposed in previous OECD work, would be the best option for the future.
- *Remove disincentives to work*. Benefit traps and benefit dependency are the result of the design of the various payments. Removing these traps and making work pay for every young person, including those with lower skills and thus poorer earnings potential, is paramount. Work incentives should also be equally strong, irrespective of the type of benefit one receives. Improving the situation will require changes in benefit levels and/or in-work payments and/or phase-out ranges to reduce marginal tax rates for those starting work.
- *Improve the activation of benefit recipients*. For a benefit system as generous and accessible as Finland's, strong activation is essential to ensure young people actively engage in further education and rehabilitation and, if possible, seek work. The degree of activation must be stronger on all types of payments – including through clear participation requirements for those receiving benefits, strong monitoring of the compliance with those requirements, and clear and significant sanctions in case of non-compliance. It is also important that all benefits in place use a similar and comparably strong activation framework.
- *Revisit the Child Home Care Allowance*. This special benefit creates inactivity traps for disadvantaged mothers, with long-term consequences on the level of education and skills they achieve and, in turn, their employment and income trajectories.

Strengthening the provision of integrated services

The range of services available for youth in Finland is considerable. However, too often different service offers operate in isolation with limited links to other services. This is not good enough because a large number of young people face multiple problems. Integrated services that address a range of needs concurrently rather than one by one are the exception, not the norm. Such integrated services are especially important for the most disadvantaged and for less mature young people who are pushed into quasi-independence early in life, often far away from their hometown, by an education system that stimulates and a benefit system that facilitates leaving the parental home.

- *Make the most of the Youth or Community Guarantee*. Comparative analysis shows that Finland's Youth Guarantee is very successful in reaching young people in need, especially NEETs, but much less successful in achieving employment outcomes for them. First, it is important to identify the needs of young people quickly by ensuring Ohjaamo guidance centres are available for

everyone and equipped with a full range of services and, thus, able to refer people quickly to any possible service they might need. Second, the share of young people under age 30 referred to an active labour market measure can be increased. At 32% in any year, this share is surprisingly low in view of the strong youth focus of the PES.

- *Improve the effectiveness of PES programmes*. Finland invests considerable amounts in its active labour market programmes but subsequent employment outcomes are relatively low, e.g. six months after participation in a PES measure only about 20% are in employment. The PES can take several steps to improve employment outcomes of its services for the youth population. These steps include: i) engaging with schools to help in the transition to higher education, vocational education or employment; ii) putting more emphasis on assessing the skills of jobseekers and recognising any prior learning; iii) using information on previous PES experience in the profiling process; and iv) following-up on those leaving the service and providing (in-work) follow-up support as necessary.
- *Invest in evaluating available programmes and new initiatives*. Finland must also do more to measure the outcomes and assess the effectiveness of the many initiatives, projects and programmes offered by public authorities, including the employment and training measures of the PES but also the rehabilitation measures of KELA, the social services provided by the municipalities and the guidance services provided by the Ohjaamo centres. Good evaluations are critical to promote evidence-based policy-making. On this aspect, Finland could learn from the United States where the laws providing funding for a particular programme include requirements for programme performance tracking and impact evaluation.
- *Build on the 2015 act on multi-sectoral joint service*. The 2015 act, which transformed the previous LAFOS units into a permanent network bringing together a range of municipal, PES and KELA services, was Finland's biggest step towards the provision of joint and fully integrated services organised around a multi-sectoral employment plan. It will be important to implement and monitor this change rigorously, as it should be the basis and a model for the provision of fully integrated services to all people facing multiple problems. Lessons from KELA's recent initiatives should be incorporated into the multi-sectoral joint service. It will also be important to ensure a strong link with the Ohjaamo youth guidance centres.
- *Provide mental health training to caseworkers*. Mental health issues, often undiagnosed, are widespread among the youth population and a considerable barrier to better education and employment outcomes. Mental health is a complex challenge: on the one hand, too often mental health problems remain uncovered while, on the other hand, work capacity of those with a diagnosed mental health issue is often underestimated. Caseworkers from all public authorities (KELA, PES, new LAFOS, Ohjaamos, municipal social services) need better mental health training to be able to recognise problems and refer their clients quickly to the right types of supports and services. Accordingly, mental health should also become a category in the profiling tool used by the PES, e.g. by using validated survey instruments that identify a person's mental health status in an indirect manner.

Using the government reform as a vehicle to address remaining challenges

The SOTE reform would have major repercussions on institutional aspects that are not part of the reform itself. First, there is a need to strengthen the connection between benefits and employment services, i.e. to better connect KELA and the PES. The current disconnection is particularly problematic for young people with multiple needs who have to approach a multitude of authorities to get all the help they need. Second, there is a need to connect and integrate various types of services. The SOTE reform is not making these challenges easier.

- *Align the SOTE reform with benefit reform*. The SOTE reform would have reinforced the disconnection between benefits (a national matter) and employment and other services (a regional matter). To make this setup functional and effective, underlying funding mechanisms must ensure sufficient investment by the counties in prevention and early intervention services, to avert benefit claims and benefit dependency. Sharing county actions and outcomes openly in a transparent matter would facilitate the diffusion of good practices at the county level. For both issues, better administrative incentives and higher transparency, Finland should look into developments in Denmark over the past decade. In addition, links between KELA and the PES must be stronger through mutual follow-up of shared clients and by involving both institutions in the activation framework. This is particularly important for social assistance clients.
- *Increase the resources and impact of the Ohjaamo centres.* Ohjaamos are critical entities guiding young people through a fragmented system of services and benefits. There is a need to expand Ohjaamo resources to ensure such one-stop-guidance centres are available for all young people across Finland and offering the full range of services needed to support them (including outreach workers, employment specialists, mental health professionals, social workers, housing experts, financial expertise and benefit knowhow). With the SOTE reform, the position and location of the Ohjaamo centres could come under pressure. Counties must have the resources and incentives to maintain and expand this guidance structure, to prevent rising within- and cross-county inequalities in access to services.
- *Invest in monitoring and evaluating policy reforms*. In many ways, the SOTE reform would dive into new territory. The reform of the PES in 2013, which transferred the responsibility for employment services from the local to the regional level, was a precursor of the SOTE reform. Both reforms aim at increasing service efficiency and harmonising service availability and quality across the country. Monitoring, evaluating and fully understanding the implementation and impact of the PES reform is critical as a learning experience for a successful realisation of any SOTE reform.
- *Study other countries' experiences with the outsourcing of public services*. As part of the SOTE reform, Finland aimed to generate a transparent, competitive market for health, social and employment services, to improve service efficiency and introduce user choice. Such change would be a major undertaking in itself, with considerable potential but also risks. Finland should consider doing this transition in steps, starting with the administrative changes while carefully studying how other countries managed to outsource public services. Australia in particular has considerable experience in outsourcing of various services,

including youth outreach services, youth mental health services and employment services.

Notes

[1] The earned income must also have amounted to a minimum of EUR 1 189 per month.

[2] Unemployed jobseekers covered through the earnings-related allowance receive 45% of the difference between their daily wage and the amount of the basic allowance. If their monthly income exceeds the income limit (set at EUR 3 078 in 2018), the earnings-related allowance is equivalent to 20% of the amount that exceeds this limit.

[3] In Finland, the usual expression is *disability pension* but the OECD systematically uses the term disability benefit when referring to income-replacement benefits related to a person's work capacity (OECD, 2010[24]). The terms *disability allowance* and *care allowance* denote additional payments in Finland designed to cover the extra costs caused by a person's disability.

[4] Youth aged 18 and over living with their parents are independently eligible for social assistance, in which case the allowance amounts to EUR 356 per month.

[5] The annual income limit depends on the number of months for which a person receives financial aid: it is EUR 667 for any month in which aid is received and EUR 1 990 for each aid-free month.

[6] The exempt amount is approximately EUR 667 per each month for which a student receives study grants and housing allowance.

[7] The figure of 4.65% ensures that the reduction is equivalent to two days of benefit payment. To compensate for this potential loss in total benefit payment, the waiting period for an unemployment benefit entitlement is now only five days rather than seven days prior to the reform.

[8] In 2018, the PES in Finland gave over 112 000 sanctions for jobseekers who failed to follow their employment plan. As sanctions normally are for a period of 30-90 days, more pronounced sanctions could have considerable potential to change people's (job-search etc.) behaviour noticeably.

[9] Municipalities can top up entitlements with supplementary assistance (to cover expenses arising from special needs) or preventive assistance (to prevent exclusion caused e.g. by over-indebtedness).

[10] LAFOS are not formally independent organisations but units based on local, rather informal, co-operation contracts between the partners, and they act under management jointly defined by them (Aho and Koponen, 2007[59]). Accordingly, operations may differ from centre to centre.

[11] The implementation performance is, in fact, better in Finland than it is on average in the EU because the Finnish data refer to three months after registration, not four months. This is because Finland has committed itself to delivering a service to its youth population within three months.

[12] Finland is by no means in a unique position. For instance, Eichhorst and Rinne (2015[56]) conclude that close to three in four of the more than 750 projects from 90 countries summarised in the Youth Employment Inventory lack enough evidence to make an assessment on their effectiveness. For more information on the inventory, see http://www.youth-employment-inventory.org/.

[13] The largest part of the Youth Guarantee funding comes from the European Social Fund, topped up by central government funding and funding provided by the participating service providers such as KELA or the PES. The total cost of the three-year skills programme was EUR 79 million; this was in addition to the annual spending of EUR 60 million.

[14] Data on the characteristics of service users are not available. Interestingly, the number of NEETs in Finland in the age group 15-29 is exactly 120 000 while the number of socially excluded young persons is estimated at 40 000. The number of NEETs who receive social assistance is also 40 000.

[15] With the resignation of the government, the reform process came to a halt. At this moment, the fate of the reform remains an open question; it will be up to the next government to decide whether the reform work will continue and how the work done so far will be used. However, most actors would agree that a reform of social welfare and health care services is needed and the authors of this report assume the discussion will resume soon. This report discusses the institutional settings and the reform plans as of late 2018; all assessments and recommendations therefore refer to what was planned back then.

[16] The acronym SOTE combines the Finnish words for social (SOsiaali) and health (TErvey).

[17] Discussions on the implications on service quality of the small size of Finnish municipalities (the current median population size is below 5 000 inhabitants) have been ongoing for many years. Finland currently has 311 municipalities; between 2005 and 2017, the number fell from 444 to 311, through a series of voluntary mergers, which often involved more than two municipalities.

[18] The details of the compensation model are critical for the success of the reform in terms of equal access to services and cost efficiency as well as to prevent adverse selection and cream skimming. The plan was that providers would have to accept all clients in their area and receive risk-adjusted capitation payments taking into consideration age, gender and morbidity. The details of the payment model will determine the provider's incentives to stay in the market and to transfer clients (and thus costs) to other service providers, such as e.g. (expensive) public hospitals. With the reform, providers would be able to exit the market with an advance notice of six months and, similarly, clients would be able to change the provider every six months.

[19] The challenge to maintain and step up funding for Youth Guarantee initiatives is not unique to Finland but a challenge that all European countries are facing (Escudero and Mourelo, 2017[58]).

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