

5 Policy conclusions

This chapter compiles the main findings of the report and provides policy considerations that could improve Finland's overall business climate and support efforts to attract and retain more FDI, while increasing its positive social and economic contribution. It proposes policy actions in areas that affect the Finnish economy as a whole, such as access to skilled domestic labour and foreign talent, labour market flexibility, investment screening, company registration and obtaining necessary operational permits, and finally, regulatory transparency. It also presents targeted policy measures that the Finnish government could consider to facilitate market access and boost competition in selected sectors of strategic importance. Finally, it delineates measures that could further enhance Finland's visibility as an investment location, promote the inclusiveness and wider spread of the benefits of FDI across the country and strengthen the dialogue between the government and the business community, inclusive of foreign-owned companies.

Key policy considerations

- Ensure that technology and knowledge stay competitive and continue to attract foreign firms pursuing knowledge-intensive activities. Engaging the business community in research and education initiatives could further strengthen Finland's technology excellence in the eyes of foreign investors.
- Facilitate work-based immigration and talent retention to address skill shortages. Opportunities are found in simplifying the residence permit system, fast-tracking work-based permits for post-graduate students and researchers, and promoting integration by lowering language barriers. Forthcoming reforms will be beneficial to address bottlenecks in the residence permit process.
- Continue efforts to improve the flexibility of the Finnish labour market. Increasing the scope of local-level agreements in collective bargaining, as planned, could reduce labour market costs while preserving strong worker protection.
- Consider further efforts to increase legal certainty in FDI screening, for example by publishing further guidance for investors regarding the practical application of the screening mechanism.
- Expedite company registration and operational permits to avoid holding back FDI projects. More comprehensive use of digital solutions can reduce waiting times and administrative burden for all businesses. Introducing time limits for the processing of environmental permits could be considered.
- Keep developing regulatory impact assessment and *ex post* evaluations of regulation. Existing bodies and mechanisms can be leveraged to ensure transparency and adequate impact assessments, particularly in national transposition of EU directives, and promote business-friendly regulation in general.
- Consider facilitating market entry and lowering barriers to competition in ICT, transport and logistics by implementing targeted reforms in these key sectors. For instance, liberalising measures in maritime and rail transport could attract FDI while also benefitting domestic companies.
- Step up efforts in marketing Finland as an attractive FDI destination. The country's image in the eyes of prospective investors could benefit from strengthening the existing portfolio of incentives and better engaging government leadership in promoting Finland as an investment location.
- Ensure that benefits of FDI are more inclusive by reinforcing efforts to attract foreign businesses outside the capital region and promoting greater collaboration between domestic and foreign firms.
- Foster better dialogue between public authorities and the business community, including foreign investors. By leveraging on existing initiatives, Finnish public authorities could gain a better understanding of companies' needs and explore further opportunities for co-operation.

5.1. Introduction

Finland's economic and political stability, high quality of life, well-functioning institutions and transparent regulation have long been seen as important factors attracting foreign investment. Its solid research base, highly qualified labour force and strong culture of co-operation have brought and retained numerous foreign firms to the Finnish economy. As competition for FDI is intensifying and new challenges unfold in the wake of the pandemic, ensuring the country's continued attractiveness for foreign investment is essential.

This report assessed Finland's performance in drawing FDI in comparison to seven other economies in the Nordic-Baltic region. The empirical evidence shown in this report underlines the important role of

foreign investment in Finland in supporting the country's economic growth and job creation. Furthermore, this evidence shows that foreign MNEs contribute to Finland's export performance and facilitate the country's integration into global production networks. The report also highlights how Finland's relatively open business climate creates a favourable environment for foreign-owned firms, while identifying a number of aspects indicating that Finland might be underperforming in terms of attracting FDI. The report finally discusses how the domestic regulatory environment might be preventing Finland from exploiting its full potential as a destination for foreign investment.

This chapter summarises the main findings of the report and discusses how Finland could leverage its potential and address existing bottlenecks to continue attracting and retaining foreign investment. The first section outlines policy implications that affect the economy as a whole, the second section details sector-specific considerations. The third and last section summarises measures that could be considered to improve Finland's visibility to foreign investors and ensure that benefits of FDI are more inclusive and more widely spread in the country.

5.2. General policy implications

This section summarises the key issues applied to the overall Finnish economy, as opposed to specific sectors, that emerged from the analysis undertaken in previous chapters and offers some policy considerations.

5.2.1. Foster Finland's technology excellence in the eyes of foreign businesses

Access to technology and knowledge are highly important drivers of foreign investment decisions into Finland. Ensuring that technology and knowledge stay competitive is key for Finland's ability to remain an attractive destination for foreign investors interested in undertaking knowledge-intensive activities. Several policy considerations could further boost Finland's technology excellence in the eyes of foreign investors.

- Continue efforts to promote closer co-operation between research institutions and the business community and to further strengthen the country's research base, as is currently planned according to the National Roadmap for Research, Development and Innovation.¹
- Explore the possibility of engaging global firms in joint education initiatives to ensure that education programmes are aligned with labour market demand. For instance, in France, three multinationals – IBM, BNP Paribas and Orange – in partnership with the French Ministry for Education, introduced P-TECH (Pathways in Technology Early College High School) classes, designed to develop relevant technical and professional skills, in schools.

5.2.2. Address skill shortages by facilitating foreign talent mobility

Access to a skilled pool of labour is an important driver of foreign investment into Finland. High competence in ICT and health-tech sectors, as well as technical expertise in leading R&D projects, come across as strengths of the Finnish economy. However, a growing skill shortage hinders the ability of some foreign investors to expand their operations in Finland, especially in knowledge-intensive sectors. Similarly, domestic businesses reportedly struggle with finding the required qualifications. Addressing skill shortages is vital in view of Finland's rapidly aging population. In the long run, introducing changes to the education system is a promising way to boost the domestic supply of qualified labour.² Facilitating the entry of foreign talent is a faster way to increase the pool of potential recruits.

Reduce processing times and extend the duration of residence permits

The complex and lengthy process of obtaining a residence permit for a non-EU/EEA hire is considered burdensome by most businesses, including the ones consulted for this report (see section 4.4.3). Several reforms that seek to streamline residence permit processes are already underway (see section 2.2.2). Envisaged actions include introducing fast tracks and automation, strengthening the role of the employer in the process and implementing a national visa, which would allow specialists and start-up entrepreneurs, as well as their family members, to travel to Finland immediately after the residence permit has been granted.

- Implement planned reforms to address bottlenecks in the residence permit process. In addition to start-up entrepreneurs and specialists, fast-track processes could cover (other) key employees and investors. They could also be used as a targeted measure for attracting foreign professionals in sectors suffering from skill shortages. In Israel, a visa programme targeting the high-tech sector was put in place to fast-track the entry of foreign experts employed by recognised high-tech companies.³
- Evaluate the possibility of allocating more resources to the Finnish Immigration Service for the handling of residence permit applications. This would contribute towards the general objective of reducing average processing times to one month, and fast-tracking specialists and start-up entrepreneurs' permits, in particular.⁴
- Consider further streamlining the residence permit system by reducing the number of work-based permit categories (currently 23) and processes considerably, possibly with an objective of up to five permit types. For instance, Sweden only maintains two permit categories.

The standard duration of initial residence permits (12 months) is relatively short in Finland, although there are some exceptions and the maximum duration of specialists and managers' first permits was extended to 24 months in 2018. Stakeholders expressed a concern that two years are not sufficient for start-up entrepreneurs' initial permits.

- Further extending the maximum durations allowed by law for first permits could increase Finland's attractiveness in the eyes of foreign talents and bring certainty for employers. In Denmark, an initial residence permit can be issued for up to four years in many permit categories, on the condition that the employment lasts for at least four years. In Latvia, start-up visas can be granted for a period of up to three years.

Simplify labour market tests

Labour market tests (LMTs) are applied as part of most work-based residence permit processes (see section 2.2.2). As a general rule, a residence permit for an employed person may only be granted if no suitable workforce is available locally or from any other EEA country. While labour market testing seeks to ensure employment opportunities for Finnish and EEA workforce, and despite some signs of increased flexibility in recent years, LMTs increase the complexity of recruiting foreign talent for both foreign-owned and domestic businesses and contribute to further extend already long processing times for residence permits.

- Labour market tests could be simplified through salary thresholds and positive lists, following the Danish model. Finland already maintains positive lists at the regional level, but this practice could be extended to the national level to simplify the process and add flexibility in matching supply and demand for skills.
- In the long term, evaluating the possibility of abolishing labour market tests, as has been done in Sweden, would be important in view of Finland's rapidly aging population.

5.2.3. Promote smooth arrival and integration of foreign talent

Initiatives to better support foreign professionals and their families upon and after arrival can make Finland a more attractive destination for international talent, as well as facilitate integration and talent retention by making these persons feel more welcome in the country. These measures may be particularly important given that the high rates and heavy progression of personal income taxation in Finland were seen as decreasing the country's attractiveness in the eyes of international experts. A range of measures are already underway to promote the attraction, recruitment and retention of international talent, including degree students and researchers, as part of Finland's Talent Boost programme (see section 4.4.3).

Ensure swift entry of foreign talent

Under Finland's current legal framework, it is not possible to obtain a residence permit based on remote working or investment alone. New measures to streamline the arrival of foreign professionals could increase Finland's attractiveness for potential investors:

- Consider attracting foreign talents who can work remotely in another country by providing a specific residence permit type. For instance, Estonia has recently introduced a new "Digital Nomad" visa that allows entrepreneurs and employees of foreign companies to live and work remotely in Estonia for up to one year. This is particularly topical, as workers are less tied to the country where their company is located and working remotely abroad is likely to become a new reality, as the COVID-19 pandemic has shown.
- Following the successful initiative in the Helsinki region to provide entry-related services (such as obtaining a Finnish personal identity code and tax card) under one roof at International House Helsinki, set up similar one-stop-shops in other large cities to streamline the arrival and integration of foreign talent in the country.

Strengthen efforts to retain foreign students and researchers

Consulted businesses and stakeholders consider that more could be done to promote the employment of international students in local businesses after graduation from a Finnish educational institution. Currently, students and researchers can only be granted a residence permit extension for up to one year after graduation or the end of research work to look for a job or start a business in Finland. However, a forthcoming bill would extend this period to two years after graduation.

- Implement planned reforms that aim to streamline the entry and post-graduation stay of international students and researchers. In addition to helping retain international talent in the country, these measures would contribute to Finland's image as a destination to study abroad, while also helping to boost the country's exports of education services. Automatically granting a work-based residence permit for these categories upon finding a job post-graduation or implementing a fast-track process for the handling of such work permit applications could also be considered as part of the planned reform.

Promote the integration of foreign professionals (and their families)

Addressing challenges related to language barriers could improve the integration of foreign professionals already present in the country:

- Continue efforts to increase accessibility of up-to-date regulatory and administrative information in English to the same extent as in Finnish (or Swedish).
- Further develop opportunities for language training adjusted for professional purposes, as envisaged in the Talent Boost programme. The possibility of co-funding projects allowing employers to invest in their foreign employees' language skills could be evaluated. For instance,

the Australian government provided financial support to businesses for language training delivered in the workplace.⁵

Facilitating the integration of family members in the Finnish society could be important for foreign professionals, especially in ICT industries, where there is a high mobility rate worldwide:

- Ensure quick handling of residence permit applications for family members of foreign employees (when not applied simultaneously with the employees themselves).
- Consider increasing accessibility of education services in English for children of foreign nationals. This could increase the ability of some foreign experts to accept high-level job offers in Finland by making it easier to bring along their family members.

5.2.4. Consider improving the flexibility of the Finnish labour market

The rigidity of the Finnish labour market is a general concern of businesses in Finland, including the ones consulted for this report. Stringent dismissal regulation prevents some firms from expanding and creating new jobs for fear of unsatisfactory recruitment choices. An inflexible labour market could also exacerbate skill shortages, as it might impede labour mobility.

- Continue efforts to increase the scope of local-level agreements in sector collective bargaining. Currently, the flexibility clause that allows firm-level bargaining under sector collective agreements is only available to members of the employer association that signed the agreement. Removing the legal restriction preventing non-member firms from using this clause, as planned, would promote greater economic flexibility.

5.2.5. Streamline entry into the Finnish market

Addressing certain aspects of investment screening, company registration and investment-related permit processes would facilitate market entry by foreign investors.

Increase predictability in FDI screening

Screening is applied to certain types of foreign takeovers and to certain real-estate transactions (see section 2.2.1). Foreign acquisitions of defence industry companies are subject to mandatory prior approval. In other sensitive sectors, screening only covers acquisitions by foreign acquirers outside the EU or EFTA and may imply mandatory prior approval (security sector companies) or voluntary notifications (other companies). While safeguarding essential security interests is an important and legitimate role of governments, screening mechanisms may also have unintended effects on foreign investment. While predictability of outcomes in this area is inherently limited, further steps could be considered to allow investors to anticipate if their planned acquisition will be screened and how long the process might take.

- Publishing further guidance on factors that are taken into account in the screening of foreign corporate acquisitions, particularly those outside defence and security sectors, could improve transparency and certainty for foreign investors. *Ex post* reporting on screening processes and decisions, for instance periodical reports disclosing the number of cases, outcomes and processing times, could be adopted to provide information on implementation practice, all the while ensuring the protection of confidential information.
- Publishing and regularly updating information on average processing times for the approval of foreign corporate acquisitions could improve predictability for foreign investors.
- Continue the practice of early informal dialogue between the Ministry and the parties of a planned acquisition. By clarifying the practical application of the screening mechanism, preliminary consultations offer an opportunity for a prospective investor to assess whether initiating a formal procedure is worthwhile in a specific case.

Speed up company registration and operational permits

Processing times to set up a business are longer in Finland (13 days) than in the rest of the Nordic-Baltic region, although they have become shorter over time. Foreign investors have limited access to online company registration (see section 2.2.1). However, a recent pilot project experimented with online company registration by foreign representatives abroad, and a reform of the Trade Register Act, currently under preparation, seeks to enable a shift to e-services and automatic handling of applications and notifications.

- Continue working on initiatives that aim to improve the digital operating environment for companies and enable immigrant non-EEA nationals to engage more easily in public and private administration in Finland. The Estonian e-residency, which allows companies to be registered and managed 100% online from anywhere in the world, could be used as an example. In Estonia and Denmark, completing the necessary administrative steps to register a company takes only four days.
- Besides expediting company registration and reducing administrative burden for all companies, the forthcoming reform of the Trade Register represents an opportunity to further promote inclusiveness by ensuring that foreign representatives and non-native speakers in Finland will also be able to file for company registration online, in English.

Business consultations revealed that lengthy permit processes, namely obtaining an environmental permit, construction permit or approval of land-use planning, slow down certain investment projects. Stakeholder comments and studies corroborate this finding (see section 4.4.2). The cost of obtaining a construction permit is also relatively high in Finland (see section 2.3.2). Therefore, there could be interest in streamlining these operational permits to give Finland a competitive edge, especially in fast-growing new sectors, by considering the following options:

- The planned reform of the Land Use and Building Act presents an opportunity to streamline the construction permit and land-use planning processes, reducing cost and delay for investors.
- Consider amending the legal framework regulating different environmental permits to introduce time limits for the processing of permits. These time limits could be enforced by penalties imposed on authorities for exceeding the maximum processing times or coupled with provisions on tacit approval, where a permit application is considered approved if there is no response from the authorities within the set time limit. France, Germany and the Netherlands apply binding time limits for the processing of the most important environmental permit types.
- Enhancing guidance provided to applicants, sharing best practices and increasing co-operation and specialisation between authorities are other recommended actions to address long processing times. Continuing the digitalisation of permit processes would be welcome.

5.2.6. Further increase regulatory transparency

Transparency in regulation and its implementation plays an important role in attracting FDI. National transposition of EU directives and public procurement processes are areas where foreign investors, as well as domestic companies, could benefit from further transparency-enhancing measures.

Adopt further measures to strengthen regulatory impact assessment and monitor gold plating

Finland maintains well-functioning stakeholder consultations for new legislation, but has implemented fewer practices to improve regulatory quality in the areas of regulatory impact assessment (RIA) and *ex post* evaluation of regulations than the OECD average. Developing RIA in the transposition of EU directives may be particularly important, as gold plating (requirements in domestic law that go beyond the minimum requirements foreseen in EU directives) may put companies operating in Finland at a competitive

disadvantage in the Single Market due to additional compliance costs. New national guidelines for law drafting, adopted in 2019, promote transparency-enhancing practices in national transposition efforts (see Box 4.2). Several measures could further contribute to improve regulatory transparency and address the effects of gold plating:

- Monitoring impact assessments on the national transposition of directives would help obtain an overview of the scope and effects of gold plating in Finland and ensure that the good practices specified in the new guidelines are followed in law drafting. Currently, only a few Member States (e.g., France, Germany, the Netherlands, Sweden) actively monitor gold plating or have explicit policies to address it.⁶
- Existing bodies and mechanisms, namely the Finnish Council of Regulatory Impact Analysis and the inter-ministerial working group for the development of law drafting, could be leveraged to further strengthen the use and review of RIA. Especially the Council, as an independent and impartial permanent body, could be well-positioned to address gold plating and other domestic red-tape. Introducing an oversight function, allowing the Council to return bills for which impact assessments are deemed inadequate, could further enhance RIA. Continuing to apply the one-in, one-out principle⁷ in the transposition of directives and increasing the scope of *ex post* evaluations of regulation can help ensure that the regulatory burden for businesses does not grow too heavy.

Promote transparent and non-discriminatory public procurement

Based on the regulatory assessment and business consultations, there are some transparency-related concerns in Finnish public procurement processes (see sections 2.2.3 and 4.4.5). Discrimination against non-EU, non-GPA foreign providers is not explicitly prohibited in public procurement law. Moreover, language requirements may constitute a barrier to participation by foreign suppliers and foreign-owned companies based in Finland. Furthermore, the cost-driven criterion for the selection of providers was not considered suitable to all types of purchases. A number of businesses also expressed a concern that some tenders are tailored for certain providers.

- Introducing an explicit non-discrimination requirement (applicable to all foreign providers) in public procurement law would guarantee a level playing field between foreign and domestic bidders. France adopted such a provision in 2019, extending non-discriminatory treatment in the public procurement process to all foreign entities.⁸
- Conducting more EU-level tenders in English and enabling submission of procurement notices and applications in English, including in national award procedures, could help attract more foreign bidders and thereby increase competition in public procurement. Contracting authorities could reconsider the extent of language skills required of service providers' teams, with English more often recognised as an alternative to Finnish or Swedish.
- Implement already discussed initiatives to promote the use of quality criteria in public procurement, organise training of public procurement officials and share best practices between contracting authorities.⁹ Increased knowledge and experience of public procurement regulation and practices could help officials leverage already existing possibilities to contract for quality. Competence-building measures could also help avoid the phenomenon of tailored tenders.

5.3. Sector-specific policy considerations

This section outlines key regulatory barriers to investment in selected sectors of the Finnish economy – ICT, transport and logistics – and provides targeted policy considerations to address them. Facilitating market entry and lowering barriers to competition in these sectors is important, as they provide essential inputs to other sectors, enhancing the overall level of productivity and competitiveness of the Finnish economy. Strengthening investment into the ICT sector is essential to support innovation.¹⁰ Attracting FDI

into transport and logistics can help the transition towards climate neutrality, as delineated in Finland's National Energy and Climate Plan.¹¹

5.3.1. Investment in ICT could benefit from further pro-competitive measures and harmonisation

In the telecommunications sector, the coverage of pro-competitive regulation imposed by the Finnish telecommunications regulator Traficom is generally good, ensuring a level playing field between newcomers and incumbents. However, access prices are not regulated in certain markets where there are firms holding significant market power. Moreover, Traficom monitors the telecommunications market less frequently than its Nordic-Baltic peers.

- Imposing price regulation on dominant suppliers in the markets for active wholesale products (VULA, bitstream) and high-quality connections in the form of price caps, cost-oriented pricing or minimum margins between the wholesale product and retail price would further facilitate market entry by new providers and enhance competition.
- Conducting more frequent market assessments, for example every two years, would ensure timely regulatory response to market developments. Regular market analysis is particularly important in markets, especially dynamic ones, where there is no effective competition. In comparison, the Danish regulator has conducted four rounds of market analysis in each market since 2014 (figures as of March 2020).

As for trade of digitally enabled services, Finland is not party to the UN Convention on the Use of Electronic Communications in International Contracts, which ensures equivalence between electronic communications and paper documents.

- Finland could consider becoming party to the Convention to ensure that domestic rules on cross-border contracts are in accordance with the international standards agreed therein. Such harmonisation might decrease compliance costs for businesses engaged in cross-border digital trade.

5.3.2. Reforms in transport and logistics can facilitate market entry and enhance competition

In maritime freight transport, access to coastal transport between Finnish ports (cabotage) is largely tied to domestic or EU/EEA ownership via flag state rules (see section 2.3.4). Access to favourable tonnage tax treatment is also linked to domestic ownership. Several measures have potential to lower barriers for foreign trade and investment in this sector:

- Consideration could be given to lowering the threshold of domestic ownership required to register a vessel in Finland (currently 60%). Several European countries (e.g., France, Greece, Italy, Sweden) set the threshold at 50%.
- Implementing the planned reform that would allow for double registration of bareboat chartered vessels would increase flexibility for foreign shipping companies. By bringing more vessels under the Finnish flag, the reform might also bring benefits to the Finnish maritime sector by creating jobs for local seafarers. Within the region, Denmark, Estonia, Latvia and Norway already allow bareboat registration.
- Explore possibilities to liberalise access to coastal trading. Access to cabotage is open to foreign vessels in several European countries (e.g., Denmark, Iceland, Latvia, the Netherlands, Norway). Alternatively, the requirements for obtaining a temporary permit to cabotage could be eased.
- Consider lowering the percentage of gross tonnage under a Finnish or EU flag (currently 60%) required for a shipping company to qualify for tonnage taxation. For instance, Sweden only requires that 20% of the gross tonnage is registered domestically.

The rail transport sector is characterised by very little competition. The state-owned enterprise VR holds a large market share in freight transport, and reforms to open the passenger rail transport market to competition have been suspended.¹² Moreover, Finland's unique track gauge standard, which is incompatible with those of most other European countries, represents a technical entry barrier to foreign carriers.

- Implement planned pro-competitive reforms in the market. In addition to bringing VR's rolling stock under a stock company to enable equal access to rolling stock for all operators, ensuring open access to railway infrastructure and services will also be important to promote competition in the sector. Access on equitable conditions could be achieved by organising tenders for the selection of services providers at railway yards and terminals, and ensuring neutrality in their pricing and capacity allocation.
- In the long term, the possibility of switching to a common track gauge could be evaluated to favour interoperability with other EU countries' rail systems.

In logistics, the lack of a competitive process mandated by laws or regulations for awarding certain types of service contracts to logistics providers at ports and airports represents a barrier to competition (see section 2.3.5).

- Consider introducing measures, such as mandatory public bidding procedures, which would increase competition in the selection of services providers across all airport and port services (namely, the right to exploit storage and warehouse services at airports and ports, and cargo-handling services at ports). Existing regulation on cargo-handling at airports could serve as a model.

Finland's rules in distribution, cargo-handling, air and road transport are tighter than in the rest of the Nordic-Baltic region.

- Streamlining rules in these sectors to further align Finland's regulatory landscape with that of its neighbours would be particularly beneficial to decrease compliance costs for investors and businesses active in several markets within the region and attract more investment.

5.4. Towards a more attractive destination for FDI

This section outlines policy actions that could be considered to enhance Finland's visibility to prospective foreign investors, ensure that benefits of FDI are distributed more equally across the country, and promote better dialogue and co-operation with foreign businesses, including in addressing various challenges brought by the COVID-19 pandemic.

5.4.1. Reassess incentive offering

Finland offers a wide range of investor incentives and funding opportunities to foreign-owned businesses. Promoting greater transparency of funding decisions and ensuring that the incentives succeed at reaching their intended goals could be important not only for attracting and retaining foreign businesses, but also for diversifying Finland's FDI portfolio in terms of sectoral and geographical origins of investment.

Promote greater transparency of funding decisions

Some businesses wished for improved transparency of funding decisions by Business Finland and ELY Centres, in particular with respect to the eligibility criteria during the application and selection process, corroborating the findings of a comparative study which identified discretionary investment incentives as one of the shortcomings of Finland's incentive offering. Stepping up efforts to promote greater transparency and predictability of funding decisions would boost investors' confidence in Finland's incentive policies.

- Rethink the way of communicating eligibility criteria for funding and other incentives.
- Explore the possibility of introducing automatic eligibility for applicants fulfilling pre-defined selection criteria. This would allow investors to know in advance if they do not qualify for an incentive.¹³

Better targeting the portfolio of available incentives

Reassessing the existing incentives could be important to ensure that they reach their objectives:

- Consider reviewing the current tax incentive for foreign key employees (see section 2.2.2). For instance, the duration of the favourable tax treatment (a flat tax rate of 32% of the employee income) could be extended from 48 months to 84 months, as it is applied in Denmark. Offering a more substantial tax incentive could further improve Finland's attractiveness. For instance, in the Netherlands, foreign employees whose work requires special expertise are exempt¹⁴ from paying tax on up to 30% of their salary.
- Evaluate the possibility of adjusting the modalities of existing incentives or funding programmes to respond better to companies' needs. This would benefit also businesses interested in funding large investments, such as first industrial or infrastructure deployment, which are not adequately covered by current schemes.
- Consider the possibility of funding for the commercialisation of innovation. For instance, Australia's "Accelerating Commercialisation" programme¹⁵ offers access to expert advice and funding to assist businesses in getting their product to domestic and international markets. Swedish agency Vinnova offers a two-step funding opportunity,¹⁶ where start-ups that have already received grants for developing business ideas can seek further financial support to bring products to the market.

5.4.2. Increase efforts to promote Finland as an attractive FDI destination

Consulted businesses reported a general unwelcoming environment towards foreign companies. Some perceived that cultural factors, such as the Finnish language, play a role in discouraging foreign investors and that foreign entrepreneurs have to be more proactive than local ones in seeking support. Additional efforts to market Finland as an attractive location for FDI could increase the country's visibility on the international arena and convey a welcoming attitude towards foreign businesses.

- Consider engaging government leadership more actively in promoting Finland as an investment location. For instance, according to a recent survey, the willingness of the government to meet with foreign investors may convey the country's long-term interest in FDI.¹⁷
- Continue efforts to increase availability of information relevant to companies entering Finland, with material available in English regarding, for instance, labour market regulations, key sector-specific regulatory issues and the different authorities to be contacted. This could make foreign businesses feel more welcome in the country.

5.4.3. Ensure that benefits of FDI are more inclusive and far-reaching

More than a half of FDI projects target the Helsinki region. Although the concentration of foreign investment in metropolitan areas is common to many economies, supporting efforts to attract foreign firms to other regions could ensure that the benefits of FDI are distributed more equally across the country.

- Continue efforts to improve regional co-operation in investment promotion, while ensuring effective co-ordination among the involved authorities.
- Encourage cities to increase the visibility of services they offer to foreign investors. This could further improve the awareness of foreign-owned businesses about the existence of local investment support, not necessarily financial, which is important considering that some consulted firms did not know about such services.

- Continue enhancing the international visibility of Finnish regional industrial clusters, for instance Vaasa, Jyväskylä and Kainuu. Apart from such traditional benefits of locating in a cluster as access to the pool of skilled workers, supplier linkages and collaboration opportunities, foreign investors might find it valuable to set up their establishment in the proximity to other MNEs and tap into their networks. An example of a life-science cluster, which is very successful at attracting FDI, is Medicon Valley hosted by Denmark and Sweden, thanks to, among other things, its world-known brand.
- Strengthen efforts of Regional TE Offices to assist employers with recruitment. This could help address the skill gaps, which according to some consulted businesses, are more severe outside the capital.

Benefits of FDI in Finland go beyond its direct contribution to economic activity and employment. Foreign MNEs support improvements in the quality of jobs in terms of wage and skill premia (see section 1.4.1) and encourage the wider spread of technologies through collaborative research initiatives and inter-firm labour mobility (see section 1.4.2). Moreover, by interacting with local suppliers, engaging in intra-firm trade and selling to third markets, foreign affiliates provide new channels to further integrate the Finnish economy into GVCs and boost the country's export performance (see section 1.4.3). Fostering more extensive collaboration between domestic and foreign firms could encourage the wider spread of benefits of FDI in the economy.

- Continue fostering collaboration between foreign MNEs and local businesses to promote exchange of knowledge and new technologies. For instance, the Veturiyrittäjien programme¹⁸, recently launched by Business Finland, encourages global companies to build business ecosystems engaging smaller firms. An example of an initiative taken by a foreign-owned company is Silicon Vallila in the Helsinki region, where GE Healthcare hosts a number of start-ups to promote partnership in research and product development.
- Continue efforts to assist foreign firms in identifying suppliers and service providers. Beyond promoting greater integration of local firms into GVCs, deeper linkages with local suppliers might be important for retaining investors.

5.4.4. COVID-19 and FDI: address challenges and explore opportunities

Global FDI flows are expected to decline in the coming years as a result of the COVID-19 pandemic. Some MNEs might revisit their supply chains, which could accelerate divestments. On the other hand, this might also create opportunities to attract new investment. Given that FDI attraction and retention are vital to support economic recovery, several considerations could further strengthen Finland's policy response to the pandemic.

- Tailor support to businesses' needs. For example, consider seasonality of revenues when designing eligibility criteria for state aid.
- Intensify efforts to improve the transparency of government interventions, for instance, with respect to the practice of announcing the winners.
- Continue providing up-to-date information on COVID-19 related developments and funding opportunities relevant for investors.
- Explore the opportunities to leverage the consequences of the COVID-19 pandemic to attract more FDI. As many businesses are rethinking the way they organise their production and are looking to relocate their offices, Finland could further strengthen its reputation as an attractive destination thanks to its relatively successful response to the pandemic, which was viewed positively by many foreign investors present in the country.

5.4.5. Strengthen the dialogue between the government and the business community

Many foreign firms wished for a more extensive dialogue between the authorities and the business community. Similar concerns were raised by domestic firms in earlier studies of the Finnish investment climate. A better dialogue would not only provide public authorities with a better understanding of businesses' needs but could also promote further co-operation in solving societal challenges, such as the pandemic.

- Leverage the Meeting of Foreign Investors (former Foreign Investors Council) as a forum, for instance, following the example of the Foreign Investors' Council in Latvia (FICIL) – a non-governmental organisation whose members are the largest foreign-owned companies in the country and national chambers of commerce.¹⁹
- Solicit regular feedback from businesses to better understand their needs through consultations and surveys, including via the Meeting of Foreign Investors. The Business Panel at the Ministry of Economic Affairs and Employment of Finland,²⁰ formed to consult companies about their perception of the regulatory environment, is a welcome development. The panel is held in Finnish only; introducing English as working language would make the panel more accessible to foreign-owned firms.
- Support initiatives to improve public authorities' perception of FDI by raising awareness about the concrete benefits of foreign investment more generally and in their constituencies.
- Invest in developing a long-term strategy for FDI and the general investment environment, involving the business community in the process. This would further convey stability and predictability to foreign businesses.

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- Tsipouri, L. (2014), "Smart Governance of the internal market for business.", *A report to the European Economic and Social Committee - Group I*. [4]

Notes

¹ [Ministry of Economic Affairs and Employment](#), 15 February 2021. Some examples of Finnish public-private partnerships with great engagement of foreign firms include a bio-circular cluster, CLIC Innovation, which facilitates R&D and innovation collaboration between academia and the business community, and a co-creation platform DIMECC (Digital, Internet, Materials and Engineering Co-Creation), designed to help digital innovations get on the market. Strong university-industry links improve Finland's investment climate. Aalto University, the University of Jyväskylä and the University of Helsinki are good examples of universities with a long tradition of joint innovative projects with global firms based in Finland.

² For instance, the Finnish government is currently planning to expand the number of available study places during 2021-22.

³ [Globes](#), 1 January 2018.

⁴ [Programme of Prime Minister Sanna Marin's Government](#), 10 December 2019. The Finnish Immigration Service aims to reduce processing times of residence permits for specialists and start-up entrepreneurs to two weeks by the end of 2021. [STT](#), 1 February 2021.

⁵ The Australian Government supported the "Workplace English Language and Literary" programme.

⁶ Tsipouri (2014_[4]).

⁷ The so-called one-in, one-out principle refers to compensating increases in regulatory burden, resulting from new regulation, by reducing the burden elsewhere. The Ministry of the Economic Affairs and

Employment applies the mechanism to business regulation since 2017, also evaluating the annual cost impact on businesses. [Ministry of Economic Affairs and Employment](#), consulted 4 February 2021.

⁸ France's [Public Procurement Code](#), Article L.3 (in force as of 1 April 2019).

⁹ [Programme of Prime Minister Sanna Marin's Government](#), 10 December 2019.

¹⁰ Promoting investment into knowledge-intensive sectors is in line with the recommendations by the European Commission to Finland on how to boost research and innovation (European Commission, 2019^[2])

¹¹ Ministry of Economic Affairs and Employment (2019^[1]).

¹² A decision to open passenger rail transport to competition was made in 2017. Since then, VR and the Ministry of Transport and Communications have reached agreement on establishing rolling stock and real estate companies to take over trains and depots from VR. [Ministry of Transport and Communications](#), 7 June 2018.

¹³ Investment Consulting Associates (2016^[5]).

¹⁴ [Government of the Netherlands, 30% expat tax break](#), 3 February 2021

¹⁵ [Australian Government, Accelerating Commercialisation](#), 26 January 2021

¹⁶ [Vinnova, Innovative start-ups step 2](#), 26 January 2021

¹⁷ National Audit Office (2017, p. 68^[3]).

¹⁸ [Business Finland](#), 26 January 2021

¹⁹ FICIL meets with the government annually and its Work Groups develop sector-specific recommendations to improve the Latvian investment climate ([FICIL; Investment and Development Agency of Latvia](#); 26 January 2021). Some recent examples of FICIL's impact on Latvia's policies include changes to the taxation of reinvested profit and modernisation of the education system ([Progress report of FICIL's recommendations on Education System 2016](#), [Progress report of FICIL's recommendations on Tax Policy and Tax Administration 2016](#), 05 February 2021).

²⁰ [The Business Panel at the Ministry of Economic Affairs and Employment](#). 04 January 2021.



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