

GREEN RECOVERY TRACKER REPORT: FINLAND

Finland's final Recovery and Resilience Plan (RRP) was presented by the Ministry of Finance on May 26, 2021 after prolonged discussions with the Commission. The most considerable changes to the first draft were the details on the milestones and the targets of the plan, as well as the selection criteria for funded projects. The plan is part of a larger Green Growth Programme in the context of Finland's 2035 carbon neutrality target, that also includes measures additional to the RRP. The expected total sum to be received through the EU Recovery and Resilience Facility (RRF) is €2.1bn, roughly 1 % of Finland's GDP. This report summarizes of the climate implications of the RRP and its contributions to the green transition. Due to the structure of the RRP, case-by-case analysis was not practical for some investments and thus they were analysed at an aggregate level. Overall, Finland's recovery measures have the potential to make a very positive contribution to the green transition, as our analysis identifies the following spending shares:



In focus: Green Spending Share

We find that Finland's draft recovery plan (RRP) achieves a green spending share of 42%, above the EU's 37% benchmark. Furthermore, we find that 5% (€0.1bn) may have a positive or negative impact on the green transition depending on the implementation of the relevant measures, illustrating the importance of further scrutiny during the further planning, review and implementation of the recovery measures. According to the government, the plan's climate spending share is 50%. The divergence between these assessments can likely be explained by the fact that we were forced to assess wider components instead of individual measures in some cases due to missing information, which has led to less positive overall assessments.

Our calculation of the green spending share aims to mirror the approach used for the official assessment of national recovery plans, which distinguishes between measures contributing fully to climate mitigation (100% coefficient) and measures contributing partly (40% coefficient). Therefore, we fully count "very positive" measures towards the green spending share, while "positive" measures are weighted using a coefficient of 40%, which is applied to the associated costs. All individual assessments can be accessed via the country page on our website.

The RRP, which is embedded in the Green Growth Program, aims to enhance green growth in accordance with the government's political priorities: cutting emissions, increasing productivity and employment, and improving health care services and social equality. The programme is divided into four pillars: 1.) Green transition €825m, 2.) Digitalization €234m 3.) Employment and competence €636m, 4.) Social and healthcare services €400m, the first of which addresses climate issues head on, but the matter is integral to the second and the third one as well.

The RRP builds on a comprehensive approach to the long-term climate transformation of the society, supported by previously created sectoral low carbon roadmaps. Notable investment packages include €316m for upgrading energy infrastructure, €326m for industries to develop e.g. the hydrogen infrastructure and circular economy, €110m for reducing the environmental footprint of built environment and €85m for digitising the railway network. The measures that are reactive directly to the COVID pandemic focus mostly on welfare considerations (e.g. relief for the burdened health care system), but for example investments in building a fast internet access throughout the country and the consequent facilitation of remote work have potential for climate impacts.

The caveat of the plan's breadth is that it risks fragmentation and the consequent loss of effectiveness, thus calling for effective allocation processes. However, it is stated in the plan that it has been prepared in coordination with the ongoing climate policy work and the legislative framework and the responsible institutions for the investment allocation have been identified. Most of the projects will be funded on a condition of being 100 % climate-friendly, selected based on the criteria found in the official DNSH guidance document 2021/C 58/01.¹ The most ambiguous part of the plan may be the additionality of its measures: In many cases it is not clearly communicated, which measures are being introduced as added contributions.

The RRP is to be implemented over the period 2021-2026. Execution of the reforms planned relies on the other elements in the Finnish climate policy framework and further details for investment allocation are to be decided in the upcoming budgets – supplementary budgets for 2021 and annual budgets for 2022-2026. A governmental monitoring group is set to track the effectiveness of the measures, although the indicators to be used are unclear at this stage.

¹ EUR-Lex (2021). Commission Notice Technical guidance on the application of 'do no significant harm' under the Recovery and Resilience Facility Regulation 2021/C 58/01.

OUR HIGHLIGHTS

Good Practice

Clearly achieving the 37 % EU requirement

The plan takes a holistic approach to a long-term climate transformation and the funding is allocated on a wide spectrum, and our analysis confirms that it will likely exceed the EU's 37% requirement on climate spending. In addition to sectors such as energy, buildings and mobility, the plan covers education, RDI and digitalization - all of which play an important role in the green transition.

Bad Practice

Not much support for the natural environment and biodiversity

The national criteria for green recovery that were established in summer 2020 emphasized the importance of finding and using the synergies between climate change mitigation, adaptation, and enhancing biodiversity. Intentions to improve the condition of natural environment are expressed in the RRP and some the positive synergies are captured in the promotion of circular economy, but these issues do not receive significant investments. Planned direct investments to one of the sectors most relevant for the topic, the land use sector, remain relatively small at €30m.

To Our Surprise

Small role of the bioeconomy

Bioeconomy plays an important role in Finland's economy due to the forest industry being among the largest in the country. Becoming a leader in bio-products is highlighted as a target in the RRP but in light of this the planned investments of overall €30m are surprisingly little. Bio-products are also mentioned as one of the RDI investment candidates, but there are no further details on direct funding.

KEEP AN EYE ON...

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- > ... **links between the recovery plan and other climate policy efforts.** The RRP is quite well positioned in the national climate policy framework and follows the principles set in the Government Programme. Finland is aiming for carbon neutrality by 2035 and based on

this and other set targets, strategic and executive work has already been conducted, while much is still in the pipeline. The existing work that was considered in the RRP include, for example, the Sectoral Low-carbon Roadmapsⁱ, the Strategic Programme to Promote a Circular Economyⁱⁱ and the Roadmap to Sustainable Taxationⁱⁱⁱ. Revisions and reforms of the Climate Change Act^{iv} (i.e. the climate law), the Medium-term Climate Change Policy Plan^v and the Climate and Energy Strategy^{vi} are set to be finalized during 2021 and the RRP was coordinated with these processes. Coal phase-out in energy production had already been set to be completed by 2029, but the RRP adds a milestone: 40-80% reduction in energy usage by 2026.

- > **... how the plan fits in the context of EU policy.** The RRP recognizes relevant EU flagship projects, and its first pillar matches the ambitions of the European Green Deal. The country specific recommendations for 2019 and 2020 given by the European Commission were used as a basis for the plan. More specifically, the plan has been prepared in accordance with the climate related recommendations such as to ‘focus investment on the green and digital transition, in particular on clean and efficient production and use of energy, sustainable and efficient infrastructure as well as research and innovation’. Another recommendation that stands out in the measures is giving support to SMEs. SMEs are mentioned as one of the primary recipients of the funding.
- > **... the additionality of planned measures.** The greatest ambiguity of the RRP may lie in the additionality of its measures. Although it is clearly communicated which existing and upcoming policies and strategies are relevant for implementing the plan, in most cases it is rather unclear which measures and investments the plan leaves unchanged, which get additional funding from the RRF, and which are being introduced as added contributions to the policy framework. However, it is stated in the RRP that the overall national expenditure will increase during 2021-2026 – with or without the RRF.
- > **... the attempt to give a concrete emission reduction potential.** The government has stated that the implementation of the plan is expected to result to emission cuts of 3 Mt, approximately 6% of Finland’s total emissions.^{vii} This estimate is based on the Sectoral Low-carbon Roadmaps^{viii} that have been published in summer 2020. These roadmaps included emission cut potentials within each sector, thus enabling rough estimates for the impact of the plan.
- > **... ‘Do No Significant Harm’ being a guiding principle.** Just as the ‘greenness’ of measures has been described in the plan, the same goes for ‘Do No Significant Harm’ principle (DNSH) and how it shows in each group of measures. Notably, it is one of the guiding principles and a condition for getting the investments allocated to a project, as projects will be selected based on the criteria found in the official DNSH guidance document 2021/C 58/01. It is highlighted that 100 % of the RDI investments in the RRP are based on DNSH.

- > ... **the stakeholder participation.** The recovery planning process in Finland has been relatively transparent and open. An independent working group was established by the Finnish Environment Minister in the spring of 2020 to establish criteria for green recovery and the allocation of RRF funds. These criteria were used as a basis for the RRP, and its preparation included hearings of businesses, labour unions and other stakeholders from around the country on various occasions. Stakeholder events have also been arranged for feedback prior to and after publishing the draft plan. For example, based on this feedback, the focus of the plan was narrowed down from six to four main pillars. After the publication of the draft plan much of the discussion has dealt with the practical implications of DNSH on the industrial use of biomass, among other topics.

OVERVIEW: MOST IMPORTANT MEASURES OF THE RECOVERY PACKAGE BY SECTOR

Sector	Most important measures with effect on green transition
Energy	<ul style="list-style-type: none"> • Energy infrastructure (€155m, positive) • Introduction of new energy technologies (€161m, very positive)
Mobility	<ul style="list-style-type: none"> • Public transport charging and gas refuelling infrastructure (€20m, likely climate effect but direction not assessable) • Support for private charging infrastructure (€20m, very positive)
Industry	<ul style="list-style-type: none"> • Low-carbon hydrogen and carbon capture and utilisation in industry (€156m, positive) • Direct electrification and decarbonisation of industrial processes (€60m, very positive) • Investments to promote the reuse and recycling of key materials and industrial side streams (€110m), of which €30 million for the bioeconomy and €30 million for circular economy solutions in the battery sector (very positive)
Buildings	<ul style="list-style-type: none"> • Support the replacement of building heating systems from fossil oil to low-carbon energy efficient heating (€70m, very positive)

	<ul style="list-style-type: none"> Investment programme for solving climate change challenges in the real estate and construction sector (Climate-KIRADIGI) (€40m, very positive)
Agriculture	<ul style="list-style-type: none"> Field gypsum treatment and nutrient recycling (€20m, positive) Climate measures in the land use sector (€10m, positive)
Cross-cutting	<ul style="list-style-type: none"> RDI funding package for a green transition (€192m, very positive) Investment in research infrastructures and R&D and testing environments for sustainable growth and digitalisation (€75m, positive)

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References

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- ^{iv} Ministry of the Environment (n.d.). Reform of the Climate Change Act.
- ^v Ministry of the Environment (n.d.). Medium-term climate change policy plan.
- ^{vi} Ministry of Economic Affairs and Employment (n.d.). Energy and climate strategy.
- ^{vii} Ministry of Finance (2021). Finland to use EU funding to boost investment and accelerate emissions reduction.
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