Ministry of Economic Affairs,
Agriculture and Innovation

National Reform Programme 2011 The Netherlands

Contents

1. Introduction

1.1 The National Reform Programme

The new European semester began in January 2011. The European semester refers to the period – roughly the first half of the calendar year – of intensive coordination at EU level of the member states' economic and budgetary policies. Both the National Reform Programmes (NRPs) under the Europe 2020 strategy and the Stability and Convergence Programmes (SCPs) under the Stability and Growth Pact are discussed during this period. The European Commission published its first annual analysis of priorities to strengthen growth in the European Union, the Annual Growth Survey, at the beginning of the semester (12 January 2011). The European Council adopted these recommendations on 25 March. The government bore the Council's broad recommendations in mind when preparing this National Reform Programme. The Council will make country-specific recommendations in response to the National Reform Programme and the Stability Programme in June 2011.[1]

In accordance with the European Commission's wishes, this National Reform Programme includes a macroeconomic scenario, a summary of the policy to overcome the main bottlenecks to growth and the government's main policy intentions in these areas, and the Dutch ambitions regarding the headline targets of the Europe 2020 strategy. This National Reform Programme builds on the draft National Reform Programme submitted to the Commission in December 2010.

1.2 Relationship with the Stability Programme

For the purposes of the European semester, the National Reform Programme and the Stability Programme were prepared and submitted to the European Commission together. The reforms and policy ambitions set out in the National Reform Programme are therefore consistent with the budgetary developments and objectives set out in the Stability Programme, as is the macroeconomic policy.

There is therefore some overlap between the two documents regarding the macroeconomic picture and the description of certain policy challenges, such as sustainability. These matters are considered in accordance with the approaches taken by the two documents. The Stability Programme considers macroeconomic developments (particularly in the short term), budgetary developments and their determinants in far more detail whereas the National Reform Programme considers policy measures for the priorities of the Europe 2020 strategy. In other words, the Stability Programme considers the budgetary and economic framework in which policy intentions must be achieved. Where appropriate, the two documents include cross-references.

1.3 The government's ambitions

The government endorses the recommendations adopted by the European Council. The ten broad policy recommendations in the European Commission's Annual Growth Survey should be seen in the light of the current economic climate. The economic crisis has led to a sharp decline in economic production, a substantial increase in unemployment in many member states, a steep fall in productivity and severely weakened public finances. The crisis has exposed structural weaknesses and these need to be tackled in an urgent and robust manner. The Commission's first priority is budgetary consolidation and recovery of the financial sector, followed by a reduction in unemployment through labour market reforms. The Commission notes that tackling these two priorities will be ineffective without a major effort to promote growth at the same time. The challenge will be to implement these growth measures in the years ahead within tighter overall budgetary constraints.

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[1] The government will submit the National Reform Programme to the European Commission together with the Stability Programme.

1.4 Euro Plus Pact

On 11 March 2011, the heads of state and government of the euro area reached agreement on a pact to strengthen competitiveness. This Euro Plus Pact was adopted by the European Council of 25 March. The pact's objective is to create additional political pressure at the highest level in order to implement structural reforms in a number of areas that will strengthen the member states' competitiveness. The member states will take into account best practices and benchmark against the best performers.

The pact complements the government's economic reform agenda. The Netherlands can already be regarded as one of the best performing member states in a large number of areas named in the pact. Within the framework of the pact, the Netherlands has committed itself to taking the following concrete measures in the coming year:

1. Competitiveness: the introduction of a new business policy, consisting of a sectoral approach with more demand-side management by industry, fewer special-purpose grants, more generic reductions in taxation and administrative burden and more freedom for entrepreneurs.

2. Employment: increased activating of social security and reduced dependency on unemployment benefits through the introduction of a scheme to reform existing schemes for the lower end of the labour market.

3. Sustainability of public finances: introduction of a new Act to embed the Stability and Growth Pact agreements in national legislation.

4. Financial stability: introduction of a new Act that will provide more power to intervene in financial institutions than the statutory instruments of the Financial Supervision Act and the Bankruptcy Act.

2. Macroeconomic scenario[2]

As is customary, the baseline macroeconomic scenario in the National Reform Programme is based on the medium-term estimates of the Netherlands Bureau for Economic Policy Analysis (CPB). These estimates take account of the measures in the coalition and parliamentary support agreements. The CPB estimates that gross domestic product will increase by 1¼% on average in 2011-2015. This estimated actual growth is the sum of the potential growth, economic recovery and the short-term effect of consolidation.

The 1½% estimate of average potential growth is lower than that under previous governments. This is a result of declining population growth, demographic ageing, slower growth of female participation, lower productivity growth and an increase in partial equilibrium unemployment. On balance, potential employment in working years will not increase in the medium term. Potential growth is therefore equal to the growth in structural labour productivity. On balance, the crisis will have little lasting effect on estimated growth. GDP, however, has been permanently affected by the crisis: actual production has remained far lower than previously estimated. The loss is equal to about 5% of GDP and will barely be recovered during the present government's term of office. Of the loss, two percentage points seem to be structural.

Table 1 shows the medium-term change in a number of key variables in 2011-2015. The CPB estimated in November 2010 that unemployment, according to the international definition, would increase to 5% in 2015. This matches experience with previous financial crises and the subsequent consolidation of public finances, although the development of unemployment in the Netherlands currently compares favourably with international and historical developments. At the beginning of 2011, the rate of unemployment was just 4.3% of the labour force. Short-term estimates made by the CPB in early 2011 are also more positive: estimated unemployment will decline from 4½% on average in 2010 to 4% in 2012. On balance, employment during the government's term of office will fall by ½% per annum in the market sector, increase sharply by 2¾% per annum in the care sector and decline by 2% per annum in the public sector.

Table 1: Medium-term estimates (average growth per annum in 2011-2015, in % unless stated otherwise)

Gross domestic product (GDP)	1¼
Consumer price index	2
Unemployment (% of labour force, international definition)	5
Labour supply (persons)	0
Active labour force	-¼
Contract wages, market sector	2¼
Private consumption	¾
Public consumption	0
Gross corporate investment (excluding housing)	4

The lost growth estimated by the CPB will be recovered in the years after 2015. In the longer term, the reforms proposed in the coalition agreement will have a positive impact on growth and strengthen the sustainability of public finances. In the long term the measures will increase employment by 1.1% relative to the baseline. In particular, fiscal and educational measures will create more employment in the long term.[3] As a result of the cutbacks, the estimated EMU deficit will gradually decline in the years ahead from 3.7% of GDP in 2011 to 0.9% in 2015. The deficit is expected to fall below the 3% threshold in 2012. The Netherlands will therefore comply with the European Commission's recommendations for the excessive deficit procedure of the Stability and

[2] Short- and medium-term figures are based on CPB documents 2010/33 and 2010/213, *Analyse economische effecten financieel kader* and Updating the Economic Outlook 2011-2015, and the Central Economic Plan 2011. Budgetary figures not relating to sustainability can be found in the Introductory Memorandum of 9 November 2010, Parliamentary Papers 32500, no. 29.
[3] For further information see Updating the Economic Outlook 2011-2015, CPB document 2010/213.

Growth Pact. The EMU debt will increase slightly to 64.9% of GDP in 2012 before declining to 63% in 2015[4].

The CPB's latest long-term projections (2010-2060) date from June 2010.[5] Demographic ageing means that the dependency ratio (the number of people aged 65 and over relative to the number of people aged 20-64) will increase until 2040 and then decline slightly. The participation of older persons is expected to increase, especially among women. Female participation will reflect changing opinions and higher levels of education. Average employment will rise in the current decade but will decline on average until 2040. On balance, the potential labour force will contract in the current decade. Employment will grow again after demographic ageing peaks around 2040. Average long-term growth in GDP is estimated at 1.7%. The postponement of consumption during the crisis and, especially, the dissavings due to demographic ageing will increase consumption from 46% of GDP to 52%. The greater use of public services will increase public consumption from 28% of GDP to 31%. In the period to 2060, average investments will also increase faster than GDP, albeit modestly. In part these will be catch-up effects following the postponement of investments during the crisis. Net exports will deteriorate from one-tenth of a per cent of GDP to -2% of GDP in 2060.

[4] These numbers are calculations of the Ministry of Finance, base don the short term estimates from the Central Economic Plan 2011. See also the Stability Programma of The Netherlands.
[5] *Vergrijzing verdeeld: Toekomst van de Nederlandse overheidsfinanciën*, CPB document 2010/86.

3. Macroeconomic coordination

The Europe 2020 headline targets will not be achieved without near-term measures to address structural weaknesses in European economies. The European Council of 8 June 2010 accordingly identified a number of bottlenecks to growth in each member state. It identified five bottlenecks in the Netherlands. The bottlenecks and the government's main policy intentions in these areas are considered in the following five sections.

3.1 Restoring of the long-term sustainability of public finances

The Dutch sustainability gap is estimated at 4½% of GDP, equal to €29 billion.[6] To return public finances to sustainability, the EMU deficit must be reduced in the years ahead. The government has made the sustainability of public finances one of its priorities, in part with a view to responsible inter-generational solidarity in anticipation of the forthcoming and inevitable pressure from demographic ageing. Demographic projections show that unless policy is changed, the old-age dependency ratio will double in the period to 2040. The gap between age-related expenditure (state pension, care) and taxes and premium contributions will accordingly widen. The crisis, moreover, has substantially weakened public finances. Considerable savings are necessary to restore confidence in the economy and promote future growth. The government will take the measures necessary to significantly improve sustainability. Cumulatively, the government will take a package of measures to bring about a structural improvement in the EMU balance of €24 billion.

The government's main contribution to the sustainability of public finances is a package of measures to cut public expenditure by €18 billion by 2015. The structural saving will be higher (about €24.8 billion) as some of the cutbacks will continue after 2015. Key features in the package are cuts in public services and grants and reductions in excessive layers of government through the clear allocation of responsibilities and powers (€7.5 billion). The aim of the latter measure is to create a less expensive and smaller government without a loss of quality. This ambition is fleshed out in the Compact Civil Service Implementation Programme.[7] Cuts in income transfers will also produce significant savings (€4.3 billion).

The government has decided to raise the state pension age to 66 in 2020. This will improve sustainability by 0.3% of GDP (€2 billion). The government is in conversation with the social partners on a further increase in the state pension age after 2020. If agreement is reached on linking the state pension age to life expectancy and increasing it to 67 in 2025 and possibly higher again in 2030, sustainability will be improved by 0.7% of GDP in the long term.

The measures from the coalition agreement will also increase employment in the long term, partly through fiscal measures and educational measures. This will broaden the tax base and improve the sustainability of public finances. The measures will strengthen sustainability by 0.3% of GDP, or about €2 billion, one-third of which will be generated by educational measures and the remaining two-thirds by fiscal measures.

A number of measures will also work in the opposite direction. For example, the government will provide more funding to cover exceptional medical expenses but because these expenses will increase as the population ages more money will be needed in the long term than has been recognised for 2015. The coalition agreement includes measures that will weaken sustainability by about €3 billion. On balance, however, the package of measures will increase sustainability by €24 billion. The target is €29 billion. The government will therefore resolve more than 80% of the sustainability gap during a single term of office.

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[6] Economic Outlook 2011-2015, CPB, March 2010.
[7] http://www.rijksoverheid.nl/documenten-en-publicaties/kamerstukken/2011/02/14/kamerbrief-uitvoeringsprogramma-compacte-rijksdienst.html

3.2 A stable financial sector

The crisis dealt a hard blow to the Dutch economy in general and the financial sector in particular. To ensure stability in the financial sector, the government took measures similar to those taken by other euro area member states. The euro area summit of 12 October 2008 created a capital injection facility and guarantee facility for bank loans. The Netherlands provided €20 billion in capital and €200 billion in guarantees for these facilities. They have been used several times during the crisis. Three institutions received capital injections totalling €13.75 billion in 2008 and six banks requested loan guarantees worth €52.5 billion in total in 2009. In addition, loans to the SME sector were encouraged through the provision of guarantees. Consumer confidence was strengthened by increasing the bank deposit guarantee from about €38,000 to €100,000. Finally, the national mortgage guarantee for new consumer mortgages was increased from €265,000 to €350,000 until mid-2011.

The first steps to reform financial regulation were taken at both national and international level when the crisis broke out, with the European Platform setting the tone. The common aim of all the initiatives is to protect society from the cost of possible future financial crises. Several reform packages have been introduced. The Basel Committee has tightened up bank capital and liquidity requirements, remuneration structures have been adapted (the Dutch banking industry was one of the first to impose strict self-regulation in the form of the Banking Code), the statutory introduction of extensive legal powers to intervene during a national crisis will be prepared in 2011 and a comprehensive package has been adopted at G20 level for systemically relevant financial institutions. Implementation of the measures has already started in many areas. Bank capital and liquidity frameworks, for example, are being strengthened in phases and a project piloting recovery and resolution plans for systemically relevant financial institutions has been launched in the Netherlands and a few other countries. The aim is to provide the supervisor with more insight into the measures that can be taken if an institution is in difficulty. At macro prudential level, an overarching European institution has been established (the European Systemic Risk Board). Together, these reforms aim to improve legislation and supervision at both micro and macro prudential level.

The Dutch government has supported all these actions and initiatives and will continue to do so through active participation in all debates and forums. Regarding the exit strategy, the government insists that capital investments must be recouped. The Dutch State is committed to withdrawing from the financial sector and will make the necessary preparations. The Minister of Finance is responsible for the final decision on the withdrawal, the procedure and the timing subject to market conditions, the performance of the banks concerned, the expected proceeds and the stability of the financial sector. Several institutions have already repaid some of the assistance they received and institutions with state-backed loans have been allowed to redeem them (for a fee) prematurely.

3.3 Strengthening domestic demand

The Netherlands has had a national savings surplus for many decades. Until the end of the 1990s, the savings surplus was attributable chiefly to households. In the past decade, it has been attributable chiefly to non-financial Dutch institutions. This differs from the situation in the euro area as a whole, where households tend to have savings surpluses and non-financial institutions run investment surpluses. In the Netherlands, non-financial institutions have reduced their borrowings, accumulated deposits and increased their shareholdings and other interests outside the Netherlands. The development of the Dutch savings surplus is shown below. The underlying reasons for the savings surplus are currently being studied.

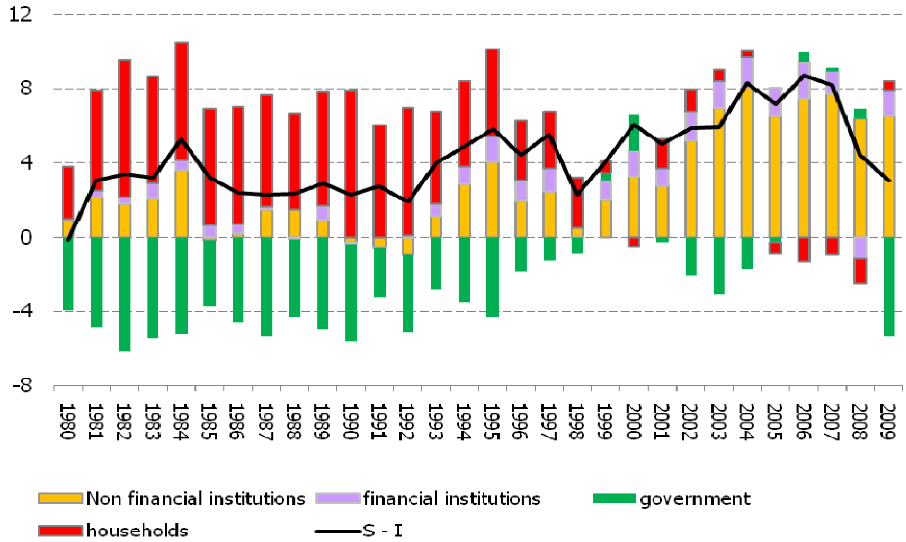

Figure 1: The Netherlands' savings surplus 1980-2009, based on CBS figures.

The government is taking action in a number of areas to improve economic performance, which can help stimulate domestic demand. The European Commission's Annual Growth Survey gives the example of improving the corporate investment climate. On 4 February 2011 the government announced the outlines of a new business policy consisting of a sectoral approach with more demand-side management by industry, fewer special-purpose grants, more generic reductions in the tax and administrative burden and more freedom for entrepreneurs. More information can be found in section 4.2. By returning public finances to health, the government will also provide more certainty. Citizens and enterprises will then spend and invest in the knowledge that the tax and administrative burden will increase less, if at all, in the future. The government is also improving various aspects of the labour market in order to increase participation and is facilitating lending. More information can be found in section 4.1 and in the previous section respectively.

3.4 Ensuring the full utilisation of labour potential

The government will take a number of measures to address this problem. They will encourage more people to work more and longer, particularly women, older people and vulnerable groups such as the long-term unemployed, the partially incapacitated and ethnic minorities. More information on labour market policy can be found in section 4.1.

3.5 Promoting innovation capacity to support investments in and focus on goods and services with high added value

The government will address this bottleneck to growth by means of a new approach to business policy. On 4 February 2011 the government announced the outlines of a new business policy consisting of a sectoral approach with more demand-side management by industry, fewer special-purpose grants, more generic reductions in the tax and administrative burden and more freedom for entrepreneurs. More information can be found in section 4.2.

4. Thematic coordination

The European Council set five headline targets for Europe in June 2010:
- an increase in labour participation from 69% to 75%;
- an increase in R&D expenditure from 1.9% to 3% of GDP;
- the 20/20/20 targets: greenhouse gas emissions, renewable energy, energy efficiency;
- a reduction in the percentage of early school leavers to 10% and an increase in the percentage of 30-34 year olds with tertiary education to 40%;
- a reduction in the number of excluded or poor people by at least 20 million by 2020.

The measures the Netherlands will take to achieve the targets are considered thematically below.

4.1 Labour market

4.1.1 National target

The government's ambition is to increase labour participation and it wants everyone to work as much as possible and to the best of their ability. The government has set the following target: increase gross labour participation (aged 20-64) to 80% by 2020.[8]

4.1.2 Policy designed to achieve the target and address the bottleneck

The Netherlands is facing a serious challenge. Owing to demographic ageing and the declining birth rate, the size of the labour force is currently stabilising and structural growth will be negative as from 2021. A contracting labour supply will create shortages in the labour market and upward pressure on wages and public finances. To keep public finances sustainable, labour participation has to be increased. Long-term availability for work must therefore be improved, labour mobility must be strengthened and people must be able to strike a good balance between work and other activities. The government's main plans to increase the participation of women and men are considered below. The government is in conversation with local authorities and the social partners on the implementation of the new measures presented below.

<u>Work Capacity Act (*Wet Werken Naar Vermogen*)</u>
Through the Work Capacity Act the government wishes to reform the Work and Social Assistance Act, Invalidity Insurance (Young Disabled Persons) Act and Sheltered Employment Act and move towards a locally implemented scheme for the lower end of the labour market. This will enable municipalities to get more people into work, make more targeted and effective use of their budgets and cut costs. The Invalidity Insurance (Young Disabled Persons) Act will continue to exist for young people who are completely and permanently unable to work because of medical problems or disability. Those who are currently receiving support via the Sheltered Employment Act will not be reassessed. People who are assessed as eligible for a sheltered workplace will retain access to the Sheltered Employment Act. Wage dispensation will be made available to municipalities. Reintegration funds will be used selectively for vulnerable groups on the labour market.

<u>Vitality scheme</u>
With a view to demographic ageing and the contracting labour force, participation and long-term employability must be encouraged wherever possible. To increase participation among older people and long-term employability, the life-course savings scheme and the salary savings schemes will be merged to form a single scheme based on the coalition agreement, known as the vitality scheme. For the government it is important that the vitality scheme is workable. The House of Representatives will be sent a letter before the summer providing further details of the vitality scheme.
<u>Status of the plans to increase retirement age</u>

[8] According to the national definition, a working week of 12 hours or more.

The planned increase in retirement age to 66 will commence in 2020. The government is also in conversation with the social partners to link retirement age to life expectancy. It is also negotiating of the modernisation of pension contracts and measures to get and keep more elderly people on the labour market. The social partners indicated in the 2010 pension agreement that they were willing to review pension contracts. The social partners want to move towards a new, more transparent pension contract that takes account of developments in life expectancy and financial markets. The plans agree in broad lines with the government's ideas to modernise the pension contract. The expected sustainability gain will depend on the content of the agreement reached with the social partners.

Reconciliation work and private life

Men and women must be able to combine paid work with care responsibilities, voluntary work, training and leisure time. The government will therefore present a *review of labour legislation* that prevents reconciliation work and private life this spring. The Social and Economic Council of the Netherlands will also publish a report in the spring on the 'Times of Society' with recommendations to better organise when and where work is performed and services are provided and so make it easier to combine work and care responsibilities. Together with the private sector, the government will take measures to alleviate road congestion, for example through parking and travel facilities, transfer points, car pooling, good cycling facilities, incident management and increased teleworking. *The New World of Work* is a complementary and promising approach to facilitate the combination of work and care responsibilities through good employment practices. The social partners support the development of the New World of Work. The government is studying the possibility of a government-wide programme to promote smarter working, smarter travelling and smarter living. Everyone can benefit if companies recognise that employers and employees have a common interest in combining different tasks. The government wants to raise the profile of businesses that actively work on the combination of work and care responsibilities for women and men by introducing an award for *modern employment practices*.

Phasing out of double tax credit

The transferable tax credit for working breadwinner families is being phased out over 15 years as from 2009. Two exceptions had been made: breadwinner families with young children (up to the age of 5) and families with a non-working partner born before 1 January 1972. The exception for families with young children will be abolished and the age limit for non-working partners will be changed to 1 January 1963. These measures will provide a stronger financial incentive to encourage non-working partners to find work. The double tax credit will be phased out of the reference minimum wage over a period of 20 years starting in 2012. This will encourage labour participation because it will be more attractive for social assistance recipients to accept work.

Abolition of exemption from applying for jobs

The exemption from applying for work available to single parents with young children will be abolished as from 2012. This will increase the participation chiefly of single mothers.

Lifelong learning

With people being expected to work longer, employers and workers have to maintain and develop the right knowledge and skills in the current and future labour market. In the field of lifelong learning, the government has vigorously encouraged long-term regional cooperation between education institutions, industry and local authorities in recent years. The parties involved will continue to cooperate on learning and working without further government involvement. The government wants to make agreements with the social partners on training, the use of R&D funds and long-term employability, to be laid down in collective agreements.

4.2 Research and innovation

4.2.1 National target

The Netherlands has set itself the target of spending 2.5% of GDP on research and development (R&D) by 2020. This target demonstrates the government's ambition, with due regard for the sectoral structure in the Netherlands. The government is aware that R&D expenditure is an important input indicator but the innovative strength of a country should be judged principally on its output. R&D is not the only factor that influences innovation output; others include human capital and entrepreneurship.

4.2.2 Policy designed to achieve the target and address the bottleneck

Trajectory
R&D expenditure in the Netherlands was equal to 1.8% of GDP in 2009[9]. The temporary crisis measures taken in 2009 and 2010 are expected to increase the percentage in 2010. The impact of the temporary action will ebb away in the following years. The impact of the measures taken by the new government (described below) will gradually emerge as from 2012.

Measures
The government presented the main points of a new business policy ('*Naar de Top'*, House of Representatives, 2010-2011, 32637, no. 1) on 4 February 2011. This new approach will exploit the opportunities associated with greater global competition and emerging social challenges. The Netherlands is performing relatively poorly with regard to private, corporate R&D expenditure. Businesses, especially small and medium-sized enterprises, profit too little from research performed by public knowledge institutions. This is a missed opportunity because Dutch science is world class. The task is to position the Netherlands firmly in the rapidly growing sales markets and to find innovative solutions to social challenges.

Against this background, the main points of the new business policy are considered below. Large parts of this new policy are in keeping with the flagship initiatives of Innovation Union, A Resource Efficient Europe, A Digital Agenda for Europe and An Industrial Policy for the Globalisation Era.

• A sectoral approach …
A coherent policy agenda will be developed spanning all government policy in nine top sectors (smart specialisation): from foreign policy to education policy, from regulatory burden to research policy and from development cooperation to infrastructure and ICT.

• … with more demand-side management by industry …
The sectoral policy agenda will be prepared in close consultation with industry and knowledge institutions; this will entail more demand-side management and more industry input into the formulation of government policy for these sectors.

• … with fewer special-purpose grants and more generic reductions in the tax and administrative burden …
The government will scrap €500 million in grants to industry and use the proceeds to cut corporate taxes; this shift from specific policy to generic policy will mean that fewer government bodies need to be contacted and will lead to lower implementation costs, fewer civil servants and a lower administrative burden. Grants will also be transformed into loans so that the incentive lies where it ought to lie: with entrepreneurs.

• … and more freedom for entrepreneurs.
This government believes in the strength of entrepreneurs: entrepreneurs drive innovation, create prosperity and jobs, and devise innovative solutions to social challenges. Barriers will be removed and opportunities created to give them the freedom and trust they deserve.

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[9] According to the latest data from the Statistics Netherlands (CBS).

These key points demonstrate the value the Netherlands attaches to innovation and research as the driving forces behind Dutch competitiveness and the resolution of social challenges. This is one of the reasons why the Netherlands is seeking to develop the bio-based economy as a cross-sector theme in the top sectors approach. The Netherlands believes a country's innovative power should not be judged on public and private R&D expenditure alone. The focus in this section is on R&D expenditure however.

Table 2: Overview and description of the measures in the new business policy that are expected to contribute the most to achieving the Dutch R&D target.

Measure	**Description**
Top sectors *sectoral agendas*	Existing public funding of up to approximately €1.4 billion will be applied in nine top sectors: Agri-food, Horticulture and source materials, High-tech materials and systems, Energy, Logistics, Creative industry, Life sciences, Chemicals and Water. Business community, the knowledge institutions and government will together prepare action agendas for each sector in spring 2011.
1. Integrated government policy per sector	The action agendas can identify solutions to sector-specific obstacles and training and regulatory problems in all manner of areas. Solutions will be implemented by the government.
2. Integrated long-term knowledge and research agendas per top sector	To promote the use of first-rate knowledge, a demand-driven knowledge agenda will be prepared for each top sector. In due course, the Netherlands Organisation for Scientific Research (NWO) and the Royal Netherlands Academy of Arts and Sciences (KNAW) (fundamental research) will provide €350 million for rival research proposals that will be judged on their scientific quality. Valorisation will also be a criterion but it will not be decisive. The Netherlands Organisation for Applied Scientific Research (TNO), the Large Technology Institutions and the Agricultural Research Service (DLO) (applied research) will provide €250 million. To optimise the embedding of demand-side management and articulation, research funding will be cofinanced by the private sector. (In addition to this top sector funding there will be opportunities for discretionary research.)
3. Targeted foreign policy	The action agenda for each top sector can state how foreign policy can be supportive, for example through economic diplomacy, trade missions, targeted acquisition of top scientific talent and knowledge-intensive foreign businesses, and proposals to involve businesses more closely in development cooperation. Budget: €310 million per annum.
Freedom for entrepreneurs *generic instruments*	Generic innovation and business instruments, including the R&D tax credit and the innovation box fiscal instrument (budget approx. €1.5 billion per annum), will benefit industry as a whole. A single application desk will be set up for businesses wishing to use the instruments.
4. Procurement of innovation	The government will make far more active use of its procurement budget to obtain innovations that overcome social challenges. It will do so in part through the Small Business Innovation Programme (SBIR).
5. Innovation Fund	A government innovation fund will make it easier for businesses to attract risk capital to invest in profitable new and sustainable products, services and processes. Funds will be applied in such a manner that successful innovations replenish the fund.

4.3 Energy, climate and mobility

4.3.1 National targets

- The Netherlands considers the European core objectives to be the policy drivers in the Europe 2020 theme of 'Energy, climate and mobility', with the associated flagship of 'Natural Resources Efficiency'[10]. Regarding climate change, the Netherlands will adhere to the European target of reducing greenhouse gas emissions by 20% by 2020 relative to 1990. The European objective is expressed in (1) a common European ceiling for all ETS sectors of -21% by 2020 relative to 2005 and (2) a target for the non-ETS sectors of -10% by 2020 relative to 2005. In accordance with Effort Sharing Decision 406/2009/EC, the target for the Dutch non-ETS sector is -16% by 2020 relative to 2005.
- Renewable energy must account for 14% of consumption in 2020.
- The Netherlands will vigorously seek to increase energy efficiency without attaching a quantitative target.

4.3.2 Policy designed to achieve the objectives

Greenhouse gas reduction

Businesses participating in the ETS will by definition achieve the European reduction target. Furthermore, a series of policy measures in the non-ETS sectors is expected to lead to the Netherlands also achieving the non-ETS target by 2020. These include measures in the field of transport, including greenhouse gas standards for cars and light goods vehicles, the greenhouse gas settlement system in the glasshouse horticulture sector and the More with Less for the Built Environment work programme. Should a small shortfall nonetheless arise, a decision will be taken at the time on cost-effective ways to eliminate it. The State Secretary for Infrastructure and Environment will inform the House of Representatives further in the spring.

Renewable energy

The government will support research into and the use of new energy sources to facilitate the energy transition, based on innovation, through close cooperation between industry and knowledge institutions, entrepreneurialism in the development and export of new products and a series of facilitating measures. In addition to these general energy transition measures, more targeted and specific measures are necessary to future-proof and strengthen the economy. Local authorities will promote investments in networks and the sustainable generation and use of alternative energy in urban and regional transport in the years ahead.

The generation of renewable energy must become competitive as quickly as possible but deserves support during the transitional phase. To this end, the Sustainable Energy Incentive Scheme (SDE) will gradually be transformed into an SDE+ scheme. The SDE+ will be funded from a new charge on electricity and natural gas consumption. The costs and benefits of the policy will be evaluated in 2014, partly in the light of European policy. The evaluation will also consider the feasibility of importing renewable energy and a compulsory proportion of sustainable energy.

In accordance with the Renewable Energy Directive of 5 April 2009, the Netherlands submitted a national action plan to the European Commission in mid-2010. Pursuant to the same directive, it has also committed itself to increasing the renewable energy used in transport (including biofuels) to at least 10%. Under the directive, only sustainable biofuels will count towards the target. The Netherlands also supports European sustainability requirements for solid biomass.

More efficient use must be made of natural resources in general. This would make it easier to achieve the climate targets and make the Netherlands less reliant on imported and increasingly

[10] The sustainable and efficient use of natural resources, including biotic sources, is important. In this context, the Netherlands will focus on concrete measures (in accordance with Guideline 5 of the Broad Economic Policy Guidelines) such as sustainable procurement, the greening of the tax system and the sustainability of food chains.

scarce natural resources. Resources should also be used so that there are no harmful effects in the source country.

Energy efficiency
In the European Union, the government will seek strict environmental standards on products, emissions standards for all means of transport and a European energy network that includes the North Sea. The government thinks a further reduction in energy consumption is of great importance. For industry, efficient investments in energy savings will cut costs and strengthen competitiveness. For individual citizens, the more economical use of energy will create financial leeway for other expenditure. The Netherlands has not set a separate target for energy efficiency. Energy savings serve the government's other two objectives: a 20% greenhouse gas reduction relative to 1990 and 14% sustainable energy consumption by 2020. A separate savings target could lead to cost-ineffective measures having to be taken and the energy saving and sustainable energy policy becoming unnecessarily expensive. There is still a great deal of potential to increase energy efficiency in the built environment. The government intends to target specific new policy at this area.

Greenhouse gas reduction and improved energy efficiency in the transport sector will require a change in behaviour as well as technical measures. Behaviour is being influenced by such programmes as Mobility Management, Multiyear Agreements, New Driving Style and Sustainable Logistics. Experimental sustainable mobility schemes have been set up in recent years to scale up and roll out innovative techniques such as electric cars.

In addition, the government is seeking a Green Deal with society, partly by continuing and strengthening the national strategy on energy savings. This Green Deal will take shape in 2011. Its aim is to realise the potential profits of energy savings and facilitate private ambitions for local sustainable energy generation. The Green Deal must lead to performance agreements on concrete and distinctive initiatives that inspire other parties. The current policy may be adapted depending on the outcome of the Green Deal.

4.4 Education

4.4.1 National targets

The national target for early school leavers is that, by 2020, the proportion of young people aged 18 to 24 without basic qualifications should be below 8%. The number of people completing higher education in the Netherlands has already exceeded the European target. It is expected that, by 2020, 45% of the working population aged between 30 and 34 will have an advanced qualification. The government welcomes this development and, in accordance with policy, is committed towards further improving the quality of education.

4.4.2 Policy designed to achieve the targets

The Netherlands is striving to secure a position in the world's top five knowledge economies, with students gaining outstanding academic results. Improved quality of teaching and incentives for better performance are vital if this aim is to be achieved. The government's education policy focuses on creating the conditions under which pupils, students, teachers and institutions can excel. Particular emphasis is placed on core subjects, on increased teaching time, on excellent standards of teaching and on both knowledge and skills.

<u>Proportion of graduates aged 30 to 34</u>
The proportion of graduates in this age group in the Netherlands has risen dramatically in the past decade, from 26.5% in 2000 to 40.5% in 2009. The increase in this figure has been, and continues to be, achieved largely through autonomous growth and through encouraging students to complete their studies, more quickly in some cases, so as to increase the success rate. Participation in higher education has expanded enormously in the past few years. At the same time, however, the dropout rate in higher education is still too high: the likelihood of success in both higher professional education and university education is below 70%. In 2008, long-term agreements were concluded with universities and institutions of higher professional education, and approximately €80 million per year in funds allocated, with a view to boosting the pass rate in higher education. In the past few years a number of programmes have been set up with this aim in mind, focusing on aspects such as better supervision, more intensive teaching and improving the educational attainment of teaching staff.

Institutions of higher education can exclude students who have failed to gain sufficient credits. This is normally done in the first year and prevents students who have practically no chance of passing their course remaining enrolled to no purpose. More attention is also paid to the transition between secondary and higher education. Interviews with prospective students to help them choose the right course of study are currently being trialled. A total budget of €2.15 million for 2009 to 2011 has been earmarked for this initiative. A bill to tackle the problem of students who spend too long studying was presented to parliament on 1 February 2011. Under the provisions of this proposed legislation, these students will be charged €3,000 in addition to their normal tuition fees. One of the aims of the measure is to improve the success rate.

It is clear from the relatively high dropout rate in higher professional education, especially among students coming from secondary vocational education (almost 40% of whom had still failed to graduate after six years), that continuity of learning needs to be improved. Many factors indicate that the system is facing severe difficulties: these include the high dropout rate, the large and increasingly diverse intake, the difficulty of meeting the needs of part-time students and the ever-growing challenge in universities of combining good teaching for a large number of students with academic excellence. With this in mind, the Committee for Future-Proof Higher Education, chaired by former minister Cees Veerman, was consulted. The Committee's report is now being implemented and includes recommendations on giving institutions more scope to select students, government funding based on specialisation with fewer perverse financial incentives, and the encouragement of excellence.

The government intends to invest up to €300 million between 2011 and 2016 in intensifying teaching in higher education. Intensive supervision and syllabus design are vital to ensure that students are motivated, challenged and dedicated. A more detailed set of proposals will be presented to parliament in June 2011.

Early school leavers

The Netherlands has been striving to reduce the number of early school leavers since 2001. The government has opted for a comprehensive approach in which central and local government, educational institutions and youth care services work together at regional level. This approach has had some success. The broader European target for early school leavers not only means preventing dropout in initial education; it also aims to ensure that individuals' talents are addressed and developed, and that their employment potential is exploited to the full. The percentage of early school leavers in the Netherlands fell from 15.5% in 2000 to 10.9% in 2009. The government is continuing to pursue a programme to tackle dropout in order to meet the national target.

The measures currently in place in the Netherlands to reduce school dropout rates are focused primarily on prevention: making sure that young people do not leave education without basic qualifications. The key measures here are:

1. *Emphasising complete registration of early school leavers, and proper, complete registration of absenteeism*: the system used to register early school leavers is to be tightened up, probably sometime in 2012. Some target groups, currently incorrectly regarded as early school leavers, will be included in the registration system. This will have the effect of making records of early school leavers more accurate, so that the problem can be analysed more effectively. Another aspect will be providing better records of absenteeism. All general and vocational secondary schools are now part of a digital system, and are required by law to report absenteeism by this means. Structural funding of €2 million is available for this purpose.
2. *Results-oriented voluntary agreements with schools and municipalities that act as regional registration and coordination centres for school dropout, which include incentives for schools to reduce the number of early school leavers*: schools receive a financial reward for each potential early school leaver who remains in education. Under this system, schools themselves are encouraged to take responsibility for pursuing a good early school leaver policy. Starting in the 2012-2013 school year, the performance payment, which is currently linked to an absolute reduction in the number of early school leavers, will be converted into a payment linked to a relative percentage of early school leavers. This is a fairer reflection of the differing starting positions of schools, and takes account of the increase or decrease in student numbers over time.
3. *The regional incentive*: encouraging regional cooperation between schools and municipalities, with the involvement of youth care organisations and the business community. Municipalities that act as regional registration and coordination centres for school dropout play the key role, receiving funding to set up early school leaver programmes to develop policies aiming to:
   - facilitate smooth transition from pre-vocational secondary education (VMBO) to vocational secondary education (MBO) via the experimental VMBO-MBO 2 course;
   - generate more scope for VMBO students who learn best working with their hands;
   - provide more made-to-measure training in order to prevent dropout;
   - expand the support service provided;
   - offer guidance and coaching, and better advice on the choice of studies and career;
   - keep young people at school longer by making education more attractive and incorporating sport and culture.

   This grant scheme for programmes aimed at early school leavers has been in place since 2008. Structural funding of €80 million has been made available for measures 2 and 3.
4. *Additional provision for overburdened young people:* standard teaching is not sufficient to keep some early school leavers in education. They are under so much stress from various problems that they cannot cope with school, even though they certainly have the intelligence required. Additional provisions were introduced in the 2009-2010 school year to help keep them in the system. These combine normal lessons, leading to a basic qualification, with other forms of support and, if necessary, advice on finding employment. The aim is to help these young people get back on terms with their education so that they can eventually obtain a basic qualification. Structural funding of €30 million is available for this purpose.

5. Additional initiatives to combat early school leaving in the MBO system include more teaching time in the first year, intensive support, career advice and coaching. Structural funding of €150 million is available for this purpose.

4.5 Social inclusion

4.5.1 National target

In comparison with the other EU member states, the Netherlands is in a relatively good position regarding the number of people at risk of poverty and social exclusion. The government's aim is to have more people actively involved in society by reducing the number of people in households with low work intensity. This will reduce the number of people at risk of poverty and social exclusion.

Based on a CPB estimate of labour participation in 2020, the government has set the following target: to reduce the number of people (aged 0 to 64) in a jobless household by 100,000 by 2020.

4.5.2 Policy designed to achieve the target

Increasing labour participation (in persons) has an important social function. Having a job is closely correlated to a number of social outcomes, one being less poverty. A recent study by the Social and Cultural Planning Office (*Uit de armoede werken, omvang en oorzaken van uitstroom uit armoede*, September 2010) found that the vast majority of people who earn more than the low-income threshold do so because they find a paid job or work more hours. This does not mean there are no working poor. The percentage of people in work earning less than the low-income threshold has been relatively stable at 3% in the past decade. The working poor usually have temporary problems.

Figures from 2006 show that the majority of poor employees (67%) have a part-time job and most of them (53%) have contracts for less than 24 hours a week. Poverty among part-time workers is caused not so much by the hourly wage but by the low number of hours they work. Furthermore, they usually have debts (negative income from capital) and/or large families (three or more children). In 2009, the group of households that had lived in poverty for four years or longer consisted of 21,000 self-employed persons (2.8% of the total number of self-employed) and 25,000 employees (0.8% of the total). Paid work therefore does not represent a *guaranteed* route out of poverty but it is evidently the best solution to the problem.

For the government labour participation is an important instrument for enabling everyone to take part in society. The government wants to reduce the number of people in households with low labour intensity. Since non-participation is usually concentrated at the end of a career, special attention should be paid to encouraging labour participation among older persons.

To achieve this objective, the government has presented plans (the Work Capacity Act) for a locally implemented scheme for the lower end of the labour market that will reform the Work and Social Assistance Act, Invalidity Insurance (Young Disabled Persons) Act and Sheltered Employment Act. The scheme will encourage people to participate in the labour market in accordance with their abilities. Wage dispensation must make it financially attractive for employers to take on people with limited capacity to work. The group that can no longer perform paid work will be entitled to income support. The government is still in conversation with the municipalities regarding the further implementation of this measure. More information on this scheme can be found in section 4.1.

5. Horizontal evaluation

Debate in parliament
The National Reform Programme will be presented to the House of Representatives before it is submitted to the European Commission. The Minister of Economic Affairs, Agriculture & Innovation and a parliamentary committee met on 20 April 2011 to discuss the National Reform Programme.

Cooperation with local authorities, social partners and NGOs
Achieving the Europe 2020 objectives will require the commitment not only of central government but also of other stakeholders such as social partners and local authorities. As in previous years, these parties were consulted when drafting this National Reform Programme. The European Anti-Poverty Network (EAPN) and the Social Alliance (a network of about 60 organisations engaged in combating poverty and social exclusion) were also consulted.

The stakeholders, such as the social partners and local authorities, are making an important contribution to achieving the Europe 2020 objectives. The government is still negotiating the finer details of the measures with local authorities and the social partners who have taken the initiative to prepare separate documents outlining their contribution to the National Reform Programme and the Europe 2020 strategy. The starting point for the local authorities is the Triple Helix model of cooperation and multi-level governance.

Colophon

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