

**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

STRATEGY FOR SLOVENIA

**REPORT ON THE
INVITATION TO THE PUBLIC TO COMMENT**

Strategy for Slovenia: Report on the invitation to the public to comment

1. Invitation to the public to comment as part of the review process.

In accordance with the EBRD Public Information Policy (PIP), an invitation to comment on the review of the Strategy for Slovenia, along with a Management Note on the issues to be addressed in the strategy were posted on the Web page on 12 July 2006. The public was invited to submit comments, based on the Note and the previous strategy already on the Web site since 4 November 2004. The public was asked to submit comments no later than 31 August 2006 so that they could be taken into account in the review process.

One comment was received during the public comment period.

2. EBRD Management Note

Invitation to comment on the Bank's Country Strategy Review for Slovenia

The EBRD has started work on the revision of its Strategy for Slovenia. Comments are invited to help the Bank in revising its Strategy. Any comments should be submitted to the Bank no later than 31 August 2006 so that they can be taken into account. The current Strategy - which has been available on the EBRD Web site since November 2004 - is attached as a basis on which to comment.

The first Article of the *Agreement Establishing the Bank* states that “the purpose of the Bank shall be to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in the Central and Eastern European countries committed to and applying the principles of multiparty democracy, pluralism and market economics.”

In order to achieve these objectives, the Bank primarily provides finance for investment projects, with a special focus on the private sector, carefully selecting projects that promote transition, by:

- creating, expanding and improving markets;
- establishing and strengthening of institutions, laws and policies that support markets; and
- facilitating the adoption of market-oriented skills and sound business practices.

In addition, every Bank project is examined for its environmental impact and the EBRD lays special emphasis on projects that are oriented directly towards environmental improvements and energy efficiency.

At the time of the approval of the last strategy in 2004, the Bank noted that the Slovenian economy had been growing steadily, that fiscal performance was generally sound, and that Slovenia enjoyed the highest level of productivity of all the transition economies that joined the European Union (EU) in May 2004. However, important challenges still remained, such as improvements in the business environment, the development of financial instruments, improved access to long-term finance for SMEs and the advancement of the privatisation programme in the banking, insurance, industrial and utility sectors.

Some of the specific transition challenges identified at the time included:

- The development of new service activities, particularly in the SME sector, and the diversification of the economy towards more capital-intensive production.
- The promotion of a favourable business environment for SMEs (technological parks, incubators or a one-stop-shop scheme for creating a business, among other measures) as well as additional financial instruments (including the re-structuring of the current Fund for the Development of Small Enterprises). EU structural funds were expected to provide an additional source of financing for the promotion of small businesses and SMEs.
- The completion of the privatisation of large companies in key sectors. Due to market conditions that were deemed by the Slovene authorities to be non-conducive, the implementation of the privatisation programme adopted by

Parliament had not progressed much in the previous two years. In industry the privatisation of the core companies of the Slovenian Steelworks was suspended in August 2003 and that of aluminium producer Talum was put on hold in December 2003. The private sector share of GDP, at 65 per cent, was below that of other new EU members in the region.

- The liberalisation and reform of key utilities sectors, such as energy, transport and telecommunications, with the involvement of the private sector where possible.

The Bank's Strategy was developed to help address a number of these challenges. The strategic priorities for the Bank in Slovenia were therefore identified as:

- **Enterprise Sector**

The Bank would support the re-structuring and expansion of local enterprises and will share risk with medium sized foreign companies investing in Slovenia. Special attention will be devoted to the fast growing and regionally expanding tourism industry. The Bank was also ready to support viable privatisation structures of the remaining state enterprises.

- **Financial Sector**

The Bank would continue to work closely with local financial institutions to improve local corporate sector's access to structured long term finance and equity with a particular focus on SMEs. The Bank would work on equity and risk sharing products to support Slovene corporate sector investments in the region. If there was a need, the Bank would also support the privatisation, consolidation, re-structuring and, where appropriate, the integration of banking and insurance sectors to better serve the needs of the economy.

- **Infrastructure and Environment**

The Bank would intensify the implementation of the Global Environmental Facility "GEF"¹ project, would strive to facilitate private sector involvement in infrastructure development, and, in close concert with the EU, the Bank would channel finance to small municipalities through local financial institutions.

The Bank's cumulative commitments in Slovenia currently amount to EUR 594 million supporting EUR 1.8 billion in total project value. 73% of the commitments were in the private sector and 30% were equity investments. 26% of commitments were sovereign but all such projects were in the early years of the Bank's operations in Slovenia. The bulk of commitments were to financial institutions (43%) with the rest evenly distributed to energy, general industry, infrastructure and specialised industry. During the 2004/2005 period, the Bank signed 12 new projects with total value of EUR 84.2 million, of which 5 were regional venture fund allocations to Slovenia with the rest credit lines to local banks.

The Bank now intends to develop a new Strategy that will provide guidance for EBRD activities in Slovenia, identifying the main challenges which the Bank should consider addressing. As such, the Strategy cannot address all of the development issues a country

¹ An environmental credit facility to provide loans to local banks in Slovenia, which will on-lend the funds to private and public sector entities investing in projects that reduce water pollution, where the Bank is working in cooperation with Global Environmental Facility.

faces and necessarily must be selective in identifying issues where the Bank has the experience and ability to play a constructive role.

Therefore to prepare the new Strategy for Slovenia it would be useful for the Bank to receive comments on the business and economic environment as it relates to the Bank's operational priorities and activities in the following areas:

1. Issues related to Infrastructure Needs and Development

This would include development needs in power and energy, municipal and environmental infrastructure, energy efficiency, transport and telecommunications sectors, with particular attention given to issues relating to restructuring, corporatisation, tariff reform, public-private partnerships and environmental improvements.

2. Issues related to the environmental impact of EBRD activities

This would include issues concerning environmental improvements and energy efficiency.

3. Issues related to the investment climate and private sector development

This would include issues concerning (i) the legal environment (the implementation and enforcement of laws), (ii) the regulatory environment for enterprises (such as issues related to establishing new businesses, taxation, trade protection, tariff and price-setting mechanisms, etc.), (iii) the functioning and efficiency of public administration, (iv) corporate governance and integrity, and (v) fraud and money laundering. We seek your views on how serious these issues are for businesses and how you think the EBRD could help to overcome them.

4. Comments on the Financial System

This would include issues concerning: (i) the level of intermediation of the banking sector; and (ii) the development of non-banking financial sector (pension funds, insurance, leasing companies, other mortgage lenders); (iii) the development of the capital markets.

5. Issues related to the social impact of EBRD investments

This would include issues concerning (i) small and medium sized enterprises that enhance opportunities for entrepreneurship, innovation, job creation, regional development and social flexibility; (ii) the effect of investments in infrastructure on issues such as social impact and affordability.

The Bank's policy dialogue is always closely co-ordinated with the IMF, the World Bank, other IFIs and the EU in order to ensure the coherent implementation of its strategy. Co-financing opportunities with commercial banks, other IFIs and EU programmes are always strongly sought, to address among other things the social or environmental components in the restructuring projects and to support municipal services projects.

The Bank will take into account all comments received. A summary of these, with staff responses, will be posted on the Web site following the Board approval of the revised Strategy. The Country Strategy is, however, a Bank document and the responsibility for its contents remains with the Bank.

3. Comments received and staff responses

Legal Information Center for Non-Governmental Organisations, Slovenia

The Legal Information Center for Non-Governmental Organisations, Slovenia, expressed its interest in the review of the Strategy for Slovenia and enquired if the business development in Slovenia could also include the non-profit sector and expansion of non-profit enterprises in order to provide different services to the population. The Center also enquired if this was also one possible area of EBRD support and if such objectives could be included in the Strategy.

The staff responded that the EBRD's mandate required it apply sound banking principles and thus restricted its ability to support the development of non-profit enterprises.