DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT

STRATEGY FOR SLOVENIA
2010 - 2013

As approved by the Board of Directors at its meeting on 20/21 July 2010

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ABBREVIATIONS

APEK	Agency for Postal and Electronic Communication
BEEPS	Business Environment and Enterprise Performance Survey
BOT	Build Operate Transfer
CAP	Common Agriculture Policy of the EU
CEB	Central Europe & Baltics
DARS	Slovenian Road Agency
DeSUS	*Demokratična stranka upokojencev Slovenije* – Democratic Party of Pensioners
DSL	Digital Subscriber Line
EIB	European Investment Bank
EU	European Union
EUR	Euro
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GEF	Global Environment Facility
HIV	Human Immunodeficiency Virus
IAS	International Accounting Standards
IAIS	International Association of Insurance Supervisors
IFI	International Financial Institution
IOSCO	International Organisation of Securities Commissions
ISP	Internet Service Provider
KAD	*Kapitalska Družba* – State Pension Fund
LDS	*Liberalna demokracija Slovenije* – Liberal Democracy of Slovenia
LJSE	Ljubljana Stock Exchange
MiFiD	Market in Financial Instruments Directive
MSMEs	Micro, Small and Medium Enterprises
MVNO	Mobile Virtual Network Operator
NBFI	Non Bank Financial Institutions
NGO	Non-Governmental Organisation
NKBM	Nova Kreditna Banka Maribor
NLB	Nova Ljubljanska Banka
NPL	Non-performing loans
OECD	Organisation for Economic Cooperation and Development
OTC	Over the Counter (Market)
PDP	*Posebne družbe za podjetniško svetovanje* – Re-structuring Agency of Slovenia
PP	Public Procurement
PPP	Public- Private Partnership
PSO	Technical Assistance to Trade & Investment Agency
SD	Social Democrats
SDS	Slovenian Democratic Party
SiOL	Telecom Slovenia Online service
SMEs	Small and Medium Enterprises
SMEFF	EU/EBRD Finance Facility for SMEs
SOD	*Slovenska Odškodninska Družba* – Slovene Restitution Fund
SZ	Slovenian Railways
TC	Technical Cooperation
TI	Transition Impact
TS	Telekom Slovenia
UN	United Nations
UNCITRAL	United Nations Commission on International Trade Law
UNDP	United Nations Development Programme
VB	Oesterreichische Volksbanken, AG
VoIP	Voice over Internet Protocol
WB	World Bank
WHO	World Health Organisation
WTO	World Trade Organisation

EXECUTIVE SUMMARY

Slovenia continues to meet the conditions specified in Article 1 of the Agreement Establishing the Bank. With about 70 per cent of economic activity by now generated by the private sector, significant price liberalisation, an open foreign trade regime and no major constraints to foreign investment, its economic structures have approached those of more mature market economies. As another testament to its achievements Slovenia was the first transition country to join the Euro zone in January 2007.

Following years of uninterrupted growth, Slovenia was one of the worst affected central European countries by the international economic and financial crisis due to the collapse of external trade. It is estimated that Slovenian real GDP contracted by 7.8 per cent in 2009. Growth in previous years had been to a large extent fuelled by a rapid increase in investments and exports. To finance this growth, the Slovene banking sector became overly reliant on external wholesale funding, a significant portion of which was short-term. In addition, while there was a gradual increase of medium- to high-value added products, its economic structure remained biased to the production of low- to medium-value-added products destined for the German, Italian, Austrian and French markets. The deterioration in external demand for these products led to a rapid fall in business confidence and a sharp drop in exports and investments. This in turn resulted in a significant rise in corporate bankruptcies and unemployment.

Although some indicators suggest a turnaround is in sight, the economy continued to be in recession through the first quarter of 2010. The current expectation is for growth to remain weak in the next strategy period. Domestic demand will be constrained by the continuing high level of unemployment, by the still restricted availability of credit for investment and by the required fiscal consolidation in the years ahead. In addition, the outlook for a robust recovery in external demand is still very uncertain, especially in Slovenia’s main export markets of Germany and Italy, and will also be constrained by the required fiscal retrenchment in EU countries. The risk that the adverse effects of the crisis will be more pronounced than currently expected remains high. Tightening of credit conditions in wholesale funding, increased risk aversion and rapidly deteriorating asset quality is leading to severe financing constraints for many Slovene enterprises, not just for MSMEs but also for larger corporates.

The government responded to the crisis with several support packages aimed at providing liquidity to troubled firms, increased investment for infrastructure projects, and subsidies for employment. These discretionary measures and the working of automatic stabilisers are estimated to have contributed to an increase in the consolidated government budget deficit to 5.5 per cent of GDP in 2009. The authorities also adopted several measures to enhance liquidity of the Slovenian banking system. As a result of a worsening of the fiscal position and measures to support the banking system public debt has risen sharply in 2009 to close to 35 per cent of GDP and will likely continue to rise over the coming years.

As economic conditions appear to be easing, the government has drawn up an ambitious reform programme (its so-called “Exit Strategy 2010-2013”), aimed at facilitating a return to sustainable economic growth through a gradual process of fiscal consolidation and priority structural measures. The programme also highlights priority areas to improve the economy's competitiveness, productivity and innovation. The onus will now be on effective implementation of these measures within the specified timeframe. The crisis response and the financing needs of the recovery process will not be easy and will require support from private partners as well as IFIs, which could potentially include a renewed role for the EBRD.

In light of the above, the key transition challenges in the coming years include:

- **Promote better governance, aid restructuring and plan for the eventual privatisation of enterprises** remaining under state control once market conditions improve. The Slovenian enterprise sector continues to suffer from a relatively high level of government involvement as the state has retained controlling stakes in many enterprises. The financial crisis has also exposed that several enterprises require far-reaching restructuring to make them internationally competitive.
- **Help restructure bank balance sheets and improve governance in order to improve the sector's efficiency and restore its ability to provide finance to enterprises.** In order to effectively restructure banks to make them better serve the needs of the economy, the authorities should seek to reduce their direct involvement in bank decision-making and eventually reduce state control through privatisation. The authorities should also support the restructuring and privatisation of the two state-owned insurance companies, which continue to dominate the market.
- **Support investments in energy efficiency and renewable energy and promote competition in the energy sector** to reduce energy intensity and address the growing demand-supply imbalances. The state is still the majority owner of all generation, while there is still limited private sector participation and effective competition in the distribution sector.
- **Promote increased private sector participation and efficiency improvements in the infrastructure sectors.** Railway and port infrastructure needs further improvement and would benefit from increased private sector participation. In the municipal sector, there is also a need for increased private sector participation, improved incentive based contractual arrangements, and the elimination of cross subsidies among consumer groups.

Since the last Country Strategy was approved in 2006, the Bank signed three direct operations representing EUR 19 million and seven regional projects with allocations for Slovenia of EUR 17 million. This reflected the availability of commercial bank funding prior to the crisis, the pace of reforms, and the continued influence of the Government over key Slovenian companies, including the country's two largest banks.

The Bank's operational objectives in Slovenia as defined in this strategy are consistent with its Graduation Policy and its strategic orientation towards the transition countries that became EU member states in May 2004. As in other countries in this group, the Bank's business in Slovenia was decreasing as transition progressed and the Bank's finance gradually became less additional. However, the global financial crisis has threatened to set back the transition process, has revealed the fragility of some past achievements and sharply increased demand for EBRD finance in the form of crisis response. This has delayed the process of graduation but has not changed the Bank's Policy and strategic orientation. When global market conditions improve, financial flows return, thereby reducing the Bank's additionality, and the region recovers in a sustainable way with the threat to transition receding, Slovenia would be expected to graduate during the CRR4 period, taking into consideration its specific circumstances and remaining transition challenges.

In light of the crisis and the external environment outlined above, the Bank's activities in Slovenia will be very selective and based on the following operational objectives:

- **Industry, Commerce & Agribusiness sector –** The Bank will seek to support the privatisation of remaining state-owned or state-controlled companies. This will need to be done in conjunction with changes in corporate governance to strengthen the protection of minority shareholder rights and ensure a clear separation of the duties and responsibilities of the management and supervisory boards. This can be achieved either through direct investments or through EBRD supported equity funds. The Bank will also support the regional expansion of Slovenian companies through cross-border investments or through participation in equity funds.
- **Financial sector –** Foster privately-controlled commercial banks' and leasing companies' continued lending to SMEs and micro enterprises will remain a key objective in light of the continuing impact of the financial crisis. If required, the Bank will 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, energy and environment –** The Bank will continue to encourage private sector involvement in infrastructure development. It will promote investment in energy supply to contribute to energy security and in the sustainable development of the energy sector by focussing on renewable energy production.

During the Strategy period, the Bank will concentrate its policy dialogue efforts in encouraging the reduction of the government's role in the economy and on improving corporate governance standards. This will mostly consist of continued dialogue with the Ministries of Finance and Economy as well as the Pension and Restitution Funds.

In working to achieve the above, the Bank will continue to closely co-ordinate with other IFIs also in mobilising co-financing for priority investments, in particular with the European Investment Bank. The Bank will continue to ensure that all EBRD operations in Slovenia meet sound banking principles, have transition impact, are additional and are subject to the Bank's Environmental and Social Policy and incorporate, where appropriate, Environmental and Social Action Plans.

1. THE BANK'S PORTFOLIO

1.1 Overview of Bank activities to date

As of 31 March 2010, the Bank's cumulative commitments in Slovenia amount to EUR 633 million. The portfolio ratio stands at 76 per cent Private while one third of the Bank's commitments have been in equity. The bulk of commitments have been in the financial institutions sector with 40 per cent followed closely with 34 per cent in industry, commerce and agribusiness. 16 per cent of commitments were in infrastructure and 11 per cent in the energy sector.

The current portfolio stands at EUR 120 million. Undrawn commitments amount to 25 per cent of the total. Impaired assets stood at only 2.8 million leaving the risk rating of the portfolio at 5.5. The bulk of the current portfolio relates to financial institutions with 32 per cent of the total.

1.2 Implementation of the previous country strategy

The previous Country Strategy for Slovenia, approved in November 2006 (BDS/SL/06-1), outlined the following operational objectives for the Bank:

- **Enterprise Sector –** Provide equity and structured debt for local companies to fund their growth, in particular in the context of cross border expansion. Support foreign direct investment by medium-sized companies with higher risk products not offered by the private sector, particularly in regions of higher unemployment facing specific transition challenges. The Bank will also stand ready to support viable privatisation structures of the remaining state enterprises.

- **Financial Sector –** The Bank will offer capital market products to companies and financial institutions such as bonds and asset backed securities. The Bank will work on innovative products and support equity funds for Slovene corporate sector investments in the region. If there is a need, the Bank will 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 will strive to facilitate private sector involvement in infrastructure development.

Since 2006, the Bank signed three direct operations representing EUR 19 million and seven regional projects with allocations for Slovenia of EUR 17 million.

- **Financial Institutions** – In 2007, the Bank made a EUR 8 million equity investment in a private pension management company operating in Slovenia to assist in its expansion in the Western Balkans. The Bank also provided a EUR 5 million line of credit to a privately-controlled local bank under its Municipal Financing Facility. The Bank fully committed its numerous existing lines of credit for SMEs, including the highly successful GEF Facility.

- **Industry, Commerce & Agribusiness** – The Bank made one EUR 6 million co-investment with a private equity fund in a Slovenian cable operator. Only one investment in a Slovene company was made by an EBRD-supported regional equity fund during the period.

- **Infrastructure** – No activity in this sector as the Government has not yet allowed any meaningful private sector involvement in infrastructure.

1.3 Transition Impact of the Bank's Portfolio and Lessons Learnt

1.3.1 The Financial Sector

Banking **–** With its equity investment in Nova Ljubljanska Banka (NLB) EBRD facilitated the privatisation process and played a continuous and stabilising role between 2002 and 2008. The project's TI however, would have been more significant, if one of the strategic investors would have been allowed by the Government to gain control of NLB.

NBFI – Recent years saw the dynamic growth of private insurance and privately managed pension funds. Nonetheless, there remains scope for strengthening corporate governance in the sector and for enhancing the transparency of the insurance regulator's decisions.

Private Equity Funds – Following the adoption of the EU acquis communautaire, securities market legislation complies with high international standards, and the domestic equity market has reached a sizable capitalisation.

SMEs – Under the EU/EBRD Finance Facility for SMEs (SMEFF), credit lines were extended to participating banks – e.g. Banka Koper and Nova Kreditna Banka Maribor (NKBM) - as well leasing companies - Raiffeisen Leasing and SKB Leasing. All these investments were supported by substantial TC for institution building. A ***general lesson learned*** from the SMEFF programme is that the EBRD should enforce the EU standard definitions of what constitutes micro, small and medium-sized enterprises in all its related sector activities (PE09-451T).

In 2005-09, the entire Bank investment portfolio in the *Financial Sector* was distributed to either 'Banking' (46 per cent) or 'NBFIs' (54 per cent) yielding moderate transition impacts[1].

1.3.2 The Enterprise Sector

Industry – The Bank had earlier contributed to the privatisation and restructuring of several manufacturing companies but has had rather limited influence on their restructuring. Despite the high level of technology and efficiency throughout the sector, it continues to suffer from a relatively high level of government influence and the often onerous regulations.

[1] See Transition Impact Retrospective (CS/FO/09-21, 16 October 2009).

Despite a principally sound business environment, further reductions in the regulatory burden are necessary to enhance competitiveness of the *Enterprise Sector.* The continuing state involvement is also the main reason for EBRD's limited operations in this (and other) sector(s).

1.3.3 Infrastructure

MEI **–** The EBRD has also been active with a series of Danube River Basin projects in the water and waste water sub-sectors, partly involving Slovenia. A ***recommendation*** stemming from these projects is that the Bank should focus more on urban wastewater projects in that particular area, as the need is larger and the environmental benefits are much more significant than with water supply projects (see PE06-346).

Transport **–** No EBRD project was implemented in this sector since 2000.

Overall, the *Infrastructure* Sector is still dominated by state-owned companies. However, the first successful concession agreements and a legal framework that is highly compliant with international good standards for PPP are good indicators for increasing private sector participation.

2. OPERATIONAL ENVIRONMENT

2.1 The General Reform Environment

Before the crisis Slovenia enjoyed many years of dynamic growth. A favourable business climate, gradual but steady progress with structural reforms and prudent macroeconomic policies led to EU accession in 2004 and subsequent Eurozone entry in 2007 (it was the first transition country to join the Eurozone). However, external price shocks and signs of overheating emerged after Eurozone entry and the global crisis has brought to the fore some of Slovenia's remaining weaknesses.

Its tradition of consensus-based policy making has meant that progress with structural reforms has been slower than in other EU-8 countries, particularly in the areas of large scale privatization, governance and enterprise restructuring and banking sector reforms (please refer to Annex 7 for comparative data on structural reforms). In these areas Slovenia continues to rank less well than its central European peers. While there has been progress towards increasing medium- to high-value added production, its economic structure continues to be largely based on low- to medium- value added production in many cyclically sensitive sectors (such as automobile) that were particularly badly affected by the crisis. In recent years, especially since Eurozone entry, competitiveness and productivity in many sectors has started to lag that in other countries of the region. This trend was aggravated when many regional peers saw a depreciation in their currencies at the end of 2008 / beginning of 2009.

In February 2010 the government clearly acknowledged the adverse effect the crisis is having on the country and presented an ambitious work programme of fiscal retrenchment and structural reforms (entitled the "Slovenian Exit Strategy 2010-2013").

These reforms are focused on cutting public expenditure through improvements in public sector efficiency and a rationalization in public services; structural reforms to the labour, pension, healthcare and social systems; corporate governance and ownership changes for state-owned enterprises; as well as institutional reforms in the areas of financial supervision, competition policy and public service regulation. If successfully implemented these reforms should enable a return to robust growth and real convergence to average EU income levels. However, given the far-reaching nature of the reforms and Slovenia's consensus-based policy making, implementation will be difficult.

2.1.1 Political developments

- ***Slovenia's political system, which has benefited from reforms throughout years of transition, is mature and stable***. Democratic institutions are robust, with a functioning separation of powers and checks and balances in the political system. The legal framework provides an adequate basis for the conduct of a democratic election process and the elections are conducted in a manner consistent with international standards. Deepening integration into the EU, whose member the country became in 2004, serves as the best guarantee for overall political stability.
- ***Slovenia is a signatory to all major international human rights covenants***. Its constitution and the legal system, including an independent judiciary and human rights ombudsperson, provide an effective framework safeguarding fundamental rights and freedoms.
- ***After the 21 September 2008 general elections, in which the Social Democrats (SD) won a narrow victory over the centre-right Slovenian Democratic Party (SDS), a new centre-left coalition government was formed***, led by Prime Minister Borut Pahor of SD and comprising, besides the ruling party, Zares, LDS and DeSUS. The current President, former senior UN diplomat Danilo Turk, was elected on 11 November 2007 with the support of centre-left parties, and there is a reasonably good cooperation between the two branches of executive power. Despite occasional changes in the composition of the government, it has overall remained stable amid the global economic crisis.

2.1.2 Social and labour issues

Slovenia has one of the highest ageing populations among EU countries and is facing daunting pension liabilities (please refer to Annex 2 for a more detailed description of social and labour issues). Its adverse demographic profile has led the EU Commission to classify it as a high risk country with respect to the sustainability of its public finances. Although Slovenia has a high employment rate compared to many other EU countries, the labour participation rate among the elderly is very low in regional comparison. Daunting pension liabilities, low labour participation of older workers, rapidly rising unemployment and the significant fiscal outlays in response to the recession, now point to an urgent need for further reform to pension, social security and healthcare systems. The Government has proposed certain reforms which have attracted criticism from trade unions. It remains too early to determine if any measures will eventually be implemented.

2.1.3 Legal environment

Slovenia has made considerable reforms to its legal framework, leading to improvements in the country's legal and business environment. Since Slovenia joined the European Union (EU) on 1 May 2004, it has continued to adapt its legal framework bringing it in line with the standards and legislation of the EU.

Some measures aiming at further combating business and financial criminal activities have become effective. Hence, the Markets in Financial Instruments Act (adopted in 2007 and amended in 2008) transposed the Market Abuse Directive into Slovenian law, whereas the latest amendments to the Prevention of Money Laundering and Terrorist Financing Act from 2010 introduced some simplifications envisioned by EU directives.

Corporate, commercial and financial activities are regulated by Slovenian laws which, in general terms, have regularly transposed EU Directives. A general assessment of commercial laws reveals that Slovenia has developed a legal system comparable to that of other advanced transition countries of Central and Eastern Europe. Nevertheless, despite the country's liberalised market and some progress in privatisation over the past couple of years, the state still retains a high degree of ownership in key enterprises and financial institutions.

The EBRD has developed and regularly updates a series of assessments of legal transition in its countries of operations, with a focus on selected areas relevant to investment activities: capital markets, company law and corporate governance, concessions, secured transactions and telecommunications. In 2010, assessments will be conducted for the first time in the judicial capacity and procurement focus areas. The existing tools assess both the quality of the laws "on the books" (also referred to as "extensiveness") and the actual implementation of such laws (also referred to as "effectiveness"). All available results of these assessments can be found at www.ebrd.com/law. Annex 8 presents a summary of the results for Slovenia, accompanied by critical comments from the Bank's legal experts who have conducted the assessments and other research in the relevant areas.

2.2 Macroeconomic conditions

After several years of robust growth, Slovenia was severely affected by the international crisis suffering its first recession since independence and the largest contraction in the Euro area (please refer to Annex 5 for a table of selected economic indicators). Quarter-on-quarter seasonally adjusted GDP contracted sharply from the last quarter of 2008 and only began to grow again in the middle of 2009. However the recovery was interrupted abruptly by further contractions in Q4 2009 and Q1 2010, which meant that the economy technically fell back into recession. This translated into a real GDP contraction of 7.8 per cent for the year as a whole. Industrial production has not shown any visible signs of improvement through May 2010. Domestic demand continues to be subdued. The credit squeeze and the collapse in exports and investments have led to a rapid rise in corporate bankruptcies and unemployment. Unemployment has risen from 4.3 per cent in August 2008 to 7.1 per cent by May 2010 according to the Labour Force Survey used across the EU. The recent increase in January 2010 of the minimum wage by 23 per cent may aggravate the situation further.

In response to the crisis the government has adopted several anti-crisis packages, aimed at increased investment for infrastructure projects, support to troubled companies and subsidies to employment. These discretionary measures and the working of automatic stabilisers contributed to an estimated rise in the consolidated government budget deficit to 5.5 per cent of GDP in 2009 (bringing the country into breach with the EU's Stability and Growth Pact). Gross government debt has also increased sharply to 35.1 percent in GDP in 2009 (up from 22.6 per cent a year earlier) and is forecast to continue to increase over the coming years. The high budget deficit has forced the European Commission to launch an excessive deficit procedure against Slovenia, along with many other EU countries. Fiscal policy will remain expansionary in 2010 to counteract the continuing effects of the crisis and the government's current fiscal deficit target for 2010 is 5.7 per cent of GDP (though the Prime Minister recently set out the objective a 5.2 per cent target for this year's deficit). From 2011, however, the government has presented an ambitious fiscal consolidation strategy (its so-called Exit Strategy) which foresees a gradual reduction in the fiscal deficit to 1.6 per cent of GDP by 2013, primarily through cuts in expenditures rather than increases in taxes. Successful fiscal consolidation is also crucially dependent on reforms to Slovenia's social security, healthcare and pension systems (especially given its rapidly ageing population).

Annual average consumer price inflation fell to 0.9 per cent in 2009, sharply down from the 5.7 per cent recorded for 2008. Although the economic crisis is likely to keep inflation in check in the coming years, the rise in international oil prices, the increase in electricity prices, and the recent agreement to increase the minimum wage by 23 per cent by 2012 may put upward pressure on inflation in the next few years.

In 2009 the current account recorded a much smaller deficit of 1 per cent of GDP versus the 6.1 per cent a year earlier. The reduction mainly resulted from the collapse in domestic demand that led to a sharp contraction in imports (of 28 per cent), outpacing the contraction in exports (of 20 per cent) by a wide margin but also to a significantly positive terms of trade. However, export orders strengthened significantly towards the end of the year and should underpin the economic recovery. Gross external debt remained largely unchanged in 2009 at 117 per cent of GDP. As a result of the crisis there has been a sharp increase in long-term government borrowing on foreign capital markets which neutralised the net repayment of debt by banks. As a result of the crisis, domestic banks were forced to substitute foreign financing in the interbank market with ECB funds and government deposits and guarantees. Slovenia is rated AA by Standard & Poor`s and Fitch and Aa2 by Moody`s which is the highest rating among CEB countries.

Longer-term growth prospects depends crucially on success with fiscal consolidation and structural reform, as targeted under the government's Exit Strategy. The current projection is for GDP to only show a gradual recovery in the next strategy period. In the short-term the recovery will be constrained by the continued weakness in domestic as well as external demand and the lack of financing for investment. A return to robust growth over the medium term is crucially dependent on success with implementing the targeted fiscal consolidation and structural reforms. Success with fiscal consolidation hinges on progress with expenditure cuts as well as crucial health, social and pension sector reforms, which are difficult at the best of times and are vehemently opposed by trade unions. Moreover, far-reaching improvements to labour and product markets are needed in order to boost the country's competitiveness and productivity. This should also entail changes to governance, restructuring and eventual privatisation of the remaining state-owned enterprises (including in the financial sector).

2.3 Transition success and transition challenges

A number of transition challenges remain in Slovenia. The following analysis highlights several priority areas identified in the 2009 Assessment of Transition Challenges. Please refer to Annex 6 for a summary table.

The enterprise sector: *The restructuring of KAD/SOD should be pushed forward in order to promote better governance, aid restructuring and plan for the eventual privatisation of state-owned enterprises.*

State involvement in the enterprise sector should be reduced. Although the general industry sector in Slovenia is one of the most efficient and technologically sophisticated among CEB countries, the sector continues to suffer from a relatively high level of government interference and its competitiveness is waning. The state has retained shares in many enterprises through KAD (the State Pension Fund) and SOD (the Restitution Fund). In many cases these are blocking minority – and therefore controlling - stakes with rights to appoint board members. In an important development the government in 2009 drew up plans to establish a new government Agency to more efficiently and strategically manage state-owned property, by transferring to it the current shareholdings held by KAD and SOD. This restructuring is planned for 2010, although the details of transferring the stakes and the required financial compensation to KAD and SOD are yet to be clarified and there is still a high risk that the government's plans may be watered down. If the restructuring occurs as originally planned, it may pave the way for necessary corporate governance changes, restructuring and eventual privatisation of state-owned companies and financial institutions.

The business environment needs to be enhanced in order to improve the economy's competitiveness. While the overall business environment is good, competition continues to be hampered by the high regulatory burden on enterprises and the weakness of the competition authority. According to the 2009 OECD product market indicator, Slovenia ranks below the Organisation for Economic Co-operation and Development (OECD) average in terms of the ability of the economy to unleash market forces. The latest World Bank *Doing Business 2010* survey shows that the procedures required for hiring and firing workers, registering property, trading across borders and enforcing contracts are more burdensome than in most other OECD countries. Implementation of plans to make the Competition Protection Office an independent agency with budgetary autonomy would be an important step in the right direction.

Financial institutions: *the restructuring of bank balance sheets and improvements in governance are needed in order to improve the sector's efficiency and increase its ability to provide finance to Slovene enterprises (especially SMEs).*

Slovenia's banking sector continues to be dominated by two large state-controlled banks (NLB and NKBM), with a combined market share of close to 50 per cent of the banking sector's total assets. Overall there are 22 banks (including 3 branches of foreign banks) and 3 small savings banks. Foreign banks and other foreign investors control only around 38 per cent of the Slovene banking system (although this seems significant, a large part of it is represented by non-controlling shares of KBC in NLB). Belgium's KBC Group has been unable to increase its stake in NLB to a majority share. As a result, KBC has so far refused to participate in capital increases of the bank (most recently in December 2009[2]), and instead still has its stake up for sale. Although a 49 per cent stake in NKBM - the country's second largest bank – was sold via an initial public offering in December 2007, plans to reduce the state's majority stake even further are on hold.

So far the banking system has withstood the global financial crisis relatively well, but the sector has suffered from low efficiency and is now undergoing a credit squeeze. Recent research by the IMF has shown that banking sector efficiency and profitability indicators have consistently been lower than those in most other EU countries in recent years. Slovenian banks have also been overly reliant on external funding (much of it short term), which has exposed them to high refinancing risks. Moreover, although NPLs in the banking sector were low at the end of 2008 (only 1-2 per cent, according to the latest available data), quality is likely to have deteriorated significantly since then and loan concentration in certain badly affected sectors is very high (construction). The authorities adopted several measures to stabilise Slovenia's banking system, including an unlimited guarantee for all deposits by individuals and small enterprises until the end of 2010, making up to EUR 12 billion available in state guarantees on new debt issuance by banks and earmarking a further EUR 1.2 billion in state guarantees for loans to non-financial companies. However, a credit squeeze has still occurred and is now constraining the availability of finance for investment (see below).

The insurance sector continues to be dominated by the two state-owned insurance companies, although competition has been increasing. There remains scope for strengthening corporate governance in the sector and enhancing the independence of the insurance regulator and transparency of its decision making.

The private equity market lacks depth due to the limited involvement of foreign private equity firms which find it difficult take full control of Slovene enterprises. While the domestic equity market has a sizable capitalisation, turnover is low, deterring investors, and limiting the attractiveness of public equity issuance as a source of capital. Overall, local currency money and securities markets remain underdeveloped.

Energy: *investments in energy efficiency and renewable energy and increased competition in the energy sector are necessary to reduce energy intensity and address the growing demand-supply imbalances.*

In energy, the state is still the majority owner of all generation and there is still limited private sector participation and effective competition in the distribution sector. In recent years the energy sector has been successfully unbundled into generation, transmission, and distribution. In addition, since July 2007, Slovenia has fully liberalised its

[2] NLB Group has made a significant loss of Euro 82 million in 2009, and although it still meets all regulatory requirements, the bank management is continuing to push for a capital increase.

electricity market and all electricity consumers can choose their supplier on market based terms. However, there is still limited private sector participation and effective competition in the sector. Notably, the state is still the majority owner of all generation facilities. On the other hand, private sector participation has increased, with fourteen suppliers being active in the retail market. The quality of Slovenian institutions has also improved. An independent regulator is in place. Tariffs are costs reflective but cross-subsidies from industrial consumers to households are still present. A feed-in tariff mechanism to support the development of renewable energy is in place.

Progress has been made in securing an adequate legal and institutional framework for sustainable energy but SE projects remain limited. Energy pricing encourages energy efficiency investments. Support systems for energy efficiency and renewable energy are in line with EU practices, although outcomes are still lagging behind the EU average. A Climate policy is in place and on track to achieve EU 20/20/20 targets. Remaining challenges include transposition and implementation of the 2006 EU directive on energy end-use efficiency and facilitation of SE project activity.

Infrastructure: *There is a need to promote increased private sector participation, competition and efficiency improvements in the infrastructure sectors.*

In the railway sector, infrastructure access has been granted but there are a limited number of operators competing in the market. Operating and policy setting functions have been separated and core railway businesses (infrastructure, passenger, freight, etc.) have been unbundled while ancillary services divested. In 2004, the Slovenian Railways (SZ) was transformed into a holding company with fully separate subsidiaries for freight transport, passenger transport and infrastructure. Freight tariffs were liberalised while the framework for PSO was adopted. These reform efforts are largely in line with EU directives. However, in 2008 the European Commission criticised Slovenia's implementation of the European Union's railway reforms, particularly the lack of an independent infrastructure manager and insufficient implementation of the rules on track access charging.

In the road sector, there has been private sector participation in construction and periodic maintenance of the network since the early 90s, but there is limited competition as these works are usually undertaken by a limited number of domestic companies. The quality of concession legislation is relatively high but no PPP projects have been closed so far.

In the municipal sector, there is also a need for increased private sector participation, improved incentive based contractual arrangements, and the elimination of cross subsidies among consumer groups. Water supply and district heating utilities are normally operated by joint stock companies owned by the municipalities. Some private sector participation in the form of concessions and management contracts has taken place in the water and district heating sectors, and there has been significant liberalisation in the urban transport markets throughout the country. The operational and financial performance is overall good with adequate metering and billing procedure being the norm. Remaining challenges are linked to the need to improve incentive based contractual arrangements and fully eliminate cross subsidies among consumer groups.

2.4 Access to capital and investment requirements

Due to the crisis, Slovene enterprises and households have seen a severe contraction in the availability of finance. Slovenia remains a traditional financial market and most finance to households and enterprises has been in the form of credit through the domestic banking sector. The growth of credit to the non-banking sector reached a peak of over 30 per cent in 2007, before falling to 18 per cent in 2008 and a mere 0.6 per cent in 2009. Credit to enterprises was particularly badly affected, with loans to non-financial corporates declining by 1.2 per cent in 2009, while loans to households increased by 6.7 per cent. Companies therefore remain substantially curtailed in obtaining finance for investment that would underpin a recovery in growth.

The Slovene Stock Exchange is not a major source of finance for investment and has been badly affected by the crisis. 2009 was the first year that the Ljubljana Stock Exchange operated as part of the CEE Stock Exchange Group (owned by the Vienna Stock Exchange). However, the LJSE remains small and illiquid. After falling by close to 60 per cent in 2008, capitalisation was largely unchanged in 2009 and by the end of the year stood at 20 per cent of GDP. Overall 8 companies delisted from the stock exchange during the year (mostly as a result of bankruptcy). In 2009 trading volumes remained low, and were 29.69 per cent below the levels of 2008 (with the average daily trading volume amounting to EUR 7,2 million). 70 per cent of total equity turnover is generated by LJSE's eight most important companies which are listed on the Prime Market: appliance maker Gorenje, logistics company Intereuropa, bank NKBM, pharmacist Krka, port operator Luka Koper, retailer Mercator, fuel distributor Petrol, and telecom company Telekom Slovenije.

Corporate bond issuance remains low and saw a dramatic decrease in 2009 (from EUR 303 million in 2008 to EUR 128 million in 2009), while government bonds rose sharply (from EUR 1.25 billion to EUR 4.25 billion).

FDI and private equity has been hindered by the inability of investors to gain control of companies. Cumulative FDI inflows in Slovenia between 1989 and 2008 were the lowest among CEB countries not only in absolute terms, but more importantly also in per capita terms (just USD 1,531 - compared to say USD 7,287 in the Czech Republic and USD 5,011 in Slovakia).

3. STRATEGIC ORIENTATIONS

3.1 Bank's priorities for strategy period

The Bank's key objective in Slovenia will be to help improve competitiveness of the corporate and financial sectors by supporting government efforts to reduce its influence over the economy. This will be combined with project-by-project improvements in corporate governance practices to ensure managers of companies act in the interest of all shareholders. Willingness of the government to reduce its influence over the economy is of course necessary for the Bank to play a role. This could involve companies where the state retains a majority stake or effective control through significant minority ownership. The importance of improvements in corporate governance cannot be under-estimated. Recent cases illustrate the risk that owner/managers are sometimes able to ride roughshod over minority shareholders while the government retains the ability to influence companies where it controls only a minority stake.

3.2 Sectoral challenges and Bank objectives

3.2.1 Industry, Commerce & Agribusiness sector

<u>Transition goals</u>

- Reduction of State involvement in the enterprise sector and the completion of privatisation in key sectors.
- Enhanced business environment to improve competitiveness of the economy.
- Support the sustained regional expansion of the Slovene corporate sector.

<u>Operational priorities</u>

- The Bank will seek to support the privatisation of remaining state-owned or state-controlled companies. This will need to be done in conjunction with changes in corporate governance to strengthen the protection of minority shareholder rights and ensure a clear separation of the duties and responsibilities of the management and supervisory boards.
- Support productivity enhancing investments that will improve the competitiveness of the corporate sector and further economic recovery. This could include viable re-structuring projects that would bring employment to more sustainable levels in the medium-term.
- The Bank will also support the regional expansion of Slovenian companies through cross-border investments or through participation in equity funds or co-investments with such funds.

3.2.2 Financial Institutions

<u>Transition goals</u>

- Support the increased efficiency in financial intermediation through consolidation and privatisation.
- Increase competition in a banking sector dominated by two state-controlled banks sharing 50 per cent of the market.
- Broaden the accessibility of financing to the local corporate sector, in particular SMEs and small municipalities.

<u>Operational priorities</u>

- Foster privately-controlled commercial banks' and leasing companies' continued lending to SMEs and micro enterprises.
- Assist in the re-structuring of privately-owned bank balance sheets.
- If required, the Bank will 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.

- Support increased competition in the insurance sector which remains dominated by state-controlled companies.

3.2.3 Infrastructure, energy and environment

Transition goals

- Promote private sector involvement in the infrastructure sector.
- Encourage more competition from privately-owned competitors in rail and road sectors, possibly through the use of PPPs.
- Increase competition in the energy sector.
- Promote energy security and defuse the growing demand-supply imbalance in the power sector.
- Encourage investment in sustainable energy with particular focus on renewable projects given the success of the government's existing energy efficiency programme.

Operational priorities

- The Bank will continue to encourage private sector involvement in both national and local infrastructure development.
- The Bank will support improved incentive based contractual arrangements in the municipal services sector.
- It will promote increased competition and investment in energy supply to contribute to energy security.
- The Bank will encourage the sustainable development of the energy sector by focussing on renewable energy demonstration projects.

3.3 Policy dialogue

During the Strategy period, the Bank will concentrate its policy dialogue efforts in encouraging the reduction of the government's role in the economy and on improving corporate governance standards. The OECD has identified the government's continued role in the economy as a barrier to Slovenia's entry to the organisation. To address this, the government has proposed a re-structuring of the Pension (KAD) and Restitution (SOD) Funds. The original proposal is yet to be finalised and there is a significant risk of dilution. The Bank will continue its dialogue with the Ministries of Finance and Economy as well as with KAD and SOD to identify areas of potential co-operation. This dialogue has in the past borne fruit as KAD and SOD created a holding company in 2009 called PDP to combine their stakes in companies identified as requiring more active re-structuring. The Bank had encouraged such a move earlier and is in active contact with PDP management to identify potentially viable re-structuring projects.

The Bank will also continue to its dialogue with DARS, the Slovenian Roads Agency, to identify the potential of greater private sector involvement in road operation and maintenance. The Bank's experience in Slovakia and Hungary could be instructive to Slovenia as further private sector participation would reduce pressure on the state budget.

Other areas where the Bank will focus include:

- continued dialogue regarding improvements in the business environment,
- encouraging the use of incentive based contracts for the provision of public services, and
- encouraging more competition in the energy sector with particular focus on easing the implementation of renewable projects.

4. CO-OPERATION WITH OTHER IFIs AND THE EUROPEAN UNION

4.1 European Union

For the 2007-13 period, Slovenia has been allocated EUR 4.101 billion (current prices) of Structural Fund and Cohesion Fund financing under the Convergence objective. To complement the EU investment, Slovenia's overall annual contribution is expected to reach EUR 957 million.

For the 2007-13 period, all of Slovenia is eligible under the Convergence objective. The situation has therefore not changed in relation to the previous 2004-06 programming period.

The general objectives of the Slovenian National Strategic Reference Framework (NRSF) are to improve the welfare of Slovenian citizens by promoting economic growth, creating jobs, strengthening human capital and ensuring balanced and harmonious development, notably at regional level. To achieve these objectives, the Slovenian NRSF is built on a number of strategic thematic and territorial priorities:

- Promotion of entrepreneurship, innovation and technological development;
- Improvement in the quality of the education system, training and research and development activities;
- Improved labour market flexibility along with guaranteed employment security, notably through creating jobs and promoting social inclusion;
- Ensuring conditions for growth by providing sustainable mobility, improving the quality of the environment and providing appropriate infrastructure;
- Promotion of balanced regional development.

Emphasis will also be given to improving institutional and administrative capacity, notably in the public sector, as this is a prerequisite for accelerating economic growth in Slovenia.

4.2 European Investment Bank

Since 2006, the EIB has signed loan contracts in Slovenia amounting to EUR 1.5 billion, the majority of which supported SME and municipality projects. They included, *inter alia*:

- The signing of a December 2006 loan of EUR 300 million for the construction of five motorway sections in Slovenia, with a total length of 50 km. The loan to the

- In July 2009, the EIB announced 4 credit lines for a total of EUR 380 million to the Slovenian Export and Development Bank for lending to SMEs. A EUR 60 million loan to Unicredit Leasing targeting SMEs was also signed in November 2008.
- In March 2010, the EIB announced it will be providing two loans of EUR 25 million each to support small and medium sized projects in Slovenia respectively to Banka Celje d.d. and to Gorenjska banka d.d. Both loans will co-finance projects promoted by SMEs and priority investments of public authorities in particular energy and environment infrastructure.

The EBRD is actively working with the EIB on the financing of the modernisation programme of Termoelektrarna Šoštanj (TEŠ). The EIB signed a EUR 350 million loan in 2007 but the project not yet been implemented due to the difficulty in mobilising additional commercial financing. The EBRD involvement in the project will ensure that such co-financing is made available by commercial banks.

4.3 World Bank

Slovenia graduated from the World Bank's financial assistance in Spring 2004. Slovenia continues to benefit from a number of cross-country analytical and advisory activities, including EU10 Regional Economic Reports.

The benefits of the collaborative relationship between Slovenia and the World Bank have provided opportunities to learn lessons and develop analytical instruments which also benefited other countries in the region that started their transitions later.

As a development partner, Slovenia contributes to the International Development Association (IDA), the World Bank's concessional window, and plays an active role in regional and multilateral institutions. Significantly, Slovenia was an original contributor to the EBRD Western Balkans Fund in 2006, the first country of operation to make such a contribution.

4.4 International Finance Corporation

The IFC last financed a project in Slovenia in 1994. It retains the ability to finance projects in the country and covers the country from its Istanbul and Zagreb offices.

ANNEX 1 – POLITICAL ASSESSMENT

Slovenia is committed to and applying the principles of multiparty democracy, pluralism and market economics in accordance with the conditions specified in Article 1 of the Agreement establishing the Bank.

Slovenia's political system, which has benefited from comprehensive political reforms throughout years of transition, is mature and stable. Democratic institutions in Slovenia are robust, with a functioning separation of powers and checks and balances in the political system. Deepening integration into EU, whose member the country became in 2004, serves as the best guarantee for the overall political stability.

Slovenia is a signatory to all major international human rights covenants, including the European Convention on Human Rights and Fundamental Freedoms. The Slovenian Constitution guarantees the basic freedoms and rights of citizens recognized in international law, while international treaties are directly enforceable by domestic courts and their status is superior to the domestic law. The constitutional guarantees of freedom of thought, conscience and religion are generally respected. The legal system, which has undergone comprehensive reforms, an independent judiciary, and human rights ombudsperson provide an effective framework safeguarding fundamental rights and freedoms.

Elections

The legal framework provides an adequate basis for the conduct of a democratic election process. All elections were conducted in a manner consistent with international standards and commitments for democratic elections. Slovenian electoral system is based on proportional representation, with a four per cent electoral threshold required at the national level. For the election of the representatives of the country's two recognised 'autochthonous' national minorities two special constituencies are formed, with their representatives elected on the basis of the majority principle.

Integrity issues

Slovenia is one of the countries with the lowest levels of corruption among transition countries. It was ranked 27 out of 180 countries in the 2009 Corruption Perceptions Index by Transparency International. This puts it, alongside Estonia, not only ahead of all other EBRD countries of operation, but in a better position than most of the fellow EU member states. However, some corruption issues remain. While 'irregular payments' to public officials are infrequent, the system of exchanges of favours remains wide spread in the political and business establishment.

Media

Freedom of expression, including freedom and pluralism of the media, is provided for in Slovenian laws and is generally respected. The dominant media outlet is Slovenian Radio and Television. There are only two privately owned broadcasters, and foreign ownership of Slovenian media remains limited.

Ethnic minorities

According to the latest official census, conducted in 2002, ethnic Slovenes were 83.06 per cent of the population. Among minorities the largest group is ethnic Serbs (1.98 per cent of the population), followed by Croats (1.81 per cent) and Bosniacs (1.1 per cent). Slovenian Constitution and relevant laws single out Italian and Hungarian national minorities, which are defined as 'autochthonous', as well as members of the Roma community, to which the authorities apply provisions of the Framework Convention for the Protection of National Minorities and the Act on Equal Treatment.

The autochthonous Italian and Hungarian minorities enjoy a high level of protection, particularly when it comes to the preservation and development of their identity and culture, use of language, media, education, as well as participation in decision-making at central and local level. Representatives of Italian and Hungarian minorities are guaranteed one seat each in the national Parliament.

The Roma (0.17 per cent of population) continue to face various problems and their general living conditions are below minimum standards, particularly those not considered as autochthonous - these are largely persons who left other parts of former Yugoslavia to settle in Slovenia since 1991. The authorities have made Roma issue a priority and efforts have been made in various areas in recent years in order to improve the situation, including specific education and employment projects.

Gender issues

Slovenia ranks 26th out of 109 countries with respect to its gender development indicator and 34th out of 109 countries in terms of the Gender Empowerment Measure of UNDP. Women are active at the grassroots level and have a few high-profile representatives at the national level, including four members of the current Government. However, the percentage of women elected to the national Parliament in the last two general elections (2004 and 2008) is relatively low and stands below 15 per cent of the total number of MPs. The situation is somewhat better in the institutions of local self-government, due, inter alia, to the provisions of Local Elections Act that established the lowest share of women and men in the lists of candidates to the municipal assemblies (the number of female Mayors is still very low), and much better as regards representation in the European Parliament, thanks to the similar gender-related provisions of the relevant electoral legislation.

Although the Employment Relationships Act stipulates that equal opportunities for and equal treatment of women and men should be ensured as regards pay and other income arising from employment relationship, on average women in Slovenia earn 10 percent less than men with equal level of professional qualifications. The labour market is uneven regarding gender both horizontally and vertically: women prevail in services, education, tourism, as well as financial intermediation. At the same time, the share of women among managers and other best paid groups of occupation amounts to only one third, although in general women in Slovenia attain a higher level of education than men.

NGOs

There is a favourable legal framework for civil society organisations, which are particularly active in the areas of culture, sports, environment, various professional associations, such as farming, and animal protection. The registration procedures are very easy, which has led to an impressive, for the size of the country, figure of 24,000 registered NGOs.

Human trafficking

Slovenia is primarily a transit country for men and women trafficked to Western Europe for the purposes of commercial sexual exploitation. Slovenian authorities comply with the minimum standards for the elimination of trafficking and are making efforts to prevent and combat trafficking, as well as to protect the victims. In 2009 Slovenia deposited with the Council of Europe ratification documents for the Convention on Action against Trafficking in Human Beings. On 7 January 2010 the Government adopted a comprehensive Action Plan for countering trafficking in human beings for 2010-2011.

ANNEX 2 – SOCIAL ASSESSMENT

Population

Slovenia has a population of 2.04 million (as of end-2009), approximately half of whom live in urban areas. Since the 1980s the birth rate has been steadily decreasing and is now slightly below the death rate. As a result, Slovenia faces serious challenges associated with an ageing population. The ratio of the population aged 65 over the total population has been steadily rising and is significantly [?] higher than the European average at 15.7 per cent. Given the expected increases in age-related spending, Slovenia has been classified by the European Commission as a high-risk country with respect to the sustainability of its public finances. Updated projections by the European Commission suggest that in a baseline scenario pension expenditure could increase by 8.8 per cent of GDP from 2007 to 2060 and total ageing costs to increase by about 13 per cent of GDP.3 These are amongst the highest increases within the EU and point to the urgency of pension reform.

Poverty

Absolute poverty is not a major problem in Slovenia. Slovenia has one of the most equal income distributions in the world, as illustrated by a Gini coefficient of 22 (where 0 = total income equality). In comparison, the average for the whole of the EU is around 30. However, in its recent report the OECD analysed that social expenditure as a percentage of GDP is high in Slovenia when compared to many other new EU member states (although it is close to the EU15 average).[4] The report suggests that social spending could be better targeted to those in need and made more efficient, without sacrificing the goal of providing adequate social protection.

Education

Slovenia has one of the highest levels of literacy in Europe at 99.7 per cent of the adult population. Primary education is compulsory, free of charge, and lasts nine years. Secondary education is organised in vocational, secondary professional schools and general secondary schools and is also free of charge. A high proportion of the adult population has finished secondary education, but the share with tertiary education is below the OECD average, causing a strong wage premium for those with higher education. In the last decade, however, the demand for tertiary education has expanded rapidly. The average duration of tertiary studies is rather long, due to some extent to the generous level of benefits granted to students enrolled in higher education (such as subsidies for accommodation, transport and meals) and direct financial support in the form of scholarships. Despite the existence of an extensive adult education system, few older workers (whose skills are now obsolete) participate in these schemes.

Expenditure on education as a percentage of GDP is amongst the highest in new EU member states and higher than the EU average. The OECD suggests that efficiency of education expenditure could be improved without jeopardising good education outcomes.

Health

According to the World Health Organisation, life expectancy in Slovenia has improved since 1993, reaching 78.5 years in 2007 (or more specifically 82.1 years for women and 74.8 years for men). This value is slightly below the EU-15 average, but significantly above the average value of the other new EU member states. According to WHO data its morbidity and mortality rates also

[3] European Commission, "2009 Ageing report", European Economy, No.2, April 2009.
[4] OECD Economic Surveys, *Slovenia,* 2009.

compare well in regional context. As elsewhere in the EU, the leading causes of death in 2006 were cardiovascular diseases (40 per cent), cancer (29 per cent), injury or poisoning (9 per cent), respiratory diseases (7 per cent) and diseases of the digestive system (6 per cent). Communicable diseases are well controlled. The infant immunization rate for common diseases (such as poliomyelitis, measles, pertussis, tetanus, diphtheria and tuberculosis) is over 95 per cent. However, Slovenia ranks in terms of its suicide rate, which is 35 per cent higher than the average for the WHO European Region. HIV prevalence is low (less then 1 per 1000 inhabitants).

Total public expenditure on health is around 8 per cent of GDP, which is amongst the highest in the new EU member states but lower than the EU15 average. Slovenia has made important improvements to increase the efficiency of health expenditure, although further improvements are possible. Health care services in Slovenia are financed mainly by contributions to compulsory health insurance, premiums for voluntary health insurance and through taxes. Although entitlement to health care services is universal in Slovenia, access to some health care services is limited due to lack of providers (for example, dental care) or long waiting times (for example, for certain operations).

Labour Issues

Before the crisis hit, unemployment was steadily decreasing and the employment rate rose to close to the Lisbon target of having 70 per cent of the working-age population (15-64 year olds) in employment. As a result of the crisis, however, the unemployment rate has been increasing rapidly to reach 7.3 per cent in January 2010, up from 4.3 per cent in August 2008.

To increase labour force participation – especially among older workers in response to population ageing but also for the younger cohorts - measures are needed to promote better job creation. The country is faced with an especially low employment rate among the 55- to 64-year olds (the ratio of inactive population aged over 65 to the total labour force stands at around 30 per cent). In addition, the procedures and costs for hiring and firing workers are more onerous than in most other country in the region. Slovenia has a strong tradition of social dialogue with very strong trade unions. According to the OECD, the strictness of Employment Protection Legislation (including the protection of permanent workers against dismissal, regulation on temporary forms of employment, and additional requirements for collective dismissal) is equal to that Germany and much stricter than that in the UK.

ANNEX 3 – NET CUMMULATIVE BUSINESS BY INDUSTRY

As of 31 March 2010 (EUR million)

Sector Team (SIC)	EBRD Finance	Debt	Equity	Private	State	Portfolio Ratio*	% Share of Commitments	Total Project Value
Energy								
Natural Resources	2	2	0	2	0	100%	0%	8
Power and Energy	65	65	0	0	65	0%	10%	107
Sub-total Energy	**67**	**67**	**0**	**2**	**65**	**3%**	**11%**	**115**
Financial Institutions								
Bank Equity	84	5	79	84	0	100%	13%	569
Bank Lending	132	132	0	132	0	100%	21%	172
Insurance & Financial Services	37	29	8	37	0	100%	6%	37
Sub-total Financial Institutions	**253**	**166**	**87**	**253**	**0**	**100%**	**40%**	**778**
Industry, Commerce & Agribusiness								
Equity Funds	34	0	34	34	0	100%	5%	104
Manufacturing and Services	95	55	40	95	0	100%	15%	322
Property and Tourism	46	11	35	46	0	100%	7%	160
Telecoms Informatics & Media	38	26	12	37	1	98%	6%	213
Sub-total Industry, Commerce & Agribusiness	**213**	**92**	**122**	**212**	**1**	**100%**	**34%**	**798**
Infrastructure								
Municipal & Env Inf	15	15	0	15	0	100%	2%	48
Transport	86	86	0	0	86	0%	13%	218
Sub-total Infrastructure	**101**	**101**	**0**	**15**	**86**	**15%**	**15%**	**265**
SLOVENIA TOTAL	**634**	**426**	**208**	**482**	**152**	**76%**	**100%**	**1,953**

DEBT	426	426	0	274	152
EQUITY	208	0	208	208	0
PRIVATE	482	274	208	482	0
STATE	152	152	0	0	152

Direct	558	415	143	406	152
Regional	76	11	65	76	0

Non-Sovereign	483	275	208	482	1
Sovereign	151	151	0	0	151

ANNEX 4 – SELECTED ECONOMIC INDICATORS

Slovenia

	2004	2005	2006	2007	2008	2009 *Estimate*	2010 *Projection*
Output and expenditure				*(Percentage change in real terms)*			
GDP	4.3	4.5	5.8	6.8	3.5	-7.8	0
Private consumption	2.7	2.6	2.9	6.7	2.0	-1.4	na
Public consumption	3.4	3.4	4.0	0.7	6.2	3.1	na
Gross fixed capital formation	5.6	3.7	9.9	11.7	7.7	-21.6	na
Exports of goods and services	12.4	10.6	12.5	13.7	2.9	-15.6	na
Imports of goods and services	13.3	6.6	12.2	16.3	2.9	-17.9	na
Industrial gross output	5.2	2.9	6.4	8.4	-1.4	na	na
Agricultural gross output[1]	11.0	-0.7	-4.4	2.2	0.2	na	na
Employment[2]				*(Percentage change)*			
Labour force (end-year)	4.7	1.5	-0.5	1.6	1.1	-0.3	na
Employment (end-year)	5.1	0.6	1.3	2.5	1.6	-1.9	na
				(In per cent of labour force)			
Unemployment (end-year)	6.4	7.2	5.5	4.7	4.3	6.0	na
Prices and wages				*(Percentage change)*			
Consumer prices (annual average)	3.6	2.5	2.5	3.6	5.7	0.9	1.8
Consumer prices (end-year)	3.2	2.3	2.8	5.6	2.1	1.8	2.0
Producer prices (annual average)	4.4	2.8	2.4	5.5	5.6	-0.4	na
Producer prices (end-year)	5.0	1.7	3.0	6.4	3.5	-0.7	na
Gross average monthly earnings in economy (annual average)[3]	5.7	4.9	4.8	5.9	8.3	3.4	na
Government sector				*(In per cent of GDP)*			
General government balance	-2.2	-1.4	-1.3	0.0	-1.7	-5.5	-5.5
General government expenditure	45.8	45.2	44.5	42.4	44.2	49.9	na
General government debt	23	24.3	26.7	23.4	22.6	35.8	39
Monetary sector				*(Percentage change)*			
Broad money (M2, end-year)	6.6	7.8	8.2	10.6	5.2	0.4	na
Domestic credit (end-year)	24.1	20.2	21.6	24.9	14.9	7.6	na
				(In per cent of GDP)			
Broad money (M2, end-year)	49.9	50.7	50.8	50.5	49.4	52.8	na
Interest and exchange rates				*(In per cent per annum, end-year)*			
Discount rate	3.3	3.8	3.8	4.0	4.3	4.3	na
Interbank market rate (average)	4.7	4.0	3.6	4.1	4.3	0.9	na
Deposit rate (average 31-90 days)	3.8	3.2	2.7	3.9	3.4	0.8	na
Lending rate (average short-term working capital)	8.7	7.8	7.1	6.4	6.4	6.0	na
				(Euros per US dollar)			
Exchange rate (end-year)	0.7	0.8	0.8	0.7	0.7	0.7	na
Exchange rate (annual average)	0.8	0.8	0.8	0.7	0.7	0.7	na
External sector							
				(In millions of US dollars)			
Current account	-892.4	-619.9	-997.2	-2,243.3	-3,322.9	-276.5	-587.5
Trade balance	-1,257.5	-1,258.1	-1,487.2	-2,330.4	-3,880.3	-758.7	-1,262.5
Merchandise exports	16,064.6	18,145.8	21,327.0	27,093.3	29,607.1	22,533.3	23,660.0
Merchandise imports	17,322.1	19,403.9	22,814.2	29,423.7	33,487.4	23,292.0	24,922.4
Foreign direct investment, net	281.1	-67.0	-215.2	-273.4	518.8	-969.5	-200.0
Gross reserves, excluding gold (end-year)[4]	8,822.1	8,530.3	7,033.8	8,134.1	7,431.1	7,206.6	na
External debt stock	20,940.1	25,620.0	31,691.4	51,134.5	55,160.8	55,676.3	na
				(In months of imports of goods and services)			
Gross reserves, excluding gold (end-year)[5]	4.8	4.6	3.1	2.7	2.4	2.9	na
				(In per cent of exports of goods and services)			
Debt service	16.9	17.5	18.4	18.4	18.3	24.1	na
Memorandum items				*(Denominations as indicated)*			
Population (end-year, million)	2.0	2.0	2.0	2.0	2.0	2.0	na
GDP (in billions of euros)	27.1	28.7	31.1	34.6	37.1	34.9	35.5
GDP per capita (in US dollars)	16,833.6	18,151.3	19,400.1	23,505.3	27,005.4	24,028.7	na
Share of industry in GDP (in per cent)	24.7	24.0	23.8	23.4	22.4	na	na
Share of agriculture in GDP (in per cent)	2.3	2.4	2.1	2.2	2.1	na	na
Current account/GDP (in per cent)[6]	-2.7	-1.7	-2.5	-4.8	-6.2	-1	-1.2
External debt - reserves (in US$ million)	12,118.1	17,089.8	24,657.6	43,000.4	47,729.7	48,469.7	na
External debt/GDP (in per cent)[7]	56.7	71.3	77.5	100.6	105.7	115.0	na
External debt/exports of goods and services (in per cent)[8]	97.6	115.1	116.8	145.3	156.4	195.0	na

1 Agricultural value-added.
2 Data based on labour force surveys (Eurostat).
3 Data for enterprises employing three or more persons until 2004. From 2005 onwards, data for legal persons with 1 or 2 employees in the private sector also taken into account.
4 From 1 January 2007 foreign exchange reserves of the Bank of Slovenia include foreign cash in convertible currencies, deposits abroad, and first class securities of issuers from outside the EMU in foreign currency.
5 Ratio calculated in euros.
6 Ratio calculated in euros.
7 Ratio calculated in euros.
8 Ratio calculated in euros.

ANNEX 5 – 2009 ASSESEMENT OF TRANSITION CHALLENGES RATINGS

The table below provides an overall Assessment of Transition Challenges rating for 2009 and 2005. Scores range from negligible, small, medium and large. “Negligible” means that the remaining challenges are minor and that the sector is well advanced in moving towards a well-functioning market economy. “Large” means that the remaining challenges are major and that this dimension of the sector is at an early stage of reform. The overall rating in 2009 is based on individual ratings for market structure and market-supporting institutions and policies (see methodology annex circulated separately). The 2005 overall rating is based on individual ratings for market structure, market-supporting institutions and market behaviour. Due to changes in the methodology, made necessary by the evolving meaning of transition and the lessons of the financial crisis, comparison between the two overall scores should be made with caution.

Slovenia	**Market Structure**	**Market Institutions**	**Overall 2009**
Corporate			
Agribusiness	Small	Medium	Small
General Industry	Small	Small	Small
Property and Tourism	Small	Small	Small
Telecom	Small	Negligible	Small
Infrastructure			
MEI	Small	Small	Small
Natural Resources	Medium	Small	Small
Power	Medium	Small	Small
Sustainable Energy	Small	Small	Small
Transport	Medium	Medium	Medium
Financial Institutions			
Banking	Medium	Small	Small
Insurance and financial services	Medium	Small	Medium
MSMEs	Medium	Small	Medium
Private equity and capital markets	Medium	Small	Medium

Source: Assessment of Transition Challenges 2009 (CS/FO/09-11, 25 June 2009)

ANNEX 6 – STRUCTURAL CHANGE INDICATORS

Structural and institutional change indicators 1/

	Czech Republic 2/	Estonia	Hungary	Latvia	Lithuania	Poland	Slovak Republic	Slovenia
Enterprises								
Private sector share in GDP (in per cent)	80.0	80.0	80.0	70.0	75.0	75.0	80.0	70.0
Private sector share in employment (in per cent)	na	76.3	78.1	67.9	72.5	74.4	75.0	71.0
Budgetary subsidies and current transfers (in per cent of GDP) [3]	na	2.4	3.6	5.0	2.0	3.2	3.0	3.5
Share of industry in total employment (in per cent)	na	22.5	32.1	18.1	19.6	31.5	28.9	34.1
Change in labour productivity in industry (in per cent)	na	-6.8	2.5	-5.9	1.7	na	0.1	0.6
Investment/GDP (in per cent)	25.5	29.7	23.4	31.5	27.0	23.7	28.1	32.2
EBRD index of small-scale privatisation	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
EBRD index of large-scale privatisation	4.0	4.0	4.0	3.7	4.0	3.3	4.0	3.0
EBRD index of enterprise reform	3.3	3.7	3.7	3.0	3.0	3.7	3.7	3.0
Markets and trade								
Share of administered prices in CPI (in per cent)	12.2	21.6	16.2	11.5	12.6	1.0	24.7	13.1
Number of goods with administered prices in EBRD-15 basket	2.0	2.0	2.0	2.0	1.0	2.0	2.0	1.0
Share of trade with non-transition countries (in per cent)	73.0	64.1	70.0	47.8	46.0	74.3	58.8	68.4
Share of trade in GDP (in per cent)	132.4	118.6	138.1	74.5	112.9	72.5	143.2	116.1
Tariff revenues (in per cent of imports)	na	0.3	na	na	0.0	0.4	0.0	na
EBRD index of price liberalisation	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.0
EBRD index of forex and trade liberalisation	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
EBRD index of competition policy	3.0	3.7	3.3	3.0	3.3	3.3	3.3	2.7
Financial sector								
Number of banks (foreign-owned)	37 (30)	17 (15)	39 (25)	27 (16)	17 (5)	70 (60)	26 (16)	24 (11)
Asset share of state-owned banks (in per cent)	2.9	0.0	3.5	19.5	0.0	18.3	0.8	15.4
Asset share of foreign-owned banks (in per cent)	84.7	98.2	84.0	65.7	92.1	76.5	99.2	31.1
Non-performing loans (in per cent of total loans)	3.3	1.9	3.3	2.4	4.6	4.7	3.5	3.6
Domestic credit to private sector (in per cent of GDP)	51.0	91.9	67.8	89.6	63.1	55.0	44.7	85.6
Domestic credit to households (in per cent of GDP)	23.0	46.9	27.4	39.2	25.7	27.0	18.5	19.9
Of which mortgage lending (in per cent of GDP)	14.3	41.0	21.5	31.1	18.6	15.0	5.4	6.8
Stock market capitalisation (in per cent of GDP)	25.5	8.6	12.2	4.9	8.0	21.0	5.4	22.5
Stock trading volume (in per cent of market capitalisation)	70.4	25.4	93.0	1.8	59.9	45.7	0.4	6.9
Eurobond issuance (in per cent of GDP)	1.1	0.0	2.1	1.8	0.0	0.4	0.0	0.0
EBRD index of banking sector reform	4.0	4.0	4.0	3.7	3.7	3.7	3.7	3.3
EBRD index of reform of non-bank financial institutions	3.7	3.7	4.0	3.0	3.3	3.7	3.0	3.0
Infrastructure								
Fixed-line (mobile) penetration rate (per 100 inhabitants)	22.1 (133.5)	37.1 (188.2)	30.9 (122.1)	28.4 (97.7)	23.6 (151.2)	27.1 (108.5)	20.3 (102.2)	20.1 (102.0)
Internet users (per 100 inhabitants)	48.6	63.6	54.9	55.2	53.5	43.9	51.3	49.2
Railway labour productivity (1989=100)	105.1	208.2	178.3	123.0	93.4	97.9	69.1	169.6
Residential electricity tariffs (USc kWh) [4]	20.4	11.5	22.5	11.8	10.5	20.0	22.8	18.4
Average collection rate, electricity (in per cent)	100	99	100	100	99	na	na	99
EBRD index of infrastructure reform	3.3	3.3	3.7	3.0	3.0	3.3	3.0	3.0
Electric power	3.3	3.3	4.0	3.3	3.3	3.3	4.0	3.0
Railways	3.0	4.0	3.7	3.7	2.7	4.0	3.0	3.0
Roads	3.0	2.3	3.7	2.3	2.3	3.0	2.7	3.0
Telecommunications	4.3	4.0	4.0	3.3	3.7	4.0	3.7	3.3
Water and waste water	4.0	4.0	4.0	3.3	3.3	3.3	3.3	3.3

1/ The data is from 2008 while the transition indicators are from 2009, as published in the 2009 Transition Report.
2/ For the Czech Republic the last transition indicators date from 2007.

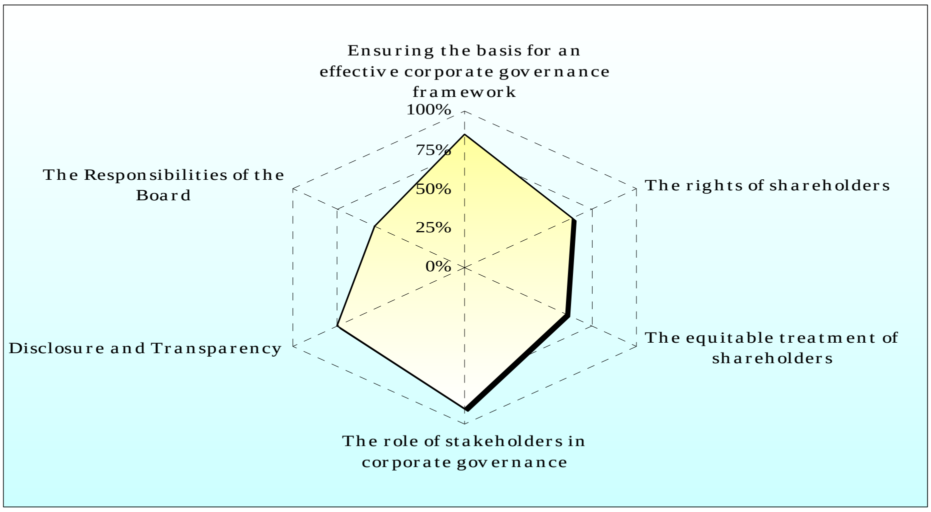
ANNEX 7 – ASSESSMENT OF SLOVENIA'S COMMERCIAL LAWS

Company Law and Corporate Governance

Corporate governance legislation in Slovenia is contained in the new Companies Act, which entered into force on 4 May 2006, with the aim of harmonising Slovenian legislation with the *acquis communautaire*. The new Act includes a chapter on the European company (*Societas Europaea*) and provides joint stock companies with the option to choose between the one-tier model (a board of directors appointed by the general shareholders meeting), and the two-tier model (the general shareholders meeting appoints the supervisory board which in turn appoints the management board). The new Act also introduced new 'squeeze-out' rules aimed at strengthening minority shareholders' protection.

In March 2004, the Managers' Association of Slovenia, the Association of Supervisory Boards' Members and the Ljubljana Stock Exchange issued a voluntary Corporate Governance Code, addressed to listed companies. This code was revised in December 2005, February 2007 and, most recently, in December 2009. The latest code, which entered into force on 1 January 2010, places more emphasis on the operations of the board, transparency, and remuneration of board members. Companies listed on the Ljubljana Stock Exchange are required to issue a "Corporate Governance Statement" detailing the provisions of the code that have been applied and providing an explanation in case of deviation.

Quality of corporate governance legislation – Slovenia (2007)



Note: The extremity of each axis represents an ideal score, i.e., corresponding to OECD Principles of Corporate Governance. The fuller the 'web', the more closely the corporate governance laws of the country approximate these principles

Source: EBRD Corporate Governance Sector Assessment, 2007 assessment

According to the results of a 2007 EBRD Corporate Governance Sector Assessment[5] (see chart above) in which the quality of corporate governance legislation in force in November 2007 was assessed, Slovenia was determined to be in "high compliance" with the OECD Principles of Corporate Governance. When considering the effectiveness of corporate governance legislation, a 2005 EBRD Legal Indicator Survey[6] revealed a relatively effective corporate governance framework in Slovenia. Minority shareholders have different legal actions available to obtain disclosure and redress, which are considered relatively simple and easy to enforce. The institutional environment is considered sound: company books are

[5] For more information see: http://www.ebrd.com/country/sector/law/corpgov/assess/index.htm
[6] For more information see: http://www.ebrd.com/country/sector/law/corpgov/lis/index.htm

considered reliable and statutory auditors fairly independent. Courts and the market regulator appear impartial, although there have been occasional questions as to their competence. Other areas of concern include experience of the prosecutor in corporate cases and the legal framework on related party transactions, both of which should be improved. Additional cause for concern is the possible two year time frame necessary for an executive judgement.

Concessions

Slovenian Public Private Partnership (PPP) policy, institutional and legal frameworks were recently modernised and are generally considered to compare favourably with those in other EBRD countries of operations. The Slovenian Public-Private Partnership Act (the "PPP Act") was enacted in 2007 and is seen as a fairly comprehensive piece of legislation, regulating both contractual and institutional PPPs. The PPP Act refers to contractual PPPs as relations based on either concessions or public procurement and applies to both works concessions, including e.g. BOT, as well as services concessions. However, due to its expressly subsidiary nature the Act needs to be consulted in combination with other sector laws and general laws (e.g. Public Procurement Act or Public Utilities Act) to ascertain exactly which rules should apply. Such approach may not necessarily prove the most attractive for investors.

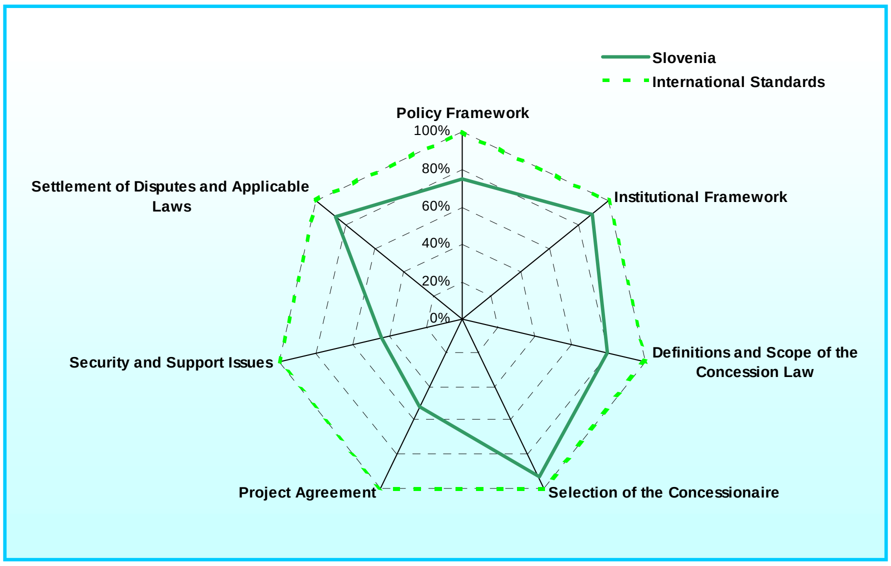
The PPP Act is applicable to commercially viable infrastructure assets and social infrastructure based public services with a degree of flexibility and different instruments being provided by that law. The most favourable aspects of the PPP Act are that it provides a PPP framework which did not previously exist, and that it forces the awarding authority to consider a compulsory feasibility study listing the advantages and disadvantages of a PPP for the deal in question before entering into any public procurement contract.

The core issues of concern with the Slovenian framework relate to the content of the concession agreement and termination provisions, as well as the security package available to the lenders, all of which remain very unclear.

According to the PPP Act, the Ministry of Finance plays a major role in PPP implementation. Specifically, it is required to formulate PPP regulations, form a special organisational unit within its structure to develop and monitor the implementation of PPPs, draw up manuals for operating PPPs and undertake other measures in order to improve PPP practices. The Minister of Finance is also required to head up the PPP Council established by the Government to formulate the PPP Policy.

Quality of concession legislation – Slovenia (2007/8)

An EBRD Concessions Law Assessment undertaken in 2007/8 to review the level of compliance of individual countries' laws with standards of international best practice revealed that the Slovenian laws are in 'high compliance', with the only real areas in need of further improvement being the rules enabling security taking and providing for state support.



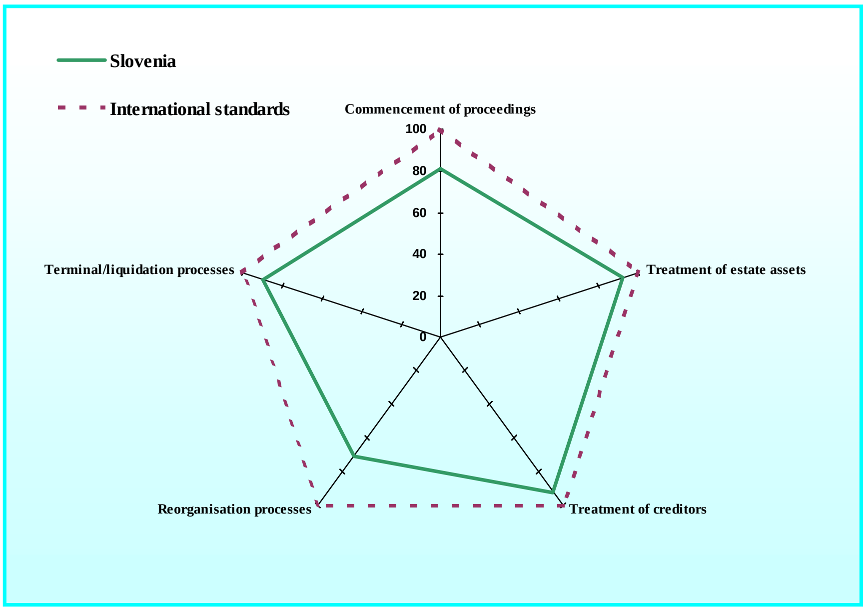
Note: the extremity of each axis represents an ideal score in line with international standards such as the UNCITRAL Legislative Guide for Privately Financed Infrastructure projects. The fuller the 'web', the more closely concessions laws of the country approximate these standards.

Source: EBRD Concessions Sector Assessment 2007/8

Insolvency

Bankruptcy and insolvency in Slovenia are governed by the "Financial Operations, Insolvency Proceedings, and Compulsory Dissolution Act" of 2007, as amended in 2009 (the "Insolvency Law"). The Insolvency Law contains most elements recognised in international insolvency standards and best practices as being critical to a well-functioning insolvency legal regime. The overall high quality of Slovenia's Insolvency Law reflects a major improvement over previous legislation in the country. EBRD assessments of Slovenia's previous insolvency legislation conducted in 2004 and 2006 rated the law as "Low" in comparison with international standards. As shown below, however, the EBRD's 2009 Insolvency Sector Assessment found that the new Insolvency Law now performs well in each of five core areas most relevant to the sector. Accordingly, the Insolvency Law was given an overall rating of 'High compliance' in the Assessment.

Quality of insolvency legislation – Slovenia (2009)



Note: The extremity of each axis represents an ideal score, i.e., corresponding to the international standards such as the World Bank's Principles and guidelines for Effective Insolvency and Creditor Rights Systems, the UNCITRAL Working Group on "Legislative Guidelines for Insolvency Law", and others. The fuller the 'web', the more closely insolvency laws of the country approximate these standards.

Source: EBRD Insolvency Sector Assessment 2009

As the above chart reflects, the Insolvency Law scored particularly well in the areas of treatment of creditors and treatment of estate assets.

In the area of estate assets, the greatest improvement comes from inclusion of comprehensive legislation for the avoidance of pre-bankruptcy transactions. In this regard, the Insolvency Law provides clear criteria for identifying avoidable transactions, provisions for avoidance of preferential transfers, and a workable mechanism to effectuate recovery from third parties. Other features in this area include a requirement that the debtor and third parties provide the insolvency administrator (sometimes known as a trustee) with all relevant information concerning the assets and financial affairs of the debtor, as well as a requirement that all estate assets be delivered up to the insolvency administrator.

In the area of treatment of creditors, the Insolvency Law provides for adequate participation by creditors in the insolvency proceedings and endeavours to keep all creditors informed as the case progresses. The procedure for submitting and determining allowable claims in the Insolvency Law is adequate, although this could be improved by allowing claims to be submitted at any time before the estate dividends are paid. Currently the law provides one-to-three month deadlines for claim submission. The Insolvency Law also contains clear priority of claims and provides for equal treatment of all creditors of the same class.

Although these two core areas performed exceptionally well, the Insolvency Law also achieved good scores in the other three core areas: commencement, termination of proceedings and reorganisation. Of these, however, reorganisation would benefit the most from additional improvement. In particular, the reorganisation provisions of the Insolvency Law should be improved to add provisions for ongoing finance, restrictions on the voting powers of connected creditors and to include provisions to amend or modify an approved reorganisation plan.

Judicial Sector

The court system in Slovenia is comprised of four levels: county courts, district courts, high courts and the Supreme Court. County and district courts are the courts of first instance for criminal and civil cases, including commercial cases. District courts have jurisdiction over cases of higher complexity or importance. High courts function as courts of general appeal. The Supreme Court is the highest judicial authority in the state and final court of appeal. There is also a system of specialised courts in Slovenia dealing with administrative, social and labour matters, but not for commercial matters. The Constitutional Court is a separate judicial authority that supervises the conformity of the laws and regulations with the provisions of the Constitution.

Judges are appointed by the National Assembly, based on the proposals of the Judicial Council, which is an autonomous administrative body for the judiciary. Appointments to the judiciary are for life, subject only to removal for disciplinary reasons.

Slovenian courts are generally regarded as being impartial and independent; however the speed of judicial proceedings remains a problem. Public concern about the speed of court system is reflected in the *EBRD – World Bank Business Environment and Enterprise Performance Survey 2008-2009 (BEEPS)*, where only 8 per cent of surveyed respondents expressed the view that the court system was fast. However, 73 per cent of respondents believed the courts posed no or only a minor obstacle to business.

Efforts have been made to increase the effectiveness of the court system in Slovenia. The Government launched a programme in 2006 aimed at improving the speed of justice and avoiding backlogs. The programme is expected to diminish the average processing time of a case from 18 months to 6 months. The Ministry of Justice is seeking now to improve the working environment in courts by funding additional staff, increasing the remuneration of judges and administrative staff, and improving IT tools used in the judicial sector.

Public Procurement

Public procurement in Slovenia is regulated by a combination of the Public Procurement Act, which covers government procurement, adopted in 2006, amended in 2008 and 2010; Public Procurement in Water Management, Energy, Transport and Postal Services Area Act, which covers utilities procurement, also adopted in 2006 and amended in 2008 and 2010; and, the Auditing of Public Procurement Act, which provides for monitoring of public procurement, adopted in 1999 and amended every year since.

The Slovenian public procurement legal framework (the PP framework) is modelled on EU Public Procurement Directives and applies to any contract awarded on behalf of government and local authorities. Utilities contracting entities are within the scope of European Directive 2004/17/EC.

The PP framework includes six different procurement procedures: open procedure; restricted procedure; negotiated procedure with or without prior publication of a contract notice; competitive dialogue and direct agreement. Since 2007, Slovenian laws also govern framework agreements and dynamic purchase systems, however these are very seldom utilised in practice. Open and restricted tendering are default procurement methods. The award criteria are both lowest price and economically most advantageous tender.

The public procurement eligibility rules and qualification criteria are in line with European Union (EU) Public Procurement Directives. Tender documents are available free of charge, but publication on the Internet is not mandatory. Tenders are normally submitted in Slovenian language only. The PP framework does not describe planning or contract management of the public contract.

The most recent amendments to the framework were significant, attempting to introduce a more modern and flexible approach to the public procurement process in terms of communication and the conduct of qualification and evaluation of tenders. Unfortunately, however, there remains the requirement for tenderers to provide an extensive list of qualification documents which is widely seen as an expensive and time-consuming exercise. Thus, the public procurement procedures continue to be viewed as complex and somewhat inflexible, with a continuing language restriction and, technical specification and awarding criteria set according to the domestic market.

In summary, Slovenian PP framework mechanisms can be seen as sufficiently accountable and transparent, though the operational efficiency of the process could be improvement.

Secured Transactions

The Slovenian secured transactions legal framework displays many of the features of modern market systems, but still contains important limitations, which may prevent sophisticated commercial transactions to be properly secured, especially if the collateral is not real estate.

In 2002, a new Law on Property Act was adopted changing considerably the way secured transactions can be structured in Slovenia. The new provisions allow for the creation and enforcement of possessory and non-possessory pledges on movables. The pledge gives the creditor the right to have its secured debt satisfied from the realisation of the pledged assets in priority over other creditors on the proceeds from such assets. The Law on Property also governs mortgages, which need to be registered with the relevant land registry.

The non-possessory pledge allows the pledgor to remain in possession of the pledged assets (though he cannot freely dispose of them). The pledge must be entered into by execution of a notarial deed whereby the debtor gives its consent to direct enforceability. The aim is to make the enforcement more effective as it is possible to go directly to the execution procedure and dispense with the litigation procedure, which has proved in the past to be a serious issue. The exact amount of the debt (principal and the interest rate) and maturity must be specified in the notarial deed. The pledge agreement may provide that in case of default the pledged assets would be sold in an out-of-court public auction. The out-of-court auction can be carried out by the creditor upon the prior written notice to the debtor at least 8 days before the auction.

Although the new system has brought some improvements, the following limitations remain:

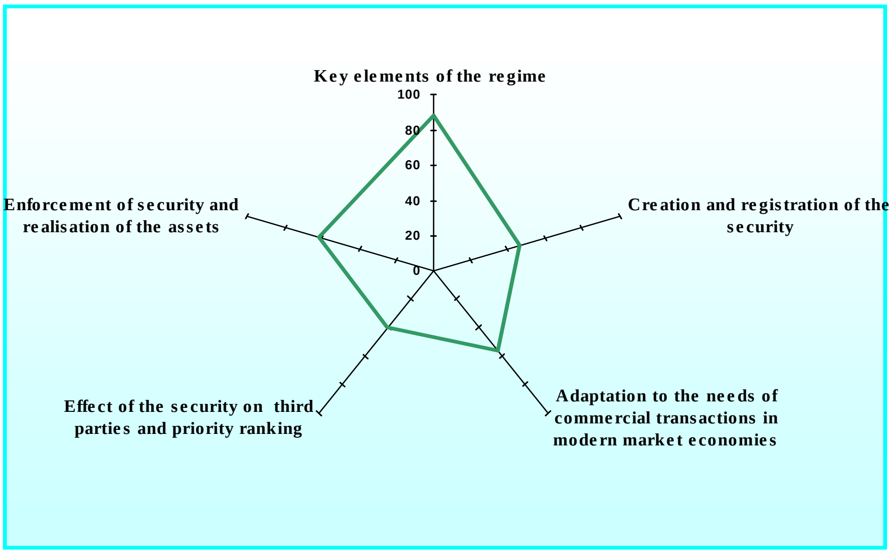
- The security agreement must be prepared in the form of a notarial deed exclusively, which adds to the costs of the transaction - a problem for SMEs and micro-enterprises.
- When inventory is charged, the inventory must be listed according to its location (which may create unnecessary problems if stocks have to be moved around) and the chargor must ensure its renewal (which may not be always possible or desirable).
- A charge over claims (account receivables, for instance) is only deemed created at the time of notification to the sub-debtor – which make general assignments of pools of debts virtually impossible.
- Enforcement has been substantially improved especially as far as it provides for out-of-court enforcement. In the past, should the debtor refuse to hand over the assets, the creditor had no alternative but to file an enforcement petition at the local court where the assets were located,

which had the consequence of significantly delaying the procedure.

Regarding mortgages, a valid mortgage requires a mortgage agreement, with signatures certified by a notary public and registration in the Land Register. If the mortgage agreement is executed as a directly enforceable notarial deed, its execution will be eased up since the debtor is deemed thereby deemed to agree with a sale of the property in case of default and vacation of the premises within in month following the sale. A mortgage can secure any type of debt as far as it is determinable in monetary terms and maximum amount to be secured can be identified.

The Land Register is kept by the district courts under supervision of the Ministry of Justice. The registry database is currently undergoing digitalisation and, thus, is not yet fully centralised and computerised. It is reported that it takes on average one month to register a mortgage. In case of the mortgagor default mortgage can be enforced only through court by a public auction. Enforcement is reported to be lengthy between 12 and 18 months). The transfer of a mortgage must be registered in the Land Register to take effect, but consent or notification of borrower is not necessary for a transfer to be valid.

Legal and Practical Regime for Taking Security over Movable and Intangible Property in Slovenia (2003)



Note: Scoring on a scale from 1 to 100, where 100 represents the most advanced legal and practical regime

Source: EBRD Regional Survey of Secured Transactions, 2003

Securities Markets

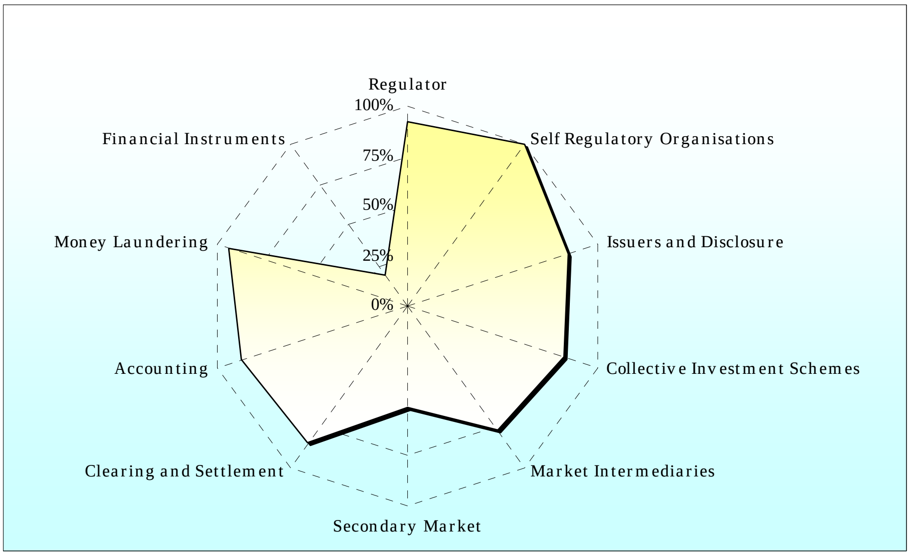
The basic legislation on the securities markets in Slovenia is contained in the Market in Financial Instruments Act, 2007. This Act transposed the "Market in Financial Instruments Directive (so-called 'MiFID') and the Transparency Directive, and regulates the securities market, market intermediaries, the organised market, clearing and settlement, public offering and reporting of public companies.

The securities market regulator is the Securities Market Agency (*Agencija za trg vrednsotnih papirjev*) which is competent for the securities markets. The regulator of the banking market is the Bank of Slovenia and for the insurance market, the Insurance Supervision Agency.

There is only one stock exchange, the Ljubljana Stock Exchange (LJSE), together with an OTC market organised by the LJSE. The LJSE capitalisation at the end of 2009 was about EUR 8.462 billion, with 78 listed companies.[7]

[7] Data from the Ljubljana Stock Exchange website (http://www.ljse.si) last accessed on March 16, 2010.

Quality of securities market legislation – Slovenia (2007)



Note: The extremity of each axis represents an ideal score, i.e., corresponding to the standards set forth in IOSCO's *Objectives and Principles for Securities Regulations*. The fuller the 'web', the closer the relevant securities market legislation of the country approximates these principles.

Source: EBRD Securities Market Legislation Assessment 2007

In 2007, the EBRD benchmarked the securities markets legislation of Slovenia against the "Objectives and Principles of Securities Regulation" published by IOSCO. The assessment showed that national securities markets legislation is in "high compliance" with those standards but highlighted the lack of comprehensive regulation on bonds and derivatives.[8] In order to understand how securities markets legislation works in practice, in the same year the EBRD undertook a Legal Indicator Survey asking practitioners in the region to comment on a hypothetical case study.[9] The Survey concentrated on effectiveness of prospectus disclosure requirements, private and public enforcement mechanisms and authority of the market regulator. The Survey revealed that information included in prospectuses are generally reliable and the Securities Market Agency is capable of providing good market supervision. While courts are considered experienced and able to handle complex cases, the capacity of the prosecutor in investigating corporate cases should be improved.

Telecommunications

The telecommunications sector in Slovenia is currently regulated by the Agencija za telekomunikacije, radiodifuzijo in posto Republike Slovenije (APEK) and governed by the Law on Electronic Communications of 2004 (the "2004 Law"). Policymaking is the responsibility of the Ministry of Economy. APEK was established as an independent institution in 2002 and its status and capacity was enhanced by the 2004 law. The 2004 Law harmonised Slovenia's legal framework for telecommunications with European Union (EU) requirements for the sector at the time.

While the market in Slovenia was formally liberalised in January 2001, it has taken sometime for meaningful competition in the fixed sector, particularly in data transmission, to take hold. Telekom Slovenia (TS), the majority state-owned incumbent, maintains a dominant share of the fixed market though this has been declining in recent times, albeit at a slow rate. TS's market share stood at just over 80 per cent in mid 2009, having fallen from 91 per cent at the beginning of 2008. Inroads in the fixed sector are mostly being made by the VoIP operators. Notably, broadband penetration and retail pricing compare favourably with elsewhere in the EU. Despite several efforts to privatise TS, most recently in 2008/9, the company remains majority state-owned. While there has been partial

[8] For more information see: http://www.ebrd.com/country/sector/law/capital/assess/index.htm
[9] For more information see: http://www.ebrd.com/country/sector/law/capital/survey/index.htm

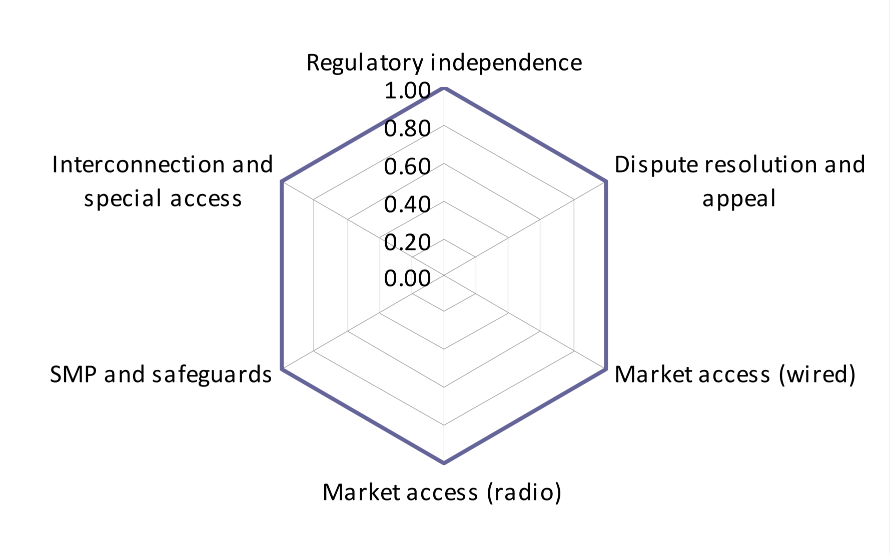
privatisation, with a minority stake of TS being held by a number of predominantly domestic investors, progress in implementing further privatisation has been slow and current market conditions are unlikely to favour progress in the near future.

The mobile market in Slovenia can be characterised as more or less saturated with teledensity having broken the 100 per cent mark. There are four mobile network operators and two mobile virtual operators (MVNOs). Mobitel, the mobile arm of TS, is the market leader with about 60 per cent. Si.Mobil, a subsidiary of Telekom Austria's Mobilkom, is the main competitor with its market share of about 25 per cent. The remainder is split between T-2 and Tus Telekom (Tusmobil)—of which the former is the country's largest alternative operator and the latter a subsidiary of retailer Tus—as well as two MVNOs, Debitel and Izimobil.

Although Slovenia was one of the first Eastern European telecommunications markets to formally liberalise, competition in the fixed sector has been slow in taking hold, though it is gathering pace as the various competition safeguards take full effect and are enforced by APEK. While the legislative base is consistent with the EU communications framework, adjustments will need to be made to accommodate the revision of the framework at the EU.

Quality of telecommunications regulatory frameworks – Slovenia (2008)

In a 2008 assessment of the communications sector of EBRD Countries of Operation the regulatory regime in Slovenia was deemed to have "Full Compliance" when measured against international best practice[10]*.*



Note*: The diagram shows the combined quality of institutional framework, market access and operational environment when benchmarked against international standards issued by the WTO and the European Union. The extremity of each axis represents an ideal score of 100 per cent, that is, full compliance with international standards. The fuller the "web", the closer the overall telecommunications regulatory framework of the country approximates these standards.*

Source: EBRD Telecommunications Regulatory Assessment, 2008

[10] For further detail see http://www.ebrd.com/country/sector/law/telecoms/assess/index.htm