DOCUMENT OF THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

STRATEGY FOR SLOVENIA

REPORT ON THE INVITATION TO THE PUBLIC TO COMMENT

1. INTRODUCTION

The objective of this report is to summarise key comments received from stakeholders during the consultation period on the Bank's Strategy for Slovenia and provide the Bank's management responses. The comments received during the public consultation period were reviewed by the Bank's management and reflected in the Strategy as appropriate.

In accordance with the EBRD Public Information Policy (PIP), the draft Strategy for Slovenia was posted on the EBRD website in English and Slovenian for 45 calendar days starting from 5 December 2018. The public was invited to submit comments on the draft Strategy no later than 19 January 2019.

Information about the public consultation process was posted on the EBRD's dedicated webpage "Have your say", which highlights the latest opportunities for the public to comment on the Bank's policies and strategies under review. The Communications Department also advertised the public consultation on social media. In addition, targeted notifications of the consultation process were sent to local and international civil society organisations (CSOs) that have expressed interest in the Bank's work in the country.

Two sets of written comments on the draft Strategy for Slovenia were received during the public consultation period.

In line with the Bank's increased efforts to involve civil society at an early stage of country strategy development, the EBRD organised a consultative meeting with civil society organisations on 14 November 2018 to gather civil society's feedback during the preparatory phase for developing the draft Strategy. The consultation was carried out in the format of a small expert group who exchanged views with the EBRD Head of the Resident Office about the current socio-economic, environmental and political developments in Slovenia.

2. PUBLIC COMMENTS AND STAFF RESPONSES

Comment	**EBRD Response**
Key messages from Civil Society to EBRD ***Priority 1: Boost Competitiveness and Good Governance by championing privatisations, while deploying cutting-edge instruments to support private companies***	
There is a perception that privatisation cannot guarantee good corporate governance. Therefore the Bank is discouraged from supporting further privatisation in the country.	The support to privatisation is embedded in the Bank's mandate to promote transition towards market economies, which also includes the support to privatisation of state owned enterprises. The Bank focuses on ensuring a transparent and competitive privatisation process, allowing that the best professional and financial offer wins. In general, before the privatisation, the Bank ensures an appropriate corporate structure, including a corporate governance framework following OECD principles, is in place. In addition, the Bank is engaging in policy dialogue and providing technical assistance to set up the enabling regulatory environment for competitive neutrality and appropriate price regulation (especially for monopolies) where needed to ensure efficient operation and value-for-money for the customers of privatised companies.
Slovenia has relatively good resilience to financial crises, which are often associated to access to cutting-edge instruments and access to riskier capital. Therefore the Bank is discouraged from promoting access to such instruments and riskier capital.	Financial crises can be related to either cutting-edge or unsophisticated instruments. E.g. the 2007-2010 subprime mortgage crisis was mostly caused by relaxed mortgage lending criteria (related to a very basic activity of banks) as well as packaging these mortgages into sophisticated instruments. The Slovenian recent sovereign and financial crisis however was linked to a traditional lending boom where banks were financing investments expecting that fast economic growth continues. Cheap bank credit prior to 2008 led to over-investment and an unsustainable corporate debt build-up in Slovenia. As a consequence of the external

demand shock and sudden stop of capital inflows, coupled with the end of the domestic investment cycle, the economy experienced a severe recession in 2009. Although some recovery ensued in the following two years, highly indebted corporates were unable to service their debts, putting the (mostly state-owned) banking system under systemic stress. The crisis ultimately spilled over to the sovereign, leading to a new recession in 2012–2013. The state stepped in by recapitalizing Slovenia's three largest banks (at a cost of around 11 per cent of GDP) which, together with large NPL transfers to an independent bank asset management company (DUTB), restored confidence in the financial system.

In the last four years, the economy has been recovering. The recovery has been supported by bank recapitalisation, multi-creditor agreements to restructure corporate debt, steps to improve the governance of state-owned enterprises, sale of recapitalized banks and other reforms (fiscal consolidation, pension reform, labour market reform, etc.) Exports have also performed well. Over 2007-2016, the volume of goods grew at an average annual pace of 2.5 per cent (vs. GDP growth of only 0.1 per cent on average), offsetting the drop in domestic demand and also helping to shift the current account from a deficit of 4 per cent to a surplus of almost 7 per cent of GDP.

Despite the return to growth, the legacies of the crisis are still present and, among others, resilience of the financial system still has room for improvement. Namely, the Slovenian financial system is dominated by banks, accounting for about 70 per cent of financial sector assets, while the rest is roughly equally divided between insurance companies on the one hand, and a group consisting of pension and investment funds and leasing companies on the other. The capital market may be considered underdeveloped given the country's level of development.

Capital markets, in addition to bank lending, are essential for the provision of equity and debt capital market products needed by companies. Equity financing can also contribute to corporate governance improvements as investors in public equity require transparency and proper institutional control over management.

Similarly, sophisticated infrastructure financing structures can adversely affect the resilience. Financing of infrastructure, especially through PPPs, can end up exposing public finances to excessive fiscal risks. It is suggested to amend the wording of the draft country strategy to reflect these.	The value of a PPP project for the public depends on its careful structuring; making each side responsible for those risks that it can control best. In case of EBRD's involvement in a PPP, the prospective project undergoes a careful due diligence to ensure that adequate transparency and accountability is in place. Also, proper structuring of the transaction ensures that governments will not use PPPs to take on excessive commitments but will rather purchase services from the private sector in a controlled manner. In order to reflect such commitment, Priority 1 Objective 3 has been amended as follows: "*Support private companies for growth, innovation and* ***transparency*** *across sectors, including manufacturing, agribusiness, property and tourism, through both equity (directly and through regional funds) and cutting-edge debt instruments*".
Key messages from Civil Society to EBRD ***Priority 2: Support Green Economy Transition by promoting new green technologies***	
While welcoming the priority, environmental organisations encourage the adoption of an exclusion list to ensure that technologies, which are not green or energy and resource efficient are not financed by the Bank in Slovenia. The exclusion list should include: gas, coal, oil, nuclear energy, fracking, mining, large hydro power plants (>10 MW), incinerators/waste-to-energy, roads and highways, airports and all sorts of infrastructure related or linked to use of the listed technologies.	Projects or project components that qualify for Green Economy Transition must result in measurable environmental benefits that are consistent with the overarching objectives of GET. Projects must be structured to meet environmental and social performance standards as outlined in the Bank's Environmental and Social Policy (ESP) and Performance Requirements (PRs). The ESP and PRs include the requirement to structure projects to meet EU environmental standards, including EU Best Available Techniques (BAT) as defined in the EU Industrial Emissions Directive (IED). The applicable environmental performance criteria and standards are described in detail in the Best Available Techniques Reference documents (BREFs) for specific industrial sectors. Information about the BREF process that leads to the adoption of BAT conclusions and the implementation of the IED can be found on the website of the European Integrated Pollution Prevention and Control (EIPPC) Bureau. Determination of the appropriate environmental standards that can be achieved using the best available methods of pollution prevention and

	control, technologies and practices (“techniques”) to be applied to the project will also take into consideration the characteristics of the facilities and operations that are part of the project. In addition, it will consider the project’s geographical location and local environmental conditions. The techniques applied to the project will favour the prevention or avoidance of impacts over minimisation and reduction. It should be taken into consideration that EU environmental requirements include specific time periods for transposition and implementation, which are often different for new and existing installations. Additional country specific transition periods and derogations have been agreed as part of the EU Accession process and these time periods must be applied to projects. It is also important to note that when the environmental regulations or standards of the host country are more stringent than the EU BAT, the projects will be expected to meet the more stringent standards. For projects in sectors for which no EU BAT or other environmental standards have been defined, other relevant internationally recognised standards of environmental performance will be identified and used as the reference for good international industry practice. These standards include, among others, the environmental guidelines and standards of the World Bank Group and the World Business Council for Sustainable Development. The EBRD Environmental and Social Exclusion list (direct link https://www.ebrd.com/downloads/about/sustainability/Environmental_and_Social_Exclusion_and_Referral_Lists_15092008.pdf) applies to all EBRD countries of operations. The recently approved EBRD Energy Sector Strategy rules out the possibility to finance coal investments. Other sectoral strategies, including the Mining Strategy, the Transport Strategy define the parameters of the EBRD investments in these sectors.
Slovenia voluntarily did not allocate any EU funds for waste management infrastructure in the current multi-annual framework. It is suggested that the EBRD follows the objectives of the EU’s circular economy package and the waste management objectives of the EU.	The EBRD may consider investments in waste management In line with the Best Available Techniques and applicable EU regulations, circulars or other best practices.

It is suggested to add the following objective under priority 2: <u>Objective (Outcome):</u> Established system for public energy contracting for renovation of public buildings <u>Activities (Outputs):</u> • Facilitate development of financial products for public energy contracting for renovation of public buildings • Support preparation of technical documentation for renovation of public buildings <u>Tracking indicators:</u> • Amount of renovated buildings (in m2) • Total energy saved (in GJ/y)	The suggestion is covered by the Green Economy Transition approach of the Bank, in particular for Slovenia if requested by relevant authorities the EBRD will help design and implement intermediated financial solutions for green economy projects (including rehabilitation of housing stock), where possible leveraging ESIF for investments and advisory services. In terms of tracking indicators, the EBRD uses a Standardized list, which had been internally developed by the Results Management team, with the objective to ensure comparable baselines across countries and offer the possibility of aggregated reporting.

ANNEX 1

List of CSOs participating to the consultation process

- UMAR- Institute of Macroeconomic Analysis and Development
- FOCUS SI- Association for Sustainable Development Slovenia
- CNVOS- Center for Information Service, Co-operation and Development of NGOs
- Greenpeace
- Umanotera- Slovenian Foundation for Sustainable Development
- CEED Consulting- Centre for Entrepreneurship and Executive Development
- Transparency Slovenia