Strategy update for Slovenia - a summary

Overview of the EBRD’s role

As Slovenia is at an advanced stage of transition, the EBRD is concentrating its interventions on more innovative projects and products and on developing prototypes of operations which can then be adopted in other central and eastern European countries.

The Bank will concentrate its financial and technical assistance on the following areas:

- post-privatisation restructuring of local industrial companies;
- recapitalisation and privatisation of selected state-owned banks and development of the local capital market;
- institutional support to trade, in particular with other central and eastern European countries;
- modernisation of infrastructure, whenever possible with private investors’ involvement, particularly in the telecommunications, energy and transport sectors;
- improvement of the environmental infrastructure, to reach European Union (EU) standards.

In all of these areas, the EBRD is careful to coordinate its activities with EU-Phare and the European Investment Bank.

Current activities

The Board has approved 14 operations in Slovenia for a total of ECU 296 million: ten in the private sector (ECU 124.4 million) and four in the public sector (ECU 171.6 million). All 14 operations have been signed. Disbursements are proceeding on schedule for both the private and public sectors and stand at about ECU 121 million.

The EBRD has also commissioned 15 technical cooperation (TC) projects, totalling ECU 8 million. The focus of ongoing TC projects is on project preparation and implementation (hydro-power sector), on institutional development of Nova Ljubljanska Banka, on the business strategy of the Export Credit Agency, and on a new law on foreign transactions.

Strategy

The EBRD will continue to focus its efforts on the post-privatisation and restructuring needs of the fast-growing private sector and on the privatisation of the remaining large state-owned companies and public utilities. The EBRD’s strategy for Slovenia foresees a number of tailored interventions to support the private sector in the following main areas:

Non-financial private sector: The EBRD will seek to provide direct support to locally managed and privatised industrial companies through a broad range of innovative products, with special emphasis on equity and quasi-equity investments, and on syndicated transactions. The particularly favourable investment conditions in Slovenia allow and encourage the EBRD to select projects at the higher end of the Bank’s project risk scale. The EBRD seeks co-financing for specific projects through local as well as foreign financial institutions.

Financial sector: The EBRD has been pursuing two main goals in this sector. The first is to use a number of financial intermediaries to address the specific needs of the rapidly growing small and medium-sized enterprises (SMEs). To this end, the Bank has: (i) extended a credit line for on-lending to small and medium-sized private sector companies; (ii) established two investment funds, while also seeking local institutional participation in these funds. The second goal is to make a decisive and rapid contribution to the recapitalisation of selected state-owned banks through a set of initiatives including technical cooperation and new funding instruments.

Critical infrastructure: The EBRD intends to continue to support infrastructure development provided portfolio ratio targets are met. It will concentrate its interventions on innovative financing structures (such as private funding, co-financing with export credit agencies and foreign commercial banks) and on projects having a regional impact, sponsorship by municipalities or aimed at improving the environment.
Development of the non-financial private sector

The EBRD will seek to accelerate the build-up of a loan and equity portfolio in the export-driven industry and service sectors. It intends to further provide Slovene companies (with and without foreign partners) with a broad range of financial products to support restructuring, post-privatisation development and trade enhancement. These products will include combinations of long-term corporate balance-sheet financing, equity and quasi-equity instruments as well as the Special Restructuring Programme, management support and technical assistance towards the strengthening of local management teams (via the TurnAround Management programme).

The EBRD will develop innovative financial products and structures, such as equity-linked instruments (subordinated loans, straight capital increases, convertibles, etc.), local currency denominated medium-term funding and usage of the Bank’s guarantees. The widely acknowledged low country risk should allow and encourage the EBRD to continue supporting projects at the higher end of the Bank’s project risk spectrum.

The EBRD will continue the implementation of the Special Restructuring Programme, which is designed to support the stabilisation, restructuring and full privatisation of a number of medium-sized enterprises through equity financing, technical assistance and management support.

Financial sector

The financial sector is at an advanced stage of transition. In the light of the rapidly changing market conditions, the EBRD will seek to deepen its involvement in the sector by considering projects and products with increasing degrees of sophistication and value added. At the same time, the Bank will enhance its catalytic role by inviting foreign commercial banks to participate in more sophisticated financing instruments.

A number of initiatives are being undertaken or are under consideration. The EBRD will:

- attempt to participate in the privatisation process of Nova Ljubljanska Banka and of Nova Kreditna Banka Maribor provided that the Bank Rehabilitation Agency and the Ministry of Finance are amenable to it;
- study the use of innovative instruments (e.g. subordinated facilities) for other prominent local commercial banks, such as Nova Kreditna Banka Maribor;
- look at ways to facilitate Slovene exports through other local commercial banks and the Slovene export credit agency (Slovene Export Corporation);
- consider contributing to the establishment of an insurance company in Slovenia.

Institutional initiatives

The EBRD is playing a unique advisory role in government policy through several initiatives with high visibility:

- The Bank has contracted consultants to devise the business strategy of the Slovene export credit agency.
- The EBRD will assist the Ministry of Finance in the drafting of the new Foreign Financial Transactions Law, which will replace four current laws.
- The Bank is considering providing input to the Ministry of Economic Affairs and the Ministry of Finance on the new industrial policy, focusing on local industry integration and on competitive sectors. The EBRD is to look at incentive policies for both local and foreign direct investment.
- The EBRD is to analyse the design and issue of a long-term local currency financial instrument together with the Ministry of Finance and the Central Bank (Bank of Slovenia).
- The Bank may contribute to the design and implementation of reforms to the public pension system, particularly by introducing a framework for the establishment of such schemes. If the space for private pension provision widens sufficiently, investments in the sector could become a possibility either directly or indirectly through EBRD-supported funds or programmes.

Through these initiatives, the EBRD will seek to maintain its leading development role and additionality in Slovenia, capitalising on the country’s rapid transition to integration with Western Europe.

Critical infrastructure

Energy

The EBRD’s strategy concentrates on energy efficiency and commercialisation. The Bank will provide financing for priority investment projects, supporting the government’s effort to foster energy efficiency and to advance the privatisation of this sector. Developments since October 1994 include the following:
- **Gas distribution:** In early 1995 the EBRD signed a loan agreement for the Slovenski Plinovodi Gas distribution project aimed at providing natural gas to six municipalities.

- **Privatisation of hydro-power generating companies:** The EBRD is providing technical cooperation to the Ministry of Economic Affairs to help prepare for the privatisation of hydro-power generating companies, with a view to participating in the resulting privatisation.

- **Development of a pilot co-generation project with private investment:** The EBRD is providing technical cooperation to the District Heating Company and the city of Maribor with a view to establishing a competitive environment and to developing a mechanism to attract private investment. The Bank would participate in the financing for this small co-generation project on a limited recourse basis (without a sovereign guarantee).

- **Energy conservation programme:** The EBRD is prepared to support the government’s programme and to work closely with EU-Phare in identifying the demand for energy conservation. Resources could be lent through an appropriate financial intermediary to the private sector for energy conservation investment.

**Transport**

The EBRD will continue to support regional integration and the removal of critical bottlenecks. It will concentrate on the following projects, provided the Bank’s portfolio targets can still be maintained:

- **East-West highway project:** Technical cooperation has been designed to assist DARS d.d. in financial planning and procurement, as well as to support overall institutional development. A possible second Bank operation with DARS would be on a limited-recourse basis for 1997.

- **Railways:** The EBRD is considering further assistance to Slovenia Railways (SZ) to support institutional change, with the main aim of helping SZ to become a commercially oriented and eventually profit-making railway enterprise. A second railway project (a link with Hungary) may be appraised in 1997.

- **Port of Koper:** At the Port of Koper there may be scope for further development of specialised facilities with private sector sponsors.

**Municipal and environmental infrastructure**

The sectoral strategy is to support investments that will help Slovenia meet the European Union environmental accession requirements. It will also support the efforts of selected municipalities in building up their creditworthiness as borrowers in their own right and in involving private sector capital and operators in the financing and provision of municipal and environmental services.

- **Preparation of limited recourse projects:** The EBRD is helping the municipality of Maribor in the development and tender of a concession for the design, construction, financing and operation of a waste-water collection and treatment plant.

- **Support for the establishment of the Environmental Protection Development Fund.** The EBRD is considering lending to the Fund on a limited recourse basis subject to the fulfilment of the conditions pertaining to the Fund’s capitalisation, credit appraisal and management capacity, and onlending programme. The EU-Phare Programme has agreed to provide a substantial investment grant to help establish the Fund. A number of issues are currently being looked into, including the level of government counterpart funding, the strengthening of the Fund’s creditworthiness and the existence of a pipeline of identified, appraised and approved projects. Subject to satisfactory resolution of these issues, further technical cooperation support could be provided and an EBRD loan could be signed to capitalise the Fund in 1997.

**Cooperation with other international financial institutions**

**European Investment Bank**

Within the framework of the financial protocol between the European Community (EC) and the Republic of Slovenia, the European Investment Bank (EIB) has committed ECU 150 million in support of the Slovene transport modernisation programme. Loans financing road and railway infrastructure along specified international corridors will be eligible for an interest subsidy from the EC’s budgetary resources. Loans totalling ECU 47 million for a first railways project were signed in December 1993. This project has been partly co-financed with the EBRD.

*This document is based on the EBRD’s Strategy Update for Slovenia, approved by the Board of Directors on 28 March 1996, which is for official use only.*