DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT

STRATEGY FOR SLOVENIA

As approved by the Board of Directors on 5 October 2004

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EXECUTIVE SUMMARY

The Republic of Slovenia is committed to and applying the principles of multiparty democracy, pluralism and market economics and therefore continues to meet the conditions specified in Article 1 of the Agreement Establishing the Bank. Over the past decade it has achieved substantial and continuous progress in its transition to a market economy. Nevertheless, important challenges lie ahead, in particular for the Slovene economy to pursue its integration in the enlarged European Union and play an active role at the regional level.

The objectives set out by the Slovene authorities in their long-term strategy aim for Slovenia to achieve a greater level of competitiveness and internationalisation. Identified challenges include promoting the growth/development of domestic companies in Slovenia and abroad, attracting further foreign investment, enhancing the business environment, and fostering the development of high value added activities, with a special attention to small and medium-sized enterprises (SME), service activities, and reducing regional disparities.

Slovenia can access a wide range of sources of financing, including international financial markets thanks to its economic success and stability. However, higher risk financial instruments, like long term structured finance, equity and quasi-equity or private-public partnerships offer yet unexploited alternatives to support the private corporate sector, especially SMEs.

In this context, some of the challenges facing Slovenia include more specifically the need to:

- accompany the development of the private corporate sector domestically and internationally, through the development of adapted financial instruments, like equity and structured finance;
- improve access to long term finance by SMEs so as to promote the creation of new jobs, support the diversification of the economy, and help reduce regional disparities; and complete the consolidation and privatisation process initiated in the banking, insurance, industrial and utility sectors, in order for potential efficiency gains to further materialise in an increasingly competitive environment.

The Bank has played a significant role in the transition process in Slovenia with 34 operations for a direct Bank financing of EUR 522 million, as well as an additional mobilisation of EUR 1.2 billion from co-financers and sponsors. While Slovenia can in the future address part of the above challenges through various market sources, the EBRD, within its operating principles, can complement the market by focusing selectively on the identified challenges through appropriate financial products.

The Bank's main objective during the strategy period will be to support the local corporate sector through equity and structured finance, including financing of cross-border investments.

Specifically the Bank will focus on the following selective priorities:

- **Enterprise Sector**
  The Bank will support the re-structuring and expansion of local enterprises and will share risk with medium sized foreign companies investing in Slovenia. Special attention

will be devoted to the fast growing and regionally expanding tourism industry. The Bank will also stand ready to support viable privatisation structures of the remaining state enterprises.

- **Financial Sector**
  The Bank will continue to work closely with local financial institutions to improve local corporate sector's access to structured long term finance and equity with a particular focus on SMEs. The Bank will work on equity and risk sharing products to support 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 intensify the implementation of the Global Environmental Facility "GEF"[1] project, will strive to facilitate private sector involvement in infrastructure development, and, in close concert with the EU, the Bank will channel finance to small municipalities through local financial institutions.

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

LIST OF ABBREVIATIONS

BAS	Business Advisory Services
BOT	Built Own Transfer
CE	Central Europe
DARS	Slovene Motorway Company
EC	European Commission
EIB	European Investment Bank
EU	European Union
EUR	Euro
FDI	Foreign Direct Investment
GEF	Global Environment Facility
GDP	Gross Domestic Product
IFC	International Financial Corporation
ILO	International Labour Organisation
IMF	International Monetary Fund
IPPC	Integrated Pollution and Prevention Control
NATO	North Atlantic Treaty Organisation
NGO	Non-governmental Organisation
NKBM	Nova Kreditna Banka Maribor
NLB	Nova Ljubljanska Banka
NPEP	National Program for Environmental Protection
PPP	Private Public Partnership
SIT	Slovene Tolar (national currency)
SME	Small and Medium Size Enterprises
TIPO	Slovene Export Promotion Agency
WB	World Bank

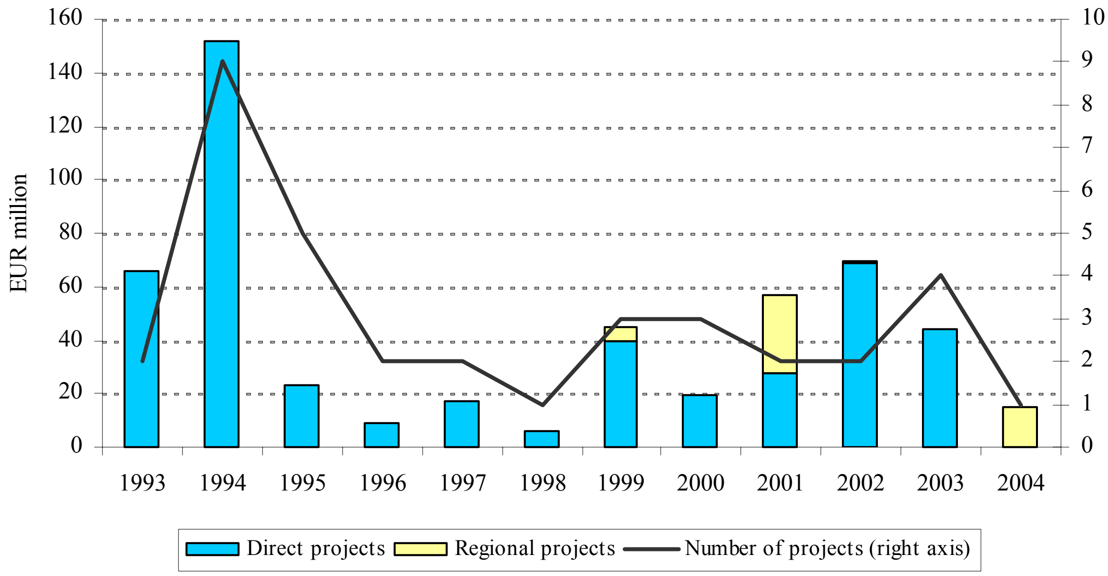
1. THE BANK'S PORTFOLIO

1.1 Overview over Bank's activities to date

As of 31 March 2004, cumulative Bank's commitments to projects in Slovenia amounted to EUR 522.3 million (of which EUR 49.6 million through regional projects) and accounted for 2.2% of the total Bank's commitments. While early years of the Bank's presence in the country saw a strong emphasis on infrastructure projects, the distribution among the three major sectors, financial institutions, infrastructure and industry, became well balanced in the more recent period as detailed in Annexes 1 and 2.

As illustrated by the following chart, EBRD's annual commitments increased in the last three years as compared to the preceding six year period. The increase was mainly generated by the opening up and privatization of the Slovenian financial sector.

Commited projects per year (including regional)



Current portfolio as of 31 March 2004 stood at EUR 293.3 million and represented 2.0% of total Bank's portfolio. EUR 45.8 million were allocated through regional projects. Undrawn commitments at the same time stood at EUR 48 million and impaired assets at EUR 0.8 million. Private/state as well as private/non-sovereign state ratio reached 86.8% and equity share 48.1%. The largest active portfolio of 43.9% related to financial institutions, followed by industrial sector with 37.9% and infrastructure with 18.2%. During the 2002/2003 period, the Bank signed 6 new projects with total value of EUR 112.7 million, of which 5 in the financial sector.

1.2 Implementation of the previous country strategy

The Bank's role in Slovenia in the last two years was probably one of the most challenging of all advanced countries. On one side, the Bank worked to develop innovative products in order to meet more specific needs of an advanced but relatively small economy. On the other side, it still continued the policy dialogue with the Government on the privatization issues where Slovenia is lagging behind in areas like banking, insurance, telecommunications, heavy industry and energy sector.

In the 2002/2003 period the Bank was most active in the **financial sector**. In line with the strategy, the Bank participated in the privatization of NLB, the country's largest bank, which constituted a significant step in the transition process. It also laid a solid basis for the continuing dialogue with the Government regarding the outstanding privatizations in the banking and insurance sector. On the other hand, the Bank also contributed to increased competition by extending a subordinated loan to a smaller, foreign owned bank. Support to SMEs continued with two additional EU/EBRD SME credit lines for loan and lease financing. One more line from the same programme is close to approval. Relationship with the banking sector was further extended through the environmental credit lines, an innovation designed to meet very specific needs of the industry, already recognized by the previous strategy, where the local banks' role is of crucial importance. Another approach evolved in relation to the Slovenian financial sector expansion to the former Yugoslav and wider Balkan region where the Bank is considering equity participation or loans to local banks already owned or to be acquired by the Slovene banks.

Projects with direct Bank's involvement in the **enterprise sector** were expected to develop in two segments: (a) support to foreign strategic investors and (b) financing of re-structuring or expansion plans of few larger local companies. Strengthening of the local banking sector and the borrowing ability of local companies has reduced the Bank's role in this sector in recent years. The only new project signed over the period supported the production modernization of a local cement producer recently bought by the Lafarge. The third priority the Bank defined for the sector was a broader range of financial products for Slovene enterprises developed together with local financial institutions. The Bank responded to the challenge by creating an environmental credit facility with a subsidy component. The facility, launched in 2003, was devised in close concert with Global Environment Facility (GEF) and aims to ease the financing burden imposed over enterprises (but also public sector) with adoption of the EU environmental requirements.

Attempts of the Bank to participate in numerous **infrastructure** projects, currently active or in preparation in Slovenia, have failed for two major reasons: (a) non-sovereign financing, offered for larger railway or road projects was less attractive to the Government as it maintained satisfactory borrowing capacity and (b) municipal projects, reflecting the size of municipalities, were too small for the Bank's direct involvement. The latter however got access to the above mentioned environmental line that will help them finance an important part of their requirements. The Bank explored other financing possibilities in the municipal environmental sector in conjunction with the EU structural funds but no satisfactory solutions could be found so far mainly due to the small size of projects.

1.3 Transition impact of the Bank's portfolio and lessons learned

1.3.1 Relevance and transition impact of previous country strategies

- **Financial sector**

Until 1999, the Bank had a very limited presence in the Slovenian banking sector, mainly due to tight central bank regulation. Loan and equity investment in the SKB bank were the only two projects the Bank signed with any financial institution in Slovenia. Only after 1999, the co-operation with domestic banks gradually intensified and resulted in a significant transition impact for the banking sector and moderate for the SME sector.

- **Enterprise sector**

For several years this sector rightfully enjoyed a priority in the Bank's strategies. Promoting successful industrial projects with foreign strategic investors topped the priority list because of a strong negative public attitude to FDIs. Successful projects like Julon, Aquasava and Sarrio Slovenia had an important demonstration effect in that sense. Equally important at the time of their extension were also loans and equity financing to local companies like Mercator, Merkur and Alpina for which the Bank was seen as the only alternative to expensive and limited domestic sources while they had practically no access to international financial markets. At the later stage, the Bank played an important role in organizing international financing for Mobitel and Hermes Softlab. Transition impact in the enterprise sector was defined as moderate.

- **Energy and Infrastructure sector**

In the early years of the Bank's presence in Slovenia, infrastructure projects were almost the only form of its engagement. Loans with sovereign guarantees were extended to the Drava river hydro power plant, Slovenian Railways, DARS company for motorways and to the National road administration. Although the strategies assumed a much larger role of the Bank in this sector, in later years it only financed one municipal infrastructure project in Maribor as the first PPP in this part of Europe as well as a gas utility company. The success of the first one enhanced the Bank's transition impact in the municipal environmental sector to significant, while the infrastructure impact remained on the moderate level.

- **Overall assessment and rating**

In general terms, the Bank's strategies for Slovenia showed good understanding of the economic environment with reasonably well defined areas for the Bank's involvement. Infrastructure financing efforts did not bear fruit as the Government opted for sovereign funding. There were also several occasions where strategies precisely identified potential investment needs but due to level of economic development the market filled the gap. The Bank's role in the transition process of the Slovenian economy is perceived as moderate.

1.3.2 Lessons learned

- Relying on a small local stock exchange as the only exit option might result in a limited return or lengthy exit procedure, especially if the investment is of a considerable size and the number of buyers with sufficient purchase capacity is limited.
- Corporate governance related issues should be carefully presented in a small and relatively closed business community to ensure the benefits to the client of good corporate governance are emphasised.

- Projects defined and agreed on a group level, without active involvement of the management of the executing company, may result in delays, misunderstandings and other implementation problems.
- EBRD's board participation where the Bank has not reached an agreement or at least a mutual understanding with other major (predominantly domestic) shareholders might result in very limited benefits for the company and its corporate governance (SKB, Merkur). On the contrary, it may add a lot of value where strong alliances exist.
- While re-structuring of local companies without the involvement of a strong strategic investor is generally more difficult, it could still be accomplished if there is a strong management in place acting in close co-operation with a committed and capable consultant.

1.3.3 Financial performance of the existing portfolio

With 4.25 risk rating Slovenian portfolio remains well above the Bank's average of 5.47. It only slightly increased from 4.15 at the end of 2001 in spite of a high increase in equity investments (48.1% vs. 17.3%) as well supported by one of the best country ratings. For the first time, impaired assets in value of 0.3% of the operating assets had to be booked, albeit in relation to a regional operation without any activity in Slovenia.

1.3.4 Mobilisation of co-financing

The Bank has mobilised EUR 1.2 billion in additional funds since it began operations in Slovenia. In the past two years, mobilisation ratio increased from 2.7 to 3.3, following NLB's privatization alongside KBC and joint acquisition/capital increase of the cement factory with Lafarge. However, even with the slightly improving trend in the last two years, Slovenia still remains at the bottom of the FDI receiver list in CE which makes every contribution by the Bank even more valuable.

1.3.5 Portfolio ratio

Although the Bank signed the last state projects in Slovenia in 1994, the private ratio remained below the desired 60% until recently as all later private projects were of a smaller size. Following larger private sector projects during the previous Strategy period, the cumulative private ratio climbed to the present 70%. Since all state projects in Slovenia included a sovereign guarantee, the private/non-sovereign state ratio does not differ from the private/state ratio.

2. OPERATIONAL ENVIRONMENT

2.1 Political environment

The Republic of Slovenia meets the conditions specified in Article I of the Agreement Establishing the Bank. It is a parliamentary democracy, with a directly elected president, a prime minister and a bicameral legislature. The judiciary is independent. In December 2002, Janez Drnovsek, Slovenia's Prime Minister (with just a short break) since 1991, was elected President in free, fair and open elections. Anton Rop, Finance Minister, was elected Drnovsek's successor, both as Prime Minister and as leader of the Liberal Democratic Party. Following a 90% vote in favour of the country joining the EU in a referendum held in March 2003, Slovenia joined the EU on 1 May 2004. In a referendum on NATO membership held on the same day, 66% of voters were in favour. Slovenia joined NATO on 29 March 2004. Elections for the European Parliament were held in June 2004 and those for the Slovene parliament took place on 3 October. Janez Janša, leader of the centre-right Democratic Party of Slovenia (SDS), which received the most votes in the 3 October parliamentary elections, will be the Prime Minister of the next coalition government expected to be formed by 17 November. Detailed analysis on political and social issues is given in Annex 5.

Environment

Joining the European Union, which was achieved on 1 May 2004, had been the main objective of the Slovenian Government since its independence from former Yugoslavia in 1991. In the area of environmental protection, key challenges of preparing for EU membership included harmonisation with EU legislation, and implementation of the principles of sustainable development.

The Slovenian Government responded to the challenges in a systematic way by undertaking legal reforms, policy development, and investment planning. During the period 1998-2003 while EU membership negotiations were underway, Slovenia, for example, fundamentally changed and harmonised its legal framework for environmental protection to comply with EU legal requirements. In March 1998, the Slovenian Government approved all actions required to implement the environmental *acquis communautaire* in Slovenia. A National Programme for Environmental Protection was passed by the Parliament in September 1999, followed by the approval of operational programmes in the main areas of environment such as air protection, wastewater and waste management.

In the area of environmental investment planning, the 1999 Slovenian National Programme for Environmental Protection envisaged investments to establish a national waste management system, to be financed by the public sector in an amount of approximate SIT 60 billion (approx. EUR 250 million). This amount will be used for financing waste management facilities over a period of 4-8 years, including thermal waste treatment facilities. Additional financing of SIT 28 billion (approx. EUR 116 million) is envisaged from private sector sources. In addition, the Slovenian Operational Programme for Waste Management for the period up to the end of 2008 identifies the financial sources needed to fully finance waste management projects: loans of multilateral financial institutions such as EBRD and EIB, EU grants, public financing of infrastructure projects, private capitals offered by equipment providers as well as funds provided by the Global Environment Facility (GEF) for the financing of pollution reduction investments.

Slovenia's Operational Programme for Municipal Wastewater Collection and Treatment has identified the main 'hot spots' and sources of investments for their improvements. Apart from the state budget, municipality budgets, fees for pollution load, EU grants (ISPA), and loans from the Ecological Research Fund of the Republic of Slovenia, it is suggested that Slovenia seek private investments, preferably through concession agreements. According to this Programme, this will allow a higher quality of equipment and more affordable cost solutions, such as BOT agreements.

The Slovenian Ministry of Environment, Physical Planning and Energy is currently preparing a new National Programme for Environmental Protection (NPEP) as it is required by the updated Law on Environmental Protection. The draft NPEP will be discussed and approved by the National Parliament. In parallel with the preparation of NPEP, new operational programmes are being prepared, which will be released for public consultation and comment, (Slovenia has a large and active environmental NGO community), and ultimately be approved by the Government.

Given Slovenia's advanced stage of economic development and EU membership, the Bank's environmental approach will continue to focus on supporting environmental investments particularly in the municipal environmental infrastructure sector, thus supporting the implementation of the above mentioned national programmes. Slovenia sees the Bank as one of the key financing sources for its environmental investments, and the Bank will continue to play an important role in this area. All EBRD operations in Slovenia are subject to the Bank's Environmental Policy and incorporate, where appropriate, environmental action plans into the legal documentation in order to address issues raised during environmental due diligence, in line with the Bank's mandate to actively support environmentally sound and sustainable development through its investment projects.

The Bank is also utilizing GEF financing to address pollution reduction. In March 2003 the Bank's Board of Directors approved a framework facility, to finance investments to reduce pollution generated in Slovenia which enters the Danube River Basin. Since then, two banks (Volksbank and Bank Austria Creditanstalt) have signed up to the facility and a number of sub-loans have been made to both industry and smaller municipalities. This facility also includes a technical assistance component to provide advisory services for developing solutions to water pollution reduction issues. This component will be implemented by the BAS Programme in Slovenia. A number of companies have approached BAS and advisory services have, or will be, provided by third-party experts at a range of levels.

Legal Environment

Slovenia has made significant reforms in the legal system it inherited from the former Yugoslavia, leading to major improvements in the country's economic environment and allowing for EU accession in 2004. The success of the country towards the establishment of a market-oriented economy and stable democratic institutions has been coupled with significant progress in the legislative alignment to the *acquis communautaire*.

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. While a number of laws inherited from the former Yugoslavia still govern certain economic relations, the Slovenian Parliament is conscientiously addressing the relevant topics and introducing reform.

The results of the various EBRD legal assessment projects (detailed in Annex 9 – Legal Transition) suggest that there remains room for improvement in the country's effort to comply with international standards in the main areas of commercial law. Legislation has been upgraded and liberalised to EU standards, with the ultimate quality and implementation of such legislation being the major remaining issues.

2.2 Progress in transition and the economy's response

2.2.1 Macroeconomic conditions for the Bank's operations

Output growth declined to an average 2.5 per cent in 2003 as a whole from the 3.3 per cent recorded in 2002, mainly due to a substantial decline in net exports attributable to the slowdown in the EU, the main trading partner of Slovenia. While this is the second time growth falls below 3 per cent in almost a decade, it rebounded as expected to a more sustained 4.2 per cent year-on-year in the first quarter of 2004, fuelled by further sustained internal demand and an improving contribution of external demand that nevertheless remained negative.

Inflation declined to 5.6 per cent on average in 2003 and has gone further down to 3.9 per cent in the first half of 2004. This trend is attributed to the combined effect of low economic activity, a tightened exchange rate policy, and, to a lesser extent, measures designed to contain increases in administered prices and wages. From early 2003 to mid-2004 the Bank of Slovenia cut its interest rates by 425-550 basis points, somewhat beyond the decline in inflation, while starting to reduce the depreciation rate of the Slovene Tolar versus the Euro to 2-2 ½ per cent from an annual 3 ½ per cent a year ago. Since July 2004 the central bank has stabilised the nominal the tolar-euro rate, after Slovenia joined the European exchange rate mechanism (ERM2) on 28 June, with a central parity set at SIT/EUR 239.640 and +/– 15 per cent fluctuation bands. The central bank and the government aim at adopting the Euro at the earliest opportunity, judging it would be possible at the beginning of 2007. In preparation for this, price information will need to be displayed in both SIT and EUR starting in 2005.

Fiscal policy remains sound despite increasing pressures, with a general government fiscal deficit standing below Maastricht level at 2.4 and 2.0 per cent of GDP in 2002 and 2003 respectively, according to the figures published by the European statistical office (Eurostat) and calculated according to the ESA95 methodology. Public debt remains below the level of 30 per cent of GDP at the end of 2003, according to the same source. Further expenditure consolidation and reallocation will be needed in the near future for Slovenia to achieve its medium-term objective of structural balance. The government will continue to address pressures arising from commitments related to EU- and NATO-accession by de-indexing social benefits and containing the wage bill, among other measures.

The current account ended the year 2003 with a slight surplus of EUR 16.7 million (very close to balance when expressed as a ratio to GDP). This is significantly lower than the EUR 329.7-million surplus (1.4 per cent of GDP) recorded the previous year thanks to better external conditions. Slovenia recorded a negative net FDI inflow in 2003 for the first time ever, although this did not pose any threat on the country's external stability. This evolution can be explained by an increase in Slovene investment abroad as much as by a decline in inward FDI, after an exceptional year in 2002 due to two large take-over and privatisation deals.

2.2.2 Transition success and challenges

Enterprise sector

Enterprise performance: *Potential for further diversification towards new activities in industry and services.*

Slovenia enjoys the highest level of productivity of all of the economies that have joined the European Union on 1 May 2004. When measured as the GDP generated by each employed person in purchasing power parity terms, Slovenia's productivity in 2002 was close to 70 per cent of the average of the European Union prior to the May 2004 enlargement (EU-15), compared to a level of almost 60 per cent in 1995. When compared to a new EU member, similar in terms of population size and trade openness, like Latvia, the level of productivity of the Slovene economy is more than twice that of the Baltic economy, while labour costs are more than three-fold higher. However average productivity growth has decelerated markedly since 2000.

Unit labour costs (understood as the cost in labour of producing one unit of value-added, or the share of labour costs in the value-added generated) stand on a par with the EU-15 average for the whole of the economy (services and industry, excluding agriculture). However they remain somewhat lower in industry, showing a somewhat higher level of competitiveness in that sector when compared with the EU-15 average. In effect productivity in the Slovene industry almost doubled in ten years of transition, increasing by 88 per cent between 1992 and 2002, while it had grown by only 4 ½ per cent in the 1980-1989 period.

Nevertheless there is some room for further adjustment in the Slovene economy, as industry still represents 30 per cent of total value-added against 21.5 per cent on average in the EU-15, while services account for 63 per cent of total value-added compared to 71 per cent in the EU-15. This is certainly, to some extent, an indication of the room for further development in new service activities, in the SME sector in particular. In addition, some potential is seen for the Slovene economy to diversify towards more capital-intensive productions (chemical and pharmaceutical industries, among others) as well as some niches in more traditional industries (automotive components, food processing for instance).

As further developed in section 2.3, the ability of local companies to diversify is impeded by weaknesses in their balance sheets and the near absence of appropriate financing instruments.

Small and medium sized enterprises (SMEs): *Need to develop a better-tailored offer of financial instruments.*

Small and medium-sized enterprises (SMEs), understood as incorporated companies with less than 250 employees and businesses ran by self-employed persons, represent 99.7 per cent of the total number of enterprises in Slovenia. Incorporated SMEs amount to a little more than 40 per cent of the total number of businesses and employ around 60 per cent of the total workforce. Micro-enterprises – *i.e.* incorporated companies employing between 1 and 9 persons, excluding self-employed businesses – represent 90 per cent of incorporated SMEs and a third of employment in that sector. Self-employment stands at a little less than 60,000 persons.

Existing and new SMEs can be expected to play an important role in the development of the Slovene economy. In effect these enterprises seem to have a potential for creating new jobs, notably in the service sector as well as in the form of self-employment in particular. Individual businesses and SMEs represent almost 80 per cent of total employment in the service sector against 60 per cent in industry. Self-employment in services represent 2½ times that in industry while incorporated SMEs employ 4 persons on average in services against 7 in industry.

The government designed a policy intended to boost the development of SMEs through the promotion of a favourable environment (technological parks, incubators or a one-stop-shop scheme for creating a business, among other measures) as well as additional financial instruments (including the re-structuring of the current Fund for the Development of Small Enterprises). EU structural funds will provide an additional source of financing for the promotion of small businesses and SMEs. However the difficulty of accessing to alternative non-public sources of financing seems likely to remain an important obstacle to their development. This stresses the need for developing an offer of instruments better-tailored to the needs of SMEs, by the banking sector in particular.

Foreign investment: *Increased potential for inward FDI along with sustained regional expansion of Slovene companies.*

Slovenia registered a negative net FDI inflow in 2003 for the first time since it gained independence, in an amount of around EUR 110 million after registering a record level net inflow of EUR 1.6 billion in 2002, partly thanks to two large deals. When compared to net positive, but still relatively low, inflows ranging from EUR 55 to 267 million in 1996-2001 (0.9 to 1.9 per cent of GDP), the 2003 figure seems somewhat accidental, while a change in the accounting methodology in 2001 limits direct comparability. In that regard, it appears to be the result of a decrease in the inflow of FDI as much as of an increase in the outflow of FDI. Slovene companies are expanding abroad, thanks to their growing regional economic role, but at the same time Slovenia also needs to attract further foreign direct investment so as to pursue its economic development.

In view of this, a bill was adopted in mid-2004 that aims at promoting the attractiveness of Slovenia to foreign investors. The bill provides for governmental aids to be granted to foreign companies, in the form of non-refundable subsidies targeted at long-term large-scale investments, and the streamlining of the agency for the promotion of FDI and exports. In effect, beyond a large pipeline of potential FDI related to the planned privatisation of several large state-owned companies, Slovenia aims at improving its attractiveness towards green-field investment in order to secure sustained FDI inflows over a longer-term horizon in the enlarged EU.

Signs of a somewhat increased attractiveness of the country to foreign investors can be noticed from some anecdotal evidence, following accession to the EU. Noticeably this is illustrated by the decision by French carmaker Renault, a long-time investor in Slovenia, to invest EUR 400 million in order to double its existing production capacity in the country to 210,000 cars a year, with an incentive package amounting to 10 per cent of the total investment provided by the Slovene government. In addition the FDI and export promotion agency (TIPO) sees a potential for gross FDI inflows to reach the level of 3 per cent of GDP annually in the medium term. In view of that Slovenia appears to be endowed with the necessary high-skilled labour and transport links, although land availability could remain somewhat of a problem. However, for this potential to materialise fully, further much-needed progress would be required as regards the business environment and privatisation.

Business environment: *Need to build on recent progress to further enhance conditions for doing business.*

Progress has been made over the recent past by Slovenia in improving the business climate, driven in part by the transposition of the *acquis communautaire*. That includes, for instance, the revision of the legislation on take-overs and security markets that has been initiated by the government in 2003 and was adopted in July 2004. Other examples are provided by the reform of public procurement, which was brought in line with EU requirements by streamlining the legislation and will be further simplified with an electronic online procedure, or the adoption, in April 2004, of the final provisions for the dismantling of the Slovene Development Corporation (SDR). Other measures not directly related to EU accession have been or are in the process of being taken. They include a new labour law enacted in 2003 that defines and regulates the contractual relation between employers and employees in a more flexible way, or the extension of the de-indexation of the wage-setting mechanism in the public and private sectors. The government also announced the introduction of the "All-in-one" programme for the licensing of new businesses in 14 days.

However the Snapshots of the business climate for 2005, published by the World Bank, show that the country could make further progress when compared with OECD economies, which provide a natural benchmark in the case of Slovenia. As regards various aspects of running a business, especially for SMEs, it appears that starting and closing a company or registering a property takes longer and is more expensive, hiring and firing workers as well as employment conditions remain more complex and rigid, while enforcing contracts takes much longer. In that regard the efficiency of the judicial system requires a more comprehensive approach, since the measures introduced by the government to reduce the court backlogs have not significantly reduced the problem of long duration of court cases, as noticed by the European Commission in its Comprehensive Monitoring Report of 2003.

Finally enhancing the competitive environment will also be critical in improving the business environment by building up a credible and transparent competition culture among market participants. It would also contribute to the materialisation of significant efficiency gains that would be beneficial to several sectors of the economy, including, not least, consumers. In that regard, as stressed by the European Union in its Comprehensive Monitoring Report, the efficiency and independence of the Competition Protection Office (CPO) could be improved. Among other measures called for, in order to do so, are increased powers of the CPO, including the ability to set fines on anti-competitive behaviours that would allow for a leniency policy, as well as raising the level of its qualified human resources closer to its long-term needs.

Privatisation: *Determined completion of the privatisation of large companies in key sectors is critical to improve overall economic performance.*

Due to market conditions deemed by the Slovene authorities to be non-conducive, the implementation of the privatisation programme adopted by Parliament did not progress much in the last two years. In industry the privatisation of the core companies of the Slovenian Steelworks was suspended in August 2003 and that of aluminium producer Talum was put on hold in December 2003. In the financial sector, further consolidation, announced in 2003 by the government before completion of the sale of the two largest banks and the leading insurance company, is being implemented. Finally the sale of an additional stake in Telekom Slovenje, in which 62 per cent are currently owned by the state, has also been delayed to 2005 at the earliest, as recent developments in the telecommunication sector were considered not to be optimal for completing this transaction in the best conditions possible.

Despite reiterated commitments to complete the privatisation programme adopted by Parliament in October 2003, the Slovene authorities consider this objective as conditional on their ability to maximise the value at which these companies can be sold. While this concern has its own legitimacy, it should be weighted against the overall benefits the Slovene economy would reap from increased competition and efficiency following the privatisation of large companies in such key sectors. In the banking sector, which plays a central role for financial intermediation in a country like Slovenia, a little less than half of the sector's total assets remain in public or mixed ownership. In the telecommunication sector, the privatisation of the incumbent operator constitutes a critical factor for the expected positive effects of liberalisation of the market to become effective, as in many other countries in the EU. The share of the private sector in GDP is estimated to remain at 65 per cent, compared to more than 75 per cent in the other new EU member states.

Financial sector:

Banking and insurance sectors: *Potential for increased efficiency in financial intermediation after consolidation and privatisation.*

The first phase of the privatisation of Nova Ljubljanska Banka (NLB), in which KBC from Belgium and the EBRD bought stakes of 34 and 5 per cent respectively, was terminated at the end of 2002. Other private investors, who hold a 12.5-per cent stake, expressed modest interest for the additional 9 per cent stake they were offered in late 2002. The government still retains a blocking minority with a 35.4 per cent stake which, combined with the shares of state funds and majority state-owned companies and municipalities, brings state ownership in NLB to 48.5 per cent. The privatisation of Nova Kreditna Banka Maribor (NKBM) was suspended in 2002 and has not been yet reopened, although the sale of a 33 per cent stake was included in the privatisation programme for 2004-2005 adopted by Parliament in late 2003. It is expected to take place after completion of the ongoing merger of NKBM with Posta Banka Slovenije initiated in July 2004 and designed to create a broad financial pillar, as announced by the Slovene authorities a year ago.

The entry of foreign banks in the Slovene market since 2001 has translated into increased intensity of competition. This evolution has allowed for an improvement in the sector's profitability, although margins had to be reduced and operating costs (staff costs in particular) were strongly on the increase. The entry of foreign banks has also induced a diversification of the range of products offered by the banking sector, away from large companies towards smaller customers (SMEs) and retail banking (households). However large companies, including some non-exporting state-owned ones, tend to borrow increasingly in foreign currency so as to take advantage of better conditions offered abroad, while not always hedging appropriately. In 2003 two thirds of the new loans extended to companies in 2003 were denominated in foreign currencies (primarily in euro) and financed by rising bank borrowing from abroad.

In February 2003 a long-awaited decision by the Constitutional Court finally cleared the way for the privatisation of the insurance sector to proceed. In effect it validated changes to the ownership structure of the leading insurance company, Zavarovalnica Triglav, and the reinsurance company, Pozavarovalnica Sava, that were necessary to that end. An 85-per cent stake of public capital in Triglav was entrusted to the state which put it in the custody of the Slovene Restitution Fund (SOD) and the value of the company was estimated in late 2003. Triglav should now soon be ready for sale, while plans were announced for the possible merger of Sava with Nova Kreditna Banka Maribor (NKBM). The sale of Zavarovalnica Triglav to private investors is expected to greatly contribute to increase further competition and efficiency in a sector that shows a low level of productivity according to estimates.

Capital market: *First steps taken in view of enhanced regulation and supervision of a still relatively small capital market.*

In the context of disputed acquisitions by foreign investors in recent years, important shortcomings of the legislation on security markets were revealed. These include allegations of insider trading and price manipulations in the case of the take-over of the pharmaceutical company Lek by Novartis of Switzerland in November 2002. At the beginning of 2003, 27 cases were handed over by the Security Market Agency (ATVP) to the judiciary which has not taken any action so far, at the risk of letting these cases come under statute of limitation. Actions to deal with allegations of concerted control of Slovenia's second largest brewer Union by its direct competitor Lasko with third parties, in its battle against Interbrew of Belgium, were also restrained by insufficient powers of the agency to investigate and sanction them. In addition potential negative repercussions on competition in the beer market were another source of concern calling for increased co-operation possibilities between the security market supervisor and the Competition Protection Office.

The need to strengthen the enforcement powers and administrative capacity of certain financial supervisory authorities, and in particular those of the Security Market Agency in the context of a relatively small capital market, was noted by the European Commission. A series of amendments to the Securities Market Act, announced in late 2003, was adopted in July 2004 and should contribute to increased transparency of the security market as regards insider trading, price manipulation, the definition of public companies and their obligations in terms of financial information. It should also improve the ability of the Security Market Agency to cooperate with the Competition Protection Office. However the Agency's powers to investigate and sanction wrong-doings could be enhanced further, along with the technical capacity and swiftness of the judiciary in matters related to security market transactions.

<u>Infrastructure and environmental sectors:</u>

Regional development: *Off-budget and financial instruments use of intermediaries introduced to address regional imbalances along with EU funds.*

With a GDP per capita equivalent to around 70 per cent of the EU-15 average Slovenia is the most developed of the new EU-members. However regional disparities remain relatively marked with the region of the capital city, Ljubljana, at more than 140 per cent of the national average in 2002. The regions forming the rest of the country are however less advanced as most of them recorded GDP per capita levels ranging from 69 to 90 per cent of the national average. In late 2003 a new act intended to promote a more balanced regional development was adopted. Its provisions include some decentralisation in favour of local entities, in view of the management of regional development projects, as well as the introduction of public-private partnerships with regard to the financing of regional development projects.

In addition the Single Programming Document that prioritises the use of structural funds sets three objectives at the regional level in 2004-2006. The first one includes support to small and medium-sized enterprises, the promotion of company clusters and technological networks, and the development of regional tourism. The second is more focused on social objectives with the professional integration of persons with special needs, development of permanent education, improvement in the quality and accessibility of education. Finally the restructuring of agricultural and fishing activities provides for the third priority. In addition cohesion funds will contribute to financing transport and environmental projects at the national level.

Energy sector: *Liberalisation of the electricity and gas markets to be completed in the years to come.*

Liberalisation of the electricity and gas markets has been proceeding in gradual steps as planned by the government. After a first step in that direction was taken in 2002, the electricity market was further opened to foreign suppliers on 1 January 2003, although with a cap on imports set at 25 per cent of total consumption. The gas market was also partially opened to supply from abroad, to the benefit of users consuming more than 25 million cubic metres annually and of electricity producers, which represent half of total consumption. A grid code and commercial rules for the gas network were introduced in May 2003. The energy market was liberalised in July 2004 for industrial customers and should be so in 2007 for households.

Energy prices are intended to be adjusted progressively in the near future, by reason of the government's objective of reducing inflation through limited increases in administered prices. Price distortions, still benefiting some large industrial state-owned companies, are being removed in line with the commitments taken with the European Union. However the regulatory body (the Energy Agency) needs to be strengthened further, according to the Comprehensive Monitoring Report of the European Commission. Slovenia could also improve its level of energy efficiency, with an energy intensity equivalent to 1 ¾ the EU-15 average.

Transport: *Reform of the railway sector initiated and public-private partnerships introduced for motorways.*

The restructuring of the railway sector was launched by the government with the amendment of the Railways Transport Act in 2003. From a regulatory perspective, this revision establishes a regulatory body, the Rail Agency, and includes a plan for splitting the former single operator into three entities in charge of passenger transport, cargo freight, and management of the network. However further progress will be needed as the administrative capacity of the regulator, the Rail Agency, will have to be strengthened through specialised training of staff. The methodology for infrastructure charging also remains to be defined, as noticed by the European Commission. The plan also provides for the financial and industrial restructuring of the railway operator, which returned to profitability for the first time in years in the first half of 2004.

As regards road links, Parliament also adopted in late 2003 a new programme for the construction of an additional 539 kilometres of motorway to extend the current network. In addition a bill was adopted in 2003 that transforms the Slovene Motorway Company (DARS) from a public utility into a contractor of the state by changing its legal status from a public stock company into a regular stock company. The change is intended to allow for the participation of private sector operators to the construction, management and maintenance of motorways.

Telecom sector: *Potential benefits of increased regulation and "fair competition" to be supported by privatisation of incumbent operator.*

Liberalisation of the telecom sector has formally progressed over recent years without translating into increased "fair competition", in particular as regards fixed-line services. Full implementation of the *acquis communautaire* remains to be completed, in particular as regards the obligations of operators with significant market power towards other operators, while price determination is not yet determined on the basis of costs, as also stressed by the Comprehensive Monitoring Report of the European Commission. In March 2004 a new law on electronic communications was adopted to transpose the most recent *acquis communautaire*.

Regulation of the sector has a potential for improvement, after the regulatory body for the sector (Agency for Telecommunications, Radio Broadcasting and Post) was established in 2001. In effect it still needs to have its powers and resources increased in order to address efficiently issues like discrimination by the incumbent operator and its subsidiaries in various segments of the market. In addition the sale of a 25 per cent stake in Telekom Slovenije, included in the privatisation programme for 2004-2005 adopted by Parliament, was announced by the government to have been delayed beyond 2004. It is widely recognised that the privatisation of the incumbent operator would contribute to enhanced fair competition in all segments of the market, not least in fixed-line telephony where a parallel network is being created.

2.3 Access to capital and investment requirements

Domestic credit

Bank loans remain the prime source of financing for the Slovene economy, and enterprises in particular. Total bank loans represented around 44 per cent of GDP at the end of 2003, of which enterprises accounted for almost two thirds, households roughly a quarter and the state less than a tenth. In 2003 two thirds of the new loans extended to companies by the banking sector were denominated in foreign currencies (primarily in euro) and financed by rising bank borrowing from abroad. In addition to a potential for a credit boom, due to declining interest rates and the impact of the prospect for euro adoption, that was pointed out by the IMF recently, the need for closer supervision of the sector might arise from the development of large un-hedged foreign-currency borrowing by some large state-owned non-exporting companies. Local banks are privately expressing concern about competition for local clients leading them to under-price the risk of their senior debt. The Governor of the Bank of Slovenia alluded to this problem at a recent banking seminar when he spoke of banks needing to better evaluate credit risk and stressed that some banks were offering "unexplainably favourable" terms for their loans. Banks are also increasingly concerned with the weakening of the local corporate sector balance sheet as local firms take on additional debt.

Private equity

Private equity funds have all but exited Slovenia. One fund in which the EBRD was an investor has not made a new investment since 1999. Another which actually invested only in listed companies is closing down. Other higher risk products such as mezzanine finance are also not provided locally.

Capital market

The capital market offers a somewhat secondary source of financing to the Slovene economy as it is relatively small. Market capitalisation represented slightly more than 40 per cent of GDP, including the free market, in 2002 and 2003 (less than a third in previous years). Shares accounted for a little over half of total capitalisation and bonds slightly less than a third. The capital markets is also relatively illiquid with an annual turnover representing slightly more than 10 per cent of total market capitalisation in 2003 (around a quarter in previous years), while shares represent half of total trading. Governmental institutions still represent the main players on the bond market, with more than 80 per cent of total bond market capitalisation.

Foreign direct investment

Slovenia recorded an exceptional year in 2002, with a net FDI inflow worth almost EUR 1.6 billion, which is mainly accounted for by the take-over of the pharmaceutical company Lek by Novartis and the sale of a stake in the leading bank Nova Ljubljanska Banka to KBC. This represents half of the total stock of FDI received by the country between 1992 and 2002. Slovenia registered a negative net FDI inflow in 2003 for the first time since it gained independence, in an amount of around EUR 110 million. In 2003 the level of per capita stock of FDI reached slightly less than EUR 1,500 to be compared with an average of EUR 1,800 in new EU-members.

3. STRATEGIC ORIENTATIONS

3.1 Bank's Priorities for the Strategy period

Key Short Term Operational Priorities
In response to its analysis of Slovenia's remaining transition challenges, the Bank's main focus during the strategy period will be to support the local corporate sector through higher risk products. The Bank, within its operating principles, will be responsive to various opportunities that may arise but will have a clear concentration on priorities below. The Bank's additionality will be demonstrated on a case-by-case basis.

- Provide to local companies with higher risk products both in Slovenia as well as across the border. In particular, support Slovene investments in the South East Europe with specifically tailored products (*e.g.* multi project facilities for equity or debt).
- Support viable privatisation or re-structuring structures of Slovene corporate sector with a specific attention to financial sector.
- Support SMEs and small municipalities with long-term funding through local financial intermediaries with a view to broaden array of financial services.
- Support foreign direct investment into Slovenia through risk sharing mechanisms.

The Bank is in discussions for multi project facilities for regional investments and equity consolidation with a number of larger Slovene private sector companies for privatisation and industrial re-structuring with various Government authorities.

Policy Dialogue
The Bank will build on its excellent relationship with local authorities to find appropriate solutions for completion of privatisation or re-structuring of large enterprises (financial industries, metal industries, telecom, and utilities). The Bank will continue to assist Slovenia in the adoption of mortgage legislation.

3.2 Sectoral Challenges and Bank Objectives

3.2.1 Enterprise Sector

Transition Goals
Based on the analysis in section 2.2.2 and 2.3 the following Transition Goals are relevant for Enterprise Sector.

- Support the sustained regional expansion of Slovene corporate sector.
- Completion of privatisation of large enterprises in key sectors.
- Development of high value added activities by supporting FDI and SMEs and company re-structuring with a view to address regional imbalances.
- Need for developing better tailored offer of financial instruments for SMEs.

Operational Priorities

- The Bank will target support to local and foreign enterprises with higher risk products. Such products include direct equity but also mezzanine funding, subordinated debt, all types of participating loans (loans whose remuneration depends on the EBITDA of the borrower), and high-yield bonds. Such EBRD

investments will improve the competitiveness of our clients and demonstrate the benefits of stronger balance sheets to local companies.
- The Bank will support the consolidation of shareholdings in private ownership where applicable with the participation of strategic investors, with particular emphasis to accelerated enterprise re-structuring and enhancing competitiveness of Slovene industries.
- The Bank will support re-structuring and privatisation of large enterprises. Help local enterprises with their financing needs through innovative, flexible, long-term financing tools. Where required act as an honest broker through portage equity in cases where the core investor needs the Bank temporarily for bridging their financial gap.
- Equity or quasi equity or structured debt will be provided to relevant Slovene corporate sector investments, with a focus on SMEs, in the neighbouring region, South East of Europe in particular.
- Support, in the tourism sector, the spa-leisure hotels sub-sector, through development of creative financial instruments.

3.2.2 Financial Sector

Transition Goals

Based on the analysis in section 2.2.2 and 2.3 the following Transition Goals are relevant for Financial Sector.

- Support the increased efficiency in financial intermediation through consolidation and privatisation.
- Broaden accessibility of local corporate sector in particular SMEs and small municipalities to equity, quasi equity and structured finance.

Operational Priorities

- The Bank will continue to implement GEF facility.
- In close concert with the EU develop range of products alongside with financial intermediaries, like long term mortgage lending, leasing and risk sharing with a view to support SMEs, agribusinesses and small municipalities.
- The Bank wherever feasible will support consolidation, integration and privatisation of banking and insurance sectors.
- Private equity fund opportunity in Slovenia will be reviewed in the context of overall Former Yugoslav Republic market because Slovenia's status as a new member states and its strong tie with the other countries of the FYR may enable it to play a pivotal role in, for example, a regional Balkan fund. Such a fund may have an allocation to invest in Slovenia as part of the Balkan region. The Bank often observed in CEE that a successful company in one county is likely to seek the similar opportunities in the other neighbouring countries for market expansion and Slovenia may present similar cases.

3.2.3 Infrastructure/Environmental Sector

Transition Goals

Based on the analysis in section 2.2.2 and 2.3 the following Transition Goals are relevant for Infrastructure and Environment Sectors.

- Completion of re-structuring of Slovene railways

- Completion of environmental investments of municipalities where possible through off budget financing solutions or the use of intermediaries to ensure complementarity with EU resources.
- Completion of liberalisation of electricity and gas markets.
- Full integration of power transmission to international grid.
- Defuse growing demand-supply imbalances in power sector.
- Privatisation regional expansion of incumbent fixed line telecom operator.

Operational Priorities

Transport

- The Bank will support the Government's restructuring initiatives for the railways and seek opportunities to lend to the railways on a non-sovereign basis. This would include also supporting improved operational solutions and financing of infrastructure upgrading for the existing Koper-Divaca rail link.

Municipal/Environment

- The Bank will aim to support municipalities through long maturity financing. For smaller municipalities, wherever possible, use financial intermediaries. Provide off-budget financing solutions, including public private partnerships that may provide an efficient mechanism for larger municipalities to fund necessary infrastructure projects.

Energy

- Where possible the Bank will promote and participate in the financing of energy generation and efficiency projects with a particular attention to potential private sector leads. The Bank will also explore opportunities in renewable power, where Slovenia has an advanced tariff methodology to support such projects

Telecom

- The Bank will intensify discussions with Slovenian authorities with any pre-privatisation or privatisation moves for substantial stakes in state-owned telecommunications entities.
- The Bank will stand ready to assist Slovenian fixed and mobile operators in development and implementation of their regional acquisition and expansion strategy

4. OTHER IFIS AND MULTILATERAL DONORS

4.1 European Union (EU)

The European Commission announced that following accession Slovenia will receive a total of EUR 426.5 million in structural and cohesion funds in 2004-2006. Cohesion funds will amount to EUR 189 million and are intended to finance environmental and infrastructure projects.

Structural funds will amount to EUR 237.5 million and are destined to finance actions relating to the following three priorities set out in the Single Programming Document proposed by the Slovene authorities:

- (i) promotion of the productive sector and competitiveness
- (ii) human resources development and employment
- (iii) re-structuring of agriculture, forestry and fisheries

EBRD co-operation with the EU: In addition to excellent level of communications between Brussels and EBRD London, the RO has a very close and intense relationship with the EU delegation. Despite good level of co-operation it was not possible to develop co-financing between the EBRD and EU for ISPA and PHARE projects due to their small size. However, the EBRD included Slovenia in every scheme that has been jointly developed with the EU (SME, small municipalities, agribusiness). For structural funds there has been very intensive dialogue with relevant government agencies for potential co-financing. These discussions did not as yet bear any fruit due to mainly project selection mechanisms but the EBRD in close concert with the Government is in discussions with co-operative banks for utilisation of EU agribusiness facility for development of farm tourism (bed and breakfast). For larger infrastructure projects under Cohesion funds discussions are underway via consultations with the EIB.

4.2 International Monetary Fund

The IMF has no ongoing programme in Slovenia. Its latest assessment of the Slovene economy (article IV consultations) was published in May 2004.

In that document, the IMF pointed out the following elements:

- (i) lowering inflation remains a challenge for a smooth transition to ERM2 membership and eventual euro adoption, and calls for restrained monetary conditions as well as wage moderation through de-indexation and greater productivity-based differentiation
- (ii) fiscal policy should be oriented to mitigating budgetary pressures associated with EU accession and coping with the risks of a possible private sector demand boom
- (iii) strengthening of supervisory and prudential oversight of financial institutions will be critical to guard against the risks of rapid credit growth and stresses on the financial sector.

4.3 World Bank (WB)

The World Bank has not engaged in new projects since 2000, while Slovenia graduated to the status of potential donor in March 2004. In 2003, in the run-up to EU accession, the World Bank conducted an update to the Financial Stability Assessment published jointly with the IMF, along with three Reports on the Observance of Standards and Codes in the fields of accounting and auditing, corporate governance, and insolvency and creditor rights.

Only two projects remain active, representing a total of USD 24.5 million:

- (i) a health sector management programme for USD 9.5 million due to be closed at the end of June 2004
- (ii) a real estate registration modernisation project for USD 15 million due to be closed at the end of June 2005
- (iii) an institutional development fund grant for public sector accounting capacity building due to continue until late 2006.

4.4 European Investment Bank

Over the past two years, the EIB mobilised an overall amount of EUR 445 million for new projects in Slovenia.

These projects include:

- (i) an environmental loan
- (ii) two loans in the transport sector (roads and railways)
- (iii) one structural-funds co-financing facility
- (iv) a global loan to Nova Ljubljanska Banka (NLB) for financing small- and medium-scale projects (energy, environment, infrastructure)

EBRD co-operation with the EIB: Dialogue and co-operation between the RO and the EIB representatives covering Slovenia is very good. The level of this dialogue helps each institution complement each other and for deserved cases explore potential for co-operation. Future co-operation in Slovenia is likely for large railways projects (Divaca-Koper rail improvements).

ANNEX 1: COMMITTED PROJECTS PER YEAR

As of 31 March 2004 (in EUR million)

Year		Operation name	Direct/ Regional	Total	EBRD	Debt	Equity	Stage
1993		Drava River hydro power project	Direct	107.2	65.1	65.1	0	Completed
1993		Eurovision Network	Direct	0.8	0.8	0.8	0	Completed
1993		2		108.0	65.9	65.9	0	
1994		Slovenia Railways	Direct	131.2	43.2	43.2	0	Repaying
1994		Company for motorway – DARS	Direct	51.6	25.9	25.9	0	Repaying
1994		National Road Administration	Direct	45.4	22.1	22.1	0	Repaying
1994		SKB Banka d.d	Direct	25.0	25.0	25.0	0	Completed
1994		Aquasava	Direct	12.7	4.7	4.7	0	Completed
1994		Sarrio Slovenia - Debt	Direct	24.8	10.0	10.0	0	Completed
1994		Sarrio Slovenia - Equity	Direct	10.2	2.7	0	2.7	Completed
1994		SKB Banka (Equity investment)	Direct	31.0	14.9	0	14.9	Completed
1994		Horizonte Fund	Direct	9.2	3.0	0	3.0	Repaying
1994		9		341.1	151.5	130.9	20.6	
1995		Slovene Development Capital Fund	Direct	19.1	4.2	0	4.2	Completed
1995		Slovenski Plinovodi	**Direct**	7.9	2.3	2.3	0	Completed
1995		Yulon	**Direct**	52.8	12.3	12.3	0	Completed
1995		SRP Slovenia - Eurofin	**Direct**	0.5	0.5	0	0.5	Completed
1995		SRP Slovenia - Druzba	**Direct**	3.6	3.6	0	3.6	Completed
1995		5		83.9	22.9	14.6	8.3	
1996		Mercator	Direct	54.9	3.8	3.8	0	Completed
1996		Yulon II	Direct	10.2	5.1	5.1	0	Completed
1996		2		65.1	8.9	8.9	0	
1997		Aquasava II	Direct	11.5	5.5	5.5	0	Completed

1997		Merkur	Direct	48.8	12.0	0	12.0	Completed
1997		2		60.3	17.5	5.5	12.0	
1998		Alpina	Direct	5.9	5.9	4.1	1.8	Repaying
1998		1		5.9	5.9	4.1	1.8	
1999		Maribor waste-water concession	Direct	51.1	14.8	14.8	0	Repaying
1999		SKB Banka (Housing loan)	Direct	10.0	10.0	10.0	0	Repaying
1999		Nova Ljubljanska Banka	**Direct**	25.0	15.0	15.0	0	Repaying
1999		Info & Comm Tech & Ind. El. Fund	**Regional**	8.5	2.1	0	2.1	Disbursing
1999		AIG New Europe Fund	**Regional**	13.0	2.4	0	2.4	Repaying
1999		Private Equity Fund - Tigranit	**Regional**	3.6	0.7	0	0.7	Completed
1999		6		111.2	45.0	39.8	5.2	
2000		EU/EBRD Phase I NKBM	Direct	5.0	5.0	5.0	0	Repaying
2000		EU/EBRD Phase I Banka Koper	Direct	5.0	5.0	5.0	0	Repaying
2000		Yulon expansion	Direct	20.2	9.5	9.5	0	Repaying
2000		3		30.2	19.5	19.5	0	
2001		Hermes Softlab	Direct	9.0	3.0	0	3.0	Repaying
2001		Mobitel d.d.	Direct	185.0	25.0	25.0	0	Repaying
2001		EU/EBRD Phase I - Euroventures	Regional	2.8	0.6	0	0.6	Disbursing
2001		Raiffeisen EU Enlargement Fund	Regional	3.4	1.6	0	1.6	Repaying
2001		Regional Europolis Portfolio	Regional	75.0	26.3	10.9	15.3	Repaying
2001		5		275.2	56.5	35.9	20.5	
2002		Privatisation of NLB	Direct	498.7	63.7	0	63.7	Repaying
2002		EU/EBRD Phase II Banka Koper	Direct	5.0	5.0	5.0	0	Repaying
2002		Heitman CE property Partners II	Regional	3.6	1.1	0	1.1	Disbursing
2002		3		507.3	69.8	5.0	64.8	
2003		Lafarge Slovenia	Direct	66.0	20.0	0	20.0	Repaying
2003		EU/EBRD Phase II RZB Leasing	Direct	7.0	7.0	7.0	0	Disbursing

2003		Volksbank Slovenia- GEF	Direct	7.0	7.0	7.0	0	Signed
2003		Volksbank Slovenia– subord. loan	Direct	10.0	10.0	10.0	0	Signed
2003		4		90.0	44.0	24.0	20.0	

2004	29168	Accession Fund	Regional	60.0	15.0	0	15.0	Signed
2004		1		60.0	15.0	0	15.0	
		Total		**1,738.5**	**522.3**	**354.1**	**168.1**	

ANNEX 2: NET CUMULATIVE BUSINESS BY INDUSTRY

(in million EUR as of 31 March 2004)

Sector Business Group (SIC)	Sector Team (SIC)	No. of Projects	Total Project Value	EBRD Finance	Debt	Equity	% Share of Commitments
Energy	Natural Resources	1.0	8	2	2	0	0%
	Power and Energy	1.0	107	65	65	0	12%
Sub-total Energy		**2.0**	**115**	**67**	**67**	**0**	**13%**
Financial Institutions	Bank Equity	2.0	530	79	0	79	15%
	Bank Lending	1.9	92	82	82	0	16%
	Equity Funds	2.7	48	12	0	12	2%
	Non Bank Financial Institutions	0.0	7	7	7	0	1%
Sub-total Financial Institutions		**6.6**	**677**	**180**	**89**	**91**	**34%**
General Industry	General Industry	10.6	322	95	55	40	18%
Sub-total General Industry		**10.6**	**322**	**95**	**55**	**40**	**18%**
Infrastructure	Municipal & Env Inf	1.0	51	15	15	0	3%
	Transport	3.0	228	91	91	0	17%
Sub-total Infrastructure		**4.0**	**279**	**106**	**106**	**0**	**20%**
Specialised Industries	Property and Tourism	0.5	142	43	11	32	8%
	Telecoms Informatics & Media	1.4	203	31	26	5	6%
Sub-total Specialised Industries		**1.9**	**346**	**74**	**37**	**37**	**14%**
SLOVENIA TOTAL		**25.1**	**1,738**	**522**	**354**	**168**	**100%**

ANNEX 3: BILATERAL ASSISTANCE

Commitment Number	Commitment Name	Fund Short Code	Euro Committed	Euro Disbursed	Fund Approved Date	Commit Stage Name	Operation Leader	Sector	Team Name
AUS-1992-06-03	Telecommunications master plan	AUS	173,790	173,790	21/05/92	Closed	Reiniger P.	Telecommunications	Telecommunications, Informatics and Media
AUS-1992-10-04	Privatisation of small enterprises - legal and regulatory advice	AUS	50,953	50,953	01/10/92	Closed	Marques Mendes A.	Finance, Business	Bulgaria/Alba./FYR of Maced./Slov./Armen./ Georgia
AUS-1994-11-06	Maribor wastewater project preparation	AUS	179,181	179,181	01/11/94	Closed	Bastin J.	Energy	MEI
AUS-1995-09-03	Assistance to the Slovene export corporation	AUS	96,426	96,426	04/09/95	Closed	Dell'Atti A.	Finance, Business	Bulgaria/Alba./FYR of Maced./Slov./Armen./ Georgia
DEN-2001-03-03	TAM Programme in central, eastern & southern Europe - Inotherm	DEN	48,266	48,266	19/03/01	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group
EC-1993-07-30	Drava River Hydro Power Project - electricity tariffs study	ECP	293,144	293,144	20/07/93	Closed	Parshad N.	Energy	Power and Energy
EC-1993-07-31	Drava River Hydro Power Project - introduction of commercial accounting and financial management systems	ECP	177,312	177,312	20/07/93	Closed	Parshad N.	Energy	Power and Energy
EC-1993-11-51	Slovenia-Hungary rail link feasibility study	ECP	236,659	236,659	20/11/93	Closed	Cornwell P.	Manufacturing	Transport
EC-1993-12-64	Telecommunications project - accounting and finance	ECP	414,575	414,575	17/12/93	Closed	Hallman A.	Telecommunications	Bulgaria/Alba./FYR of Maced./Slov./Armen./ Georgia
EC-1993-12-65	Slovenia Telecommunications project - strategy, organisation, management, human resource and marketing development	ECP	935,108	935,108	17/12/93	Closed	Hallman A.	Telecommunications	Bulgaria/Alba./FYR of Maced./Slov./Armen./ Georgia
EC-1994-09-37	Slovene Special Restructuring Programme - enterprise due diligence	ECP	508,813	508,813	23/08/94	Closed	Toselli M.	Finance, Business	Early Stage Equity
EC-1994-10-44F	Special Restructuring Programme - framework consultant	ECP	377,194	377,194	23/08/94	Closed	Toselli M.	Finance, Business	Early Stage Equity
EC-1994-12-57	Hydro power industry privatisation (Phase I and II)	ECP	0	0	19/12/94	Committed	Parshad N.	Energy	Power and Energy
ECP-1995-10-24	Maribor wastewater treatment	ECP	47,752	47,752	20/09/95	Closed	Hewett R.	Energy	MEI
ECP96-97-09-65F	Slovene Special Restructuring Programme - framework consultant (extension)	ECP	81,102	81,102	09/09/97	Closed	Toselli M.	Finance, Business	Early Stage Equity
ECP97-98-06-63	Alpina dd	ECP	36,608	36,608	26/06/98	Closed	Cvek N.	Manufacturing	RO/Ljubljana (Slovenia)
ECP99-2001-01-76	Slovenia Concessions Law Reform	ECP	196,304	196,304	04/01/01	Closed	Zverev A.	Community/ Social Services	GC/General Counsel/Legal Transition
ECP99-2001-07-88	Slovenia Private Road Maintenance	ECP	83,030	83,030	18/07/01	Closed	Barrett S.	Construction	Transport
ECP99-99-09-14	Slovenia Private Road Maintenance	ECP	599,669	599,669	07/09/99	Closed	Kawasaki N.	Construction	Transport
FIN-1992-10-07	Establishment of export insurance and finance corporation	FIN	71,218	71,218	27/10/92	Closed	Marques Mendes A.	Finance, Business	Financial Institutions
FIN-1993-10-08	Telecommunications - preparation of tender specifications	FIN	103,229	103,229	22/10/93	Closed	Haugan O.	Telecommunications	Bulgaria/Alba./FYR of Maced./Slov./Armen./ Georgia
FRA-1992-09-07	Railway rehabilitation - economic evaluation	FRA	22,403	22,403	24/09/92	Closed	Harral C.	Manufacturing	Transport
FRA-1993-08-05	Slovene Special Restructuring Programme - TurnAround advice	FRA	145,253	145,253	12/08/93	Closed	D'Amico A.	Finance, Business	Early Stage Equity
FRA-1994-01-01	Energy sector institutional and regulatory study	FRA	169,151	169,151	20/12/93	Closed	Parshad N.	Energy	Power and Energy
FRA-1994-04-04	Slovene Special Restructuring Programme - TurnAround expert (extension)	FRA	53,357	53,357	13/04/94	Closed	D'Amico A.	Finance, Business	Early Stage Equity
GEF-2002-01-01	Slovenia - Danube Pollution Reduction Programme - Financing of Pollution Reduction Projects Through Local Financial Intermediaries	GEFF	57,304	51,705	23/01/02	Committed	Hughes M.	Manufacturing	RM/Environment
GEF-2002-06-02	Feasibility Study on Demand for Private Sector Credit Facility for Water Pollution Reduction Projects (Danube)	GEFF	15,149	14,158	12/06/02	Disbursing	Hughes M.	Manufacturing	RM/Environment
GER-1993-08-06	Slovene Special Restructuring Programme - financial advice	GER	60,355	60,355	27/07/93	Closed	D'Amico A.	Finance, Business	Early Stage Equity

Commitment Number	Commitment Name	Fund Short Code	Euro Committed	Euro Disbursed	Fund Approved Date	Commit Stage Name	Operation Leader	Sector	Team Name
GER-1994-08-08	Slovene Special Restructuring Programme - interim management	GER	193,287	193,287	04/08/94	Closed	D'Amico A.	Finance, Business	Early Stage Equity
GFSL-2003-09-01	GEF Environmental Facility Slovenia - Environmental Expert	GFSL	249,877	17,406	16/09/03	Disbursing	Hughes M.	Finance, Business	RM/Environment
GFSL-2003-12-01F	GEF Environmental Facility - TAM and Other Services	GFSL	103,459	10,124	07/12/03	Disbursing	McPhee J.	Finance, Business	Turnaround Management Group
GFSL-2003-12-02F	GEF Environmental Facility - BAS Advisory and Other Services	GFSL	416,336	35,268	07/12/03	Disbursing	McPhee J.	Finance, Business	Turnaround Management Group
GRE-2001-08-02	TAM Programme - Atomske Toplice	GRE	42,770	42,770	03/08/01	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group
GRE-2004-06-03	Atomske Toplice II	GRE	60,000	8,000	16/06/04	Committed	McPhee J.	Manufacturing	Turnaround Management Group
HOL-1992-09-08	Fund for promotion of small businesses	HOL	64,816	64,816	29/09/92	Closed	Abos J.	Finance, Business	Financial InstitutionsA
IRL-1994-10-05	Ljubljanska Banka - institutional development	IRL	28,005	28,005	01/10/94	Closed	Pilipovic-Chaffey D.	Finance, Business	Financial InstitutionsA
IRL-1996-09-03	Energy efficiency	IRL	96,485	96,485	25/07/96	Closed	McCallion T.	Energy	Energy Efficiency
IRL-2002-06-03	Slovene Insurance Supervisory Agency - Systems Development	IRL	78,060	78,060	14/06/02	Closed	Macdougall A.	Finance, Business	Financial InstitutionsA
IRL-2003-11-05	Slovene Insurance Supervisory Agency - Systems Development II	IRL	76,440	0	26/11/03	Committed	Macdougall A.	Finance, Business	Financial InstitutionsA
ITA-1993-05-04	Drava river hydro-power project - procurement advice	ITA	119,906	119,906	17/05/93	Closed	Parshad N.	Energy	Power and Energy
ITA-1993-08-08	Slovene Special Restructuring Programme - financial advice	ITA	128,409	128,409	27/07/93	Closed	D'Amico A.	Finance, Business	Early Stage Equity
JAP-1993-05-11	Investment master plan	JAP	360,000	360,000	01/05/93	Closed	Parshad N.	Energy	Power and Energy
JAP-1993-05-13	Turnround Management Programme - Juteks	JAP	3,968	3,968	01/05/93	Closed	White J.	Manufacturing	Early Stage Equity
JAP-1993-05-14	TurnAround Management Programme - Majsperk	JAP	48,398	48,398	01/05/93	Closed	White J.	Manufacturing	Early Stage Equity
JAP-1993-06-18	TurnAround Management Programme - Induplati Jarse	JAP	34,657	34,657	01/06/93	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group
JAP-1993-07-27	Special investment companies and mutual funds	JAP	192,700	192,700	01/07/93	Closed	Marques Mendes A.	Finance, Business	Financial InstitutionsA
JAP-1993-08-30	TurnAround Management Programme - Trata d.d.	JAP	48,020	48,020	01/08/93	Closed	White J.	Manufacturing	Early Stage Equity
JAP-1993-09-48	TurnAround Management Programme - Iskra AET	JAP	50,000	50,000	01/09/93	Closed	McAlister M.	Manufacturing	PE/ESE/TurnAround Management Group
JAP-1993-12-67	Slovene Special Restructuring Programme - legal advice	JAP	115,469	115,469	01/12/93	Closed	Toselli M.	Finance, Business	Early Stage Equity
JAP-1994-05-17	Maribor independent power producer - project preparation	JAP	433,685	433,685	16/05/94	Closed	Parshad N.	Energy	Power and Energy
JAP-1994-10-36	Ljublijanska Banka - institution building	JAP	144,094	144,094	01/10/94	Closed	Pilipovic-Chaffey D.	Finance, Business	Financial InstitutionsA
NOR-1996-03-01	Energy efficiency project preparation	NOR	88,423	88,423	01/03/96	Closed	McCallion T.	Energy	Energy Efficiency
NORG-1993-10-07	Slovenia Telecommunications - preparation of tender specifications	NORG	82,095	82,095	01/10/93	Closed	Dell'Atti A.	Telecommunications	Bulgaria/Alba./FYR of Maced./Slov./Armen./ Georgia
SPA-2000-04-01	Part of Advisory Fee for Privatisation of NLB and NKBM	SPA	199,875	199,875	06/04/00	Closed	Fossemalle A.	Finance, Business	Financial InstitutionsA
SPA-2002-11-03	Extension of TAM in CE & SEE 2001-2003 - IMP Telecom	SPA	48,400	33,469	29/11/02	Committed	McPhee J.	Manufacturing	Turnaround Management Group
SWI-1993-12-03	Upgrading of Soca river hydropower schemes	SWI	193,451	193,451	13/03/93	Closed	Parshad N.	Energy	Power and Energy
SWI-2001-01-01F	TurnAround Management (TAM) Programme in central, eastern & southern Europe	SWI	46,400	34,469	04/01/01	Disbursing	McPhee J.	Manufacturing	Turnaround Management Group
TAI-1992-09-48	Bank rehabilitation	TAI	165,960	165,960	01/09/92	Closed	Marques Mendes A.	Finance, Business	Financial InstitutionsA
TAI-1994-07-03	Project finance and economic appraisal specialist for environm. infrastructure projects	TAI	24,338	24,338	14/06/94	Closed	Muscat G.	Energy	MEI
TAMEC-95-09-01	TurnAround Management Programme - advisory services contract - Cetis	TAMEC	39,111	39,111	01/09/95	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group
TAMEC-95-09-02	TurnAround Management Programme - advisory services contract - Iskra Baterije d.o.o	TAMEC	47,541	47,541	01/09/95	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group
TAMEC-95-09-03	TurnAround Management Programme - advisory services contract - Elkroj Mozirje	TAMEC	48,690	48,690	01/09/95	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group

Commitment Number	Commitment Name	Fund Short Code	Euro Committed	Euro Disbursed	Fund Approve d Date	Commit Stage Name	Operation Leader	Sector	Team Name
TAMEC-95-09-04	TurnAround Management Programme - advisory services contract - BPT Trzic	TAMEC	46,483	46,483	01/09/95	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group
TAMEC-95-09-08	TurnAround Management Programme - Predilnica Litija	TAMEC	45,850	45,850	01/09/95	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group
TAMEC-95-09-09	TurnAround Management Programme - advisory services contract - Kolinska	TAMEC	41,461	41,461	01/09/95	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group
TAMEC-95-10-12	TurnAround Management Programme - advisory services contract - KORS	TAMEC	47,327	47,327	01/10/95	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group
TAMEC-95-10-14	TurnAround Management Programme - advisory services contract - TLP	TAMEC	37,645	37,645	01/10/95	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group
TAMEC-95-11-19	TurnAround Management Programme - Iskra AET	TAMEC	50,000	50,000	01/11/95	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group
TAMEC-95-11-25	TurnAround Management Programme - advisory services contract - Zlatarna Celje	TAMEC	49,597	49,597	01/11/95	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group
TAMEC-95-11-27	TurnAround Management Programme - advisory services contract - Viator	TAMEC	48,066	48,066	01/11/95	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group
TAMEC-95-12-28	TurnAround Management Programme - advisory services contract - Zito Gorenjika	TAMEC	49,523	49,523	01/11/95	Closed	White J.	Manufacturing	Early Stage Equity
TAMEC-96-01-05	TurnAround Management Programme - advisory services contract - Semenarna dd Ljubljana	TAMEC	35,818	35,818	01/01/96	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group
TAMEC-96-01-09	TurnAround Management Programme - advisory services contract - Domel do	TAMEC	31,825	31,825	01/01/96	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group
TAMEC-96-05-26	TurnAround Management Programme - Induplati training	TAMEC	37,052	37,052	01/05/96	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group
TAMEC-97-01-11	TurnAround Management Programme - advisory services contract - Indos	TAMEC	47,826	47,826	01/01/97	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group
TAMEC-97-02-19	TurnAround Management Programme - advisory services contract - Trimo	TAMEC	34,563	34,563	01/02/97	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group
TAMEC-97-03-20	TurnAround Management Programme - advisory services contract - Lek Cosmetics	TAMEC	44,870	44,870	01/03/97	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group
TAMEC-97-04-25	TurnAround Management Programme - advisory services contract - Kovinastrov Gastronom	TAMEC	45,358	45,358	01/04/97	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group
TAMEC-97-05-30	TurnAround Management Programme - advisory services contract - Eso Tech	TAMEC	49,363	49,363	01/05/97	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group
TAMEC-97-06-33	TurnAround Management Programme - Merkur	TAMEC	41,268	41,268	20/06/97	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group
TAMEC-97-07-40	TurnAround Management Programme - advisory services contract - IMP Livar	TAMEC	48,355	48,355	15/07/97	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group
TAMEC-97-07-43	TurnAround Management Programme - post-investment support - Tosama	TAMEC	43,123	43,123	22/07/97	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group
TAMEC-97-10-47	TurnAround Management Programme - Viator II	TAMEC	49,167	49,167	17/10/97	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group
TAMEC-98-01-01	TurnAround Management Programme - Rogaska glass factory	TAMEC	51,895	51,895	14/01/98	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group
TAMEC-98-04-09	TurnAround Management Programme - BPT Trzic II	TAMEC	43,405	43,405	17/04/98	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group
TAMEC-98-06-16	TurnAround Management Programme - Iskra	TAMEC	43,005	43,005	17/06/98	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group
TAMEC-98-06-19	TurnAround Management Programme - Vega	TAMEC	43,973	43,973	18/06/98	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group
UKC-1994-09-09	Review of draft law on privatisation of state owned enterprises	UKC	24,136	24,136	01/09/94	Closed	Macit D.	Community/ Social Services	GC/General Counsel/Legal Transition
UKC-1994-10-10	Review of foreign investment law	UKC	24,196	24,196	01/10/94	Closed	Macit D.	Community/ Social Services	GC/General Counsel/Legal Transition
UKC-1994-10-12	Slovene Special Restructuring Programme - TC for screening and feasibility assessment	UKC	66,454	66,454	24/10/94	Closed	D'Amico A.	Finance, Business	Early Stage Equity
UKC-1995-10-22	Assistance to the Slovene export corporation	UKC	82,963	82,963	04/09/95	Closed	Dell'Atti A.	Finance, Business	Bulgaria/Alba./FYR of Maced./Slov./Armen./ Georgia
UKE-2001-07-23	Slovenia: Private Road Maintenance Technical Support	UKE	17,670	17,670	18/07/01	Closed	Barrett S.	Construction	Transport

Commitment Number	Commitment Name	Fund Short Code	Euro Committed	Euro Disbursed	Fund Approved Date	Commit Stage Name	Operation Leader	Sector	Team Name
UKE-2001-11-29	Technical Support for the Development of Environmental Due Diligence Procedures	UKE	22,844	22,844	03/11/01	Closed	King M.	Finance, Business	PE/ESE/Environmental Appraisal Unit
USA-1998-06-04	Energy efficiency project preparation	USA	27,150	27,150	29/06/98	Closed	McCallion T.	Energy	Energy Efficiency
	Euro Total:		**10,678,662**	**9,809,896**					
	No of Commitments:		**94**						

ANNEX 4: POLITICAL AND SOCIAL ASSESSMENT

Internal political background

Slovenia's declaration of independence on 25 June 1991 marked the end of its political association in a common state with the other Southern Slav nations. It had begun in 1918 when Slovenia joined the Kingdom of Serbs, Croats and Slovenes, later to become known as Yugoslavia. In 1941, Nazi Germany and Fascist Italy, the so-called Axist Powers, attacked and dismembered Yugoslavia. Slovenia was partitioned, one part being annexed by Hitler's Germany and the other by Mussolini's Italy. Following the victory in 1945 of the Communist-led Partisan movement, in which many Slovenes participated, Yugoslavia was reconstituted a federation, with Slovenia as one of its six republics. The post-1945 peace settlement restored to Slovenia a part of the Adriatic region that had come under Italian rule as part of the 1920 Treaty of Rapallo. In the decades after 1945, the Slovenes gradually became more and more disillusioned with Yugoslavia - for a combination of political and economic reasons. In January 1990, Slovenia's Communist leadership left the congress of the Yugoslav Communist Party in Belgrade never to return. In April 1990, the first free election since before the Second World War were held in Slovenia bringing to power a six-party coalition called Demos (Democratic Opposition in Slovenia). In December 1990, 89% of people voted for independence in a referendum organised by Demos. Having successfully repulsed the attempt in late June and early July 1991 by the Yugoslav People's Army to end its just-proclaimed independence, Slovenia obtained international diplomatic recognition in January 1992. The Demos coalition under Lojze Peterle, a Christian Democrat, as Prime Minister collapsed in May 1992 and was replaced by a centre-left one led by Janez Drnovsek, leader of the Liberal Democracy of Slovenia (LDS). Some leading members of the LDS had been prominent in the power structure of pre-independence Communist-ruled Slovenia, but the party was able to recruit new, younger cadres during the period of its dominance in Slovene governments ever since – with one brief interruption in 2000. In May of that year and with regular parliamentary elections only months away, the Drnovsek government suffered an unexpected, narrow defeat in parliament. A centre-right cabinet was thereupon formed under Andrej Bajuk, a Slovene returnee from Argentina, as Prime Minister. However, in the October 2000 elections, the Drnovsek coalition came back to power. In December 2002, Drnovsek, having earlier stepped down as Prime Minister, was elected President in a run-off, replacing the extremely popular Milan Kucan, who had been at the helm in Slovenia since 1987. Anton Rop, former Finance Minister, succeeded Drnovsek as Prime Minister. In April 2004, the Slovene People's Party (SLS) left the Rop coalition. but without depriving it of its parliamentary majority. In the elections for the European Parliament in June 2004, the centre-right parties scored a victory, winning four out of seven MEP seats allocated to Slovenia. Foreign Minister Dimitrij Rupel was dismissed from the government in July after defying Prime Minister Rop's demand to cancel plans to attend the launch of a centre-right think-tank intended as a counterpart to a centre-left foundation launched earlier in the year by former president, Milan Kucan. Parliamentary elections on 3 October led to a change of government, bringing to office a centre-right coalition under Janez Janša, leader of the Democratic Party of Slovenia (SDS).

International relations

Slovenia was invited to join NATO at its summit in Prague in November 2002 and to become an EU member at the EU's Copenhagen summit in December 2002. In the joint and binding NATO and EU referendums on 23 March 2003, 90% of voters said 'yes' to

Slovenia's accession to the European Union 66% to its membership of NATO. Slovenia joined NATO in March 2004 and the European Union on 1 May 2004. Conscription was abolished in 2003 as part of a programme of revitalisation and modernisation of its armed forces, with the aim of making them fully professional by 2010. Slovenia's entry into the EU and NATO has further upgraded its regional role in South-Eastern Europe. Both independently and as part of collective initiatives, Slovenia is participating in attempts by the international community to resolve outstanding regional problems, notably that of Kosovo, whose status is coming up for review in 2005. In 2005, Slovenia takes over as Chairman-in-Office of the Organisation for Security and Cooperation in Europe (OSCE). Slovenia has generally good relations with all its neighbours, but also several disputes with the neighbouring Croatia, notably those over the territorial waters in the Bay of Piran and over the fate of pre-1991 hard-currency deposits – worth about Euro150m – held by 140,000 Croatian investors in Croatian branches of the former Ljubljanska Banka (LB). Despite those and other outstanding issues, the people of the two countries remain on cordial terms and there is extensive economic cooperation. It was hoped that the granting to Croatia in June 2004 of EU candidate status would help speed up the resolution of outstanding issues but incidents occurring during the election campaign in Slovenia up to the October election, led to an escalation in the war of words and the recall of the Slovene Ambassador to Croatia.

Integrity issues

Throughout the EU accession process, Slovenia was consistently at the head of the group of 10 applicants as regards progress towards meeting EU accession requirements, including those touching on the rule of law. In its final report on Slovenia's readiness for EU membership, published in November 2003, the European Commission said Slovenia was the best prepared of the applicant countries. Slovenia also has the reputation among the new members of a 'clean' country with little or no classical corruption. In 2003, it occupied the 29th place in the Transparency International's Corruption Perceptions Index of 133 countries, ahead of all the Baltic, Central and South-East European transition countries. (In 2002, it was ranked in the 27th place out of 102 countries.) However, corruption has become an increasingly discussed public issue reflecting worldwide concern generated by cases like that of Enron and others. The Council of Europe has identified money-laundering as a problem. In 2003 the government transformed the Office for the Prevention of Corruption into an independent commission overseen by parliament, but staffed with independent representatives appointed by the president, parliament, judiciary and government. There is an ombudsman who reviews companies against official and state bodies. However, 'cronyism' remains a feature of the country's investment climate, as is well known in Slovenia and among those abroad having dealings with it. There is also a widespread (though not necessarily always openly declared) resistance to takeovers of Slovene firms by foreign ones. The government says it is anxious to attract FDI and has raised this year's forecast budget for stimulating it from Euro 1,6million to Euro 2,5 million, according to the Agency for Economic Promotion and Foreign Investments

Labour issues

The Constitution stipulates that trade unions, their operation and membership shall be free. All workers, except police and military personnel, are eligible to join trade unions. There are three main trade unions - the Association of Free Slovene Trade Unions (AFSTU), Pergam, and the Union of Slovene Rail Workers with constituent branches throughout the country – and a fourth smaller one operating on the Adriatic coast. There are more than 100 active trade unions in the country. The largest – AFSTU - has about 370,000 members, nearly 38% of the total workforce of 979,000. Pergam has roughly 25,000 members and the Rail Workers Union about 8,000 members. The government has a dominant role in setting the minimum wage and conditions of work. However, in the private sector, wages and working conditions were agreed upon in the 2003-2005 general collective agreement between the trade unions and the Chamber of Economy. This 'Social Agreement' included provisions on issues such as wage policy, employment, training, social dialogue, equal opportunity and taxation. The Economic and Social Council, consisting of government officials, managers and trade union representatives negotiates public-sector wages, collective bargaining rules and major regulatory changes.

Social conditions

Population: According to the most recent census conducted in April 2002, Slovenia's population stands at 1,96million and has grown by only 2.6% since 1991. Since deaths have outnumbered births, the population increase during the period is attributed to net immigration from the other former Yugoslav republics. About 20% of the population lives in the two large municipalities, Ljubljana and Maribor .The population is ageing. The official estimate is that the working-age population group (those aged 15-59) will decline as a percentage of the total over the next decade – from 64% of the population in 2002 to 61% in 2012 The growth of the population as a whole is expected to grow even more slowly in the next decade – to 2.1% by 2012, according to the Slovene Statistical Office. Slovenia has low child and adult mortality rates compared with its south-east European neighbours. Life expectancy - an average of 75.9 years in 2000 according to WHO statistic, is among the highest in the region. But Slovenia record a high number of road accidents per capita – a combination of inadequate roads, a rapid increase in the number of new cars and drink-driving, Reported cases of most infectious diseases have decreased dramatically since 1990.The law does not specifically prohibit trafficking in persons, and trafficking of women through and to the country takes place. In the absence of a law against trafficking, the government continues to investigate and prosecute traffickers under laws against pimping and others. Though the government does not yet fully comply with the minimum international standards for the elimination of trafficking, it is making significant efforts to do so. The government working group to combat trafficking in persons is drafting a national action plan to be considered for adoption by the end of 2004.

Minorities: Ethnic Slovenes make up almost 95% of the population, with Serbs and Croats accounting for about 5% of the population. The Constitution provides special rights to the country's small autochthonous Italian and Hungarian minorities, including the right to use their national symbols; the right to have bilingual education; and the right for each to be represented as a community in parliament. Ethnic Serbs, Croats, Bosnians, Kosovar Albanians and Roma from Kosovo and Albania are considered 'new' minorities and are not protected in this way. As regards the Roma community, the Constitution states that 'the status and special rights of Gypsy communities living in Slovenia shall be such as determined by statute. Parliament has as yet not enacted laws to establish such rights for the Roma community, but dialogue between the government and Roma representatives about possible legislation continues.

Regularisation for non-Slovene former Yugoslav citizens remains an issue. According to the Ministry of the Interior, of the 211,830 applications for citizenship received since independence right up to September 2003, 194,507 were approved, 6,542 were refused, 3,825 were being processed, 3,659 were awaiting processing and 3,297 were rejected for 'technical reasons' (usually incomplete documentation'). Approximately 2,300 persons granted 'temporary refuge' status after fleeing the 1992-95 conflict in Bosnia normalised their status by applying for permanent residency during a six-month window in 2002-2003. Some Yugoslavs residing in Slovenia at the time of the proclamation of independence opted not to apply for citizenship in a six-month window in 1991-92. Subsequently, their records were 'erased' from the population register. In April 2002, the Constitutional Court judged the removal from the registry illegal. The centre-left government's efforts to resolve the Court's concerns through new legislation ran into rouble. The government managed – against opposition protests – to push a bill restoring resident status to a few thousand ex-Yugoslavs through parliament. But, the bill's opponents succeeded in calling a referendum. In April 2004, the bill was rejected by 95% of those taking part in the referendum – though the turnout was very low. The rejection for their bill led to the resignation of the Minister of the Interior.

Education: Slovenia has an educational system superior to that in most other transition countries. In the 2001/2002 school years, 177,775 pupils were enrolled in elementary school. Enrolment at the elementary level has been falling over a decade due to a steady decline in the number of children of primary age since the 1980s. The structure of elementary education has changed. The number of elementary schools rose from 422 in 1990 to 448 in 2001, but the number of class units fell from 9,486 to 9,033 in the same period. In 2000/01 Slovenia had a pupil/ teacher ratio at the primary level of 13 – in line with the European average. Higher education has expanded steadily in the past decade. In 2002/03, 87,056 students were enrolled in universities and other institutions of higher learning. In the 1990/91 academic year the number was 33,565, almost three times smaller. Social sciences, economics and the arts are the most popular courses of study. Post-secondary vocational training grew dramatically from 1997 to 2002 – from 864 students in 1997 to 8,796 in 2002. This increase is in line with the increasing impact of the government-sponsored job skills training programmes and subsidies for higher education.

Health: Slovenia has a well-developed mandatory health insurance system tat is almost entirely funded from social security contributions. In 2000 Slovenia spent 8.6% of its GDP on health, the highest ration among the transition economises. According to World Health Organisation statistics, the number of physicians remained largely stable in the first half of the 1990s, rising from 1,402 in 1997 to 1,417 in 2000. Also according to the WHO, Slovenia had in 1998 a ratio of physicians per 100,000 of the population (228), well ahead of those in Austria, Germany or France.

ANNEX 5: ECONOMIC INDICATORS

	1997	1998	1999	2000	2001	2002	2003 Estimate
Output and expenditure			*(Percentage change in real terms)*				
GDP	4.8	3.6	5.6	3.9	2.7	3.3	2.5
Private consumption	2.5	3.0	5.9	0.4	2.3	0.3	2.7
Public consumption	2.4	5.4	2.9	2.3	3.9	1.7	2.6
Gross fixed capital formation	13.5	9.9	21.0	0.6	4.1	3.1	6.3
Exports of goods and services	11.3	7.4	1.6	13.0	6.3	6.7	3.2
Imports of goods and services	11.5	10.3	8.0	7.6	3.0	4.9	6.8
Industrial gross output	0.9	4.0	-0.5	6.3	3.1	2.5	1.4
Agricultural gross output[1]	-2.9	3.1	-2.1	-1.0	-2.5	1.1	-6.2
Employment[2]			*(Percentage change)*				
Labour force (mid-year)	2.1	1.8	-2.0	0.0	0.9	0.9	-0.3
Employment (mid-year)	2.3	1.0	-1.7	0.2	2.2	0.9	-1.1
			(In per cent of labour force)				
Unemployment (mid-year)	7.1	7.6	7.4	7.2	5.9	5.9	6.7
Prices and wages			*(Percentage change)*				
Consumer prices (annual average)	9.1	7.9	6.1	8.9	8.4	7.5	5.6
Consumer prices (end-year)	9.4	6.5	8.0	8.9	7.0	7.2	4.7
Producer prices (annual average)	6.1	6.0	2.1	7.6	9.0	5.1	2.5
Producer prices (end-year)	6.8	3.6	3.5	9.2	7.5	3.7	2.1
Gross average monthly earnings in economy (annual average)	11.7	9.6	9.6	10.6	11.9	9.7	7.5
Government sector[3]			*(In per cent of GDP)*				
General government balance	-1.6	-2.2	-2.1	-3.4	-2.8	-2.4	-2.0
General government expenditure	40.9	41.7	41.9	48.2	47.9	48.1	48.2
General government debt	21.6	22.2	23.4	27.4	28.1	29.5	29.3
Monetary sector			*(Percentage change)*				
Broad money (M2, end-year)	35.5	24.5	11.8	9.7	27.4	25.1	5.2
Domestic credit (end-year)	14.2	22.4	19.3	16.7	16.9	13.9	14.7
			(In per cent of GDP)				
Broad money (M2, end-year)	34.1	38.1	38.1	38.0	43.3	48.5	47.2
Interest and exchange rates			*(In per cent per annum, end-year)*				
Discount rate	10.0	10.0	8.0	10.0	11.0	10.0	7.3
Interbank market rate (average)	9.8	5.6	6.9	7.2	4.7	4.7	4.7
Deposit rate (31-90 days)	13.9	7.0	9.6	10.9	8.5	7.6	4.8
Lending rate (short-term working capital)	20.3	12.3	15.2	16.3	13.7	11.8	9.9
			(Tolars per US dollar)				
Exchange rate (end-year)	169.2	161.2	196.8	235.6	250.9	226.2	193.0
Exchange rate (annual average)	159.7	166.1	181.8	222.7	243.0	240.2	207.1
External sector			*(In millions of US dollars)*				
Current account	51	-118	-698	-548	31	375	10
Trade balance	-775	-792	-1,235	-1,139	-620	-243	-627
Merchandise exports	8,406	9,091	8,623	8,808	9,343	10,473	12,929
Merchandise imports	9,181	9,883	9,858	9,947	9,962	10,716	13,556
Foreign direct investment, net	303	221	59	71	371	1,748	-118
Gross reserves, excluding gold (end-year)	3,315	3,639	3,168	3,196	4,330	6,980	8,352
External debt stock	6,853	7,571	8,100	8,516	9,283	11,692	15,966
			(In months of imports of goods and services)				
Gross reserves, excluding gold (end-year)	3.8	3.8	3.3	3.4	4.5	6.7	6.4
			(In per cent of exports of goods and services)				
Debt service[4]	8.8	13.5	8.0	9.5	14.6	14.3	12.7
Memorandum items			*(Denominations as indicated)*				
Population (end-year, million)	2.0	2.0	2.0	2.0	2.0	2.0	2.0
GDP (in millions of tolars)	3,110,075	3,464,889	3,874,720	4,252,315	4,761,815	5,314,494	5,749,002
GDP per capita (in US dollar)	9,812	10,542	10,724	9,595	9,905	11,088	13,949
Share of industry in GDP (in per cent)	28.0	28.1	27.3	27.7	27.4	27.7	27.6
Share of agriculture in GDP (in per cent)	3.7	3.6	3.2	2.9	2.7	2.8	2.6
Current account/GDP (in per cent)	0.3	-0.6	-3.3	-2.9	0.2	1.7	0.0
External debt - reserves (in US$ million)	3,538	3,932	4,932	5,320	4,953	4,711	7,614
External debt/GDP (in per cent)	35.2	36.3	38.0	44.6	47.4	52.9	57.5
External debt/exports of goods and services (in per cent)	65.6	68.1	77.2	79.6	82.1	91.6	101.6

[1]Agricultural value-added

[2]Based on labour force survey data. These figures have been consistently lower than those calculated as officially registered unemployed.

[3]General government includes the state, municipalities as well as social security and extra-budgetary funds. From 1999 figures for the main aggregates (general government expenditure, revenue, balance and debt in particular) are calculated according to the Eurostat methodology (ESA95). For other years, the figures are calculated according to the methodology of the Ministry of Finance and privatisation revenues from state and socially-owned enterprises are placed below the line.

[4]Long-term debt only.

ANNEX 6: COMPARATIVE INDICATORS

Annex 7 - Comparative indicators

Indicators of transition in advanced transition countries

	Slovenia	Croatia	Czech Rep.	Estonia	Hungary	Latvia	Lithuania	Poland	Slovak Rep.
Private sector share in GDP (%, 2003) 1/	65	60	80	80	80	70	75	75	80
Labour productivity in manufacturing (cumulative % change 1997-200:	12.4	49.2	48.2	96.7	74.0	61.1	89.1	70.4	31.5
FDI per capita (1989-2003 in US$) 3/	1,642	1,466	3,709	2,393	3,364	1,454	1,065	1,355	1,899
Average rate of return on assets of all banks (%, 2001)	0.50	1.65	0.80	2.49	1.69	2.00	-0.16	0.99	1.15
Asset share of state-owned banks (%, 2002)	48.6 *	4.0	4.6	0.0	10.8	4.0	0.0	26.6	2.9
Non performing loans (% of total loans, 2002)	7.0	11.5	9.4	0.8	4.6	2.1	5.8	24.6	11.2
Stock market capitalisation (% of GDP, 2002)	19.1	15.8	19.8	31.1	17.6	7.3	9.3	14.3	6.9
Share of agriculture in GDP (%, 2003) 4/	3.0	8.8	na	4.4	5.4	4.1	5.8	na	na
Government capital expenditure (% of GDP, 2003) 5/	2.5	2.2	na	3.1	3.5	3.5	3.4	na	na
Electricity tariff Usc per kWh (2002)	8.0	5.6	8.0	5.6	8.7	4.9	7.9	8.8	7.5
Energy intensity (GDP per unit of energy use, 2000)	5.02	4.90	3.59	2.87	4.88	4.61	3.90	4.00	3.57
Independent electricity regulator (2003)	yes	yes	yes	yes	yes	yes	yes	yes	yes
Phone lines per 100 inhabitants (2002)	40.7	38.8	37.8	35.1	36.1	30.1	27.1	29.5	26.1
Independent telecom regulator (2003)	yes	yes	yes	yes	yes	yes	yes	yes	yes
Railway labour productivity (1989=100, 2002)	133.6	78.1	68.2	287.4	130.3	108.6	54.4	93.1	61.7
Separation of railway accounts (2003)	yes	yes	yes	yes	yes	yes	yes	yes	yes
Paved roads (% of total, 2001) 6/	100	85	100	20	44	39	91	68	87
Private sector involvement in road construction and operation (2003)	yes	yes	yes	yes	yes	yes	yes	yes	yes
Emission of organic pollutants (kg per day per worker, 2000) 7/	0.17	0.17	na	na	0.17	0.19	0.18	0.16	0.15

Source: EBRD Transition Reports, IMF, World Bank and various national sources

* this figure includes the Nova Ljubljanska Banka group which represents 47.3 per cent of total banking assets and is now in mixed ownership, as the State, along with state funds, state-owned companies and municipalities, retains a 48.5 per cent share with a blocking minority after the sale of a 39 per cent stake to a strategic investor, KBC of Belgium, and the EBRD in late 2002, the balance being in the hands of private individuals and entities

1/ Croatia: 2002

2/ Croatia, Latvia: 1997-2002

3/ Croatia: 1992-2002

4/ Croatia: 2001; Hungary: 2002

5/ Croatia, Hungary: 2002

6/ Croatia, Latvia: 1999

7/ Croatia: 1997; Slovak Republic: 1998

ANNEX 7: REGIONAL DEVELOPMENT INDICATORS

Regional development indicators

Basic statistics on Slovenia's regions

	Total	Pomurska	Podravska	Koroška	Savinjska	Zavaska	Spodnje-posavska	Jugovzhodna Slovneija	Osrednje-slovenska	Gorenjska
Population (in thousands)	1,995.0	123.6	319.8	73.9	257.0	45.9	70.0	138.6	493.4	197.6
GDP at current prices (SIT million; 2002)	5,314.5	227.5	714.5	157.5	611.0	89.3	156.6	332.2	1,861.8	461.7
Percentage share of total (2002)	100.0	4.3	13.4	3.0	11.5	1.7	2.9	6.3	35.0	8.7
GDP per capita (EUR-2002)	11,775	8,128	9,876	9,415	10,487	8,567	9,881	10,612	16,701	10,338
Percentage of average (2002)	100.0	69.0	83.9	80.0	89.1	72.8	83.9	90.1	141.8	87.8
Gross fixed capital formation for environmental protection (SIT million-2001)	41,402	225	6,657	1,253	15,737	832	1,703	1,091	6,349	1,597
Gross fixed capital formation for environmental protection per capita (SIT-2001)	20,752.9	1,820.4	20,816.1	16,955.3	61,233.5	18,126.4	24,328.6	7,871.6	12,867.9	8,082.0
Average monthly gross earnings (SIT)	235,436	197,816	219,096	201,286	213,425	215,883	208,230	221,305	273,126	225,907

Source: Statistical Office of the Republic of Slovenia

ANNEX 8: LEGAL TRANSITION

ASSESSMENT OF SLOVENIA'S COMMERCIAL LAWS

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, insolvency, secured transactions and telecommunications. The existing tools assess both the quality of the laws "on the books" (also referred to as "extensiveness") and the actual implementation of laws (also referred to as "effectiveness"). All available results of these assessments can be found at www.ebrd.com/law. This annexe presents a summary of the results for Slovenia, accompanied by critical comments of the Bank's legal experts who have conducted the assessments.

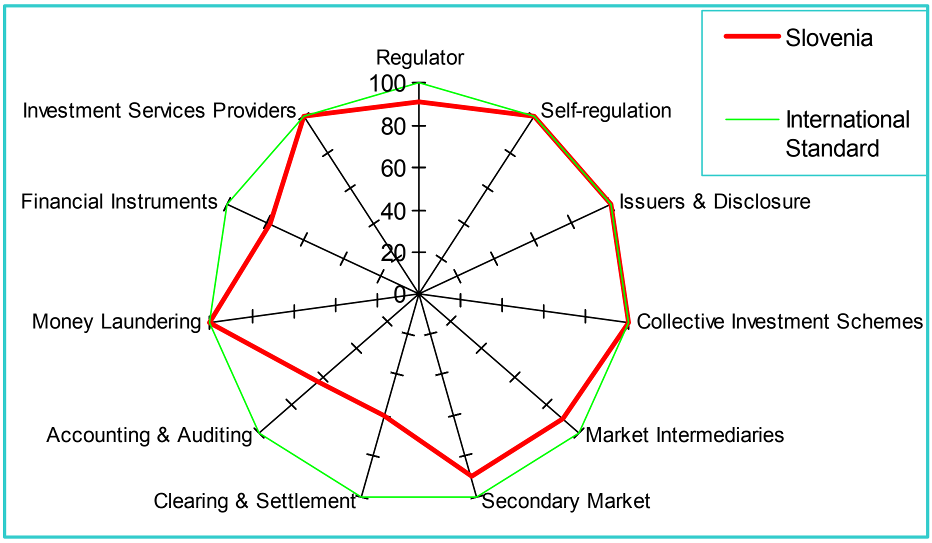
Capital Markets

The primary legislation governing the Slovenian capital markets include the Securities Market Act, Investment Funds and Management Companies Act, and Takeover Act. The Securities Market Act became effective in July 1999 and was recently amended in February 2004, whereas the Investment Funds and Management Companies Act entered into force in January 2003. The Takeover Act came into force in 1997 and was amended in 1999.

The major changes brought about by the Securities Market Act of 1999 include: (a) permitting foreign stock brokerage companies to establish branches in Slovenia; (b) increasing the minimum capital requirements of stock brokerage companies; (c) requiring public companies to disclose price-sensitive information and report on financial statements in detail; and (d) providing more severe sanctions for failure to disclose.

The Securities Market Agency was established in 1994 pursuant to an earlier Securities Market Act. Financed by stamp duties, fees and other income generated by its activities, the Securities Market Agency is a self-regulating legal entity, independent in carrying out its tasks and exercising its powers. It submits annual reports on its work to the Slovenian Parliament. In addition, the Ljubljana Stock Exchange was officially established in December 1989 and has two trading sections - the official stock exchange market and the free market.

Quality of securities market legislation – Slovenia (2004)



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 2004

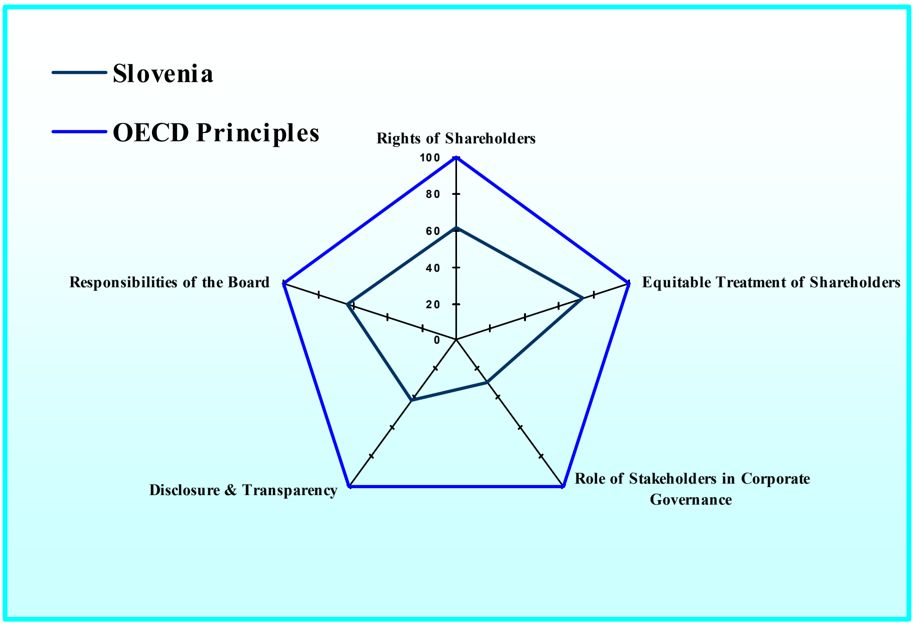
According to the findings of the EBRD's Securities Market Legislation Assessment Project in 2004, Slovenia is a country whose existing securities market legislation (i.e., "law on the books", not how the relevant legislation is being implemented) when assessed against relevant international standards was rated among "high compliance" countries. Typical areas of improvement for countries in this category in general include: disclosure of personal benefits or background by senior management of financial intermediaries; requirements to provide account statements or information about the financials or shareholders of financial intermediaries; and whether derivatives securities must settle and clear on a specialised trading system. Therefore, attention should be paid by Slovenia to ensure that its relevant rules in these areas can keep up with international standards. Another area where reform may be needed relates to the continuing education requirements for accountants, auditors and other financial professionals. Furthermore, as can be seen from the above chart, Slovenia needs to further strengthen relevant financial reporting rules and to improve its regulatory framework concerning clearing and settlement of securities transactions.

Company Law and Corporate Governance

The existing Companies Act of Slovenia was promulgated in 1993 and was most recently amended in 2000 and 2001 to bring the law further into line with the requirements of EU. Under the Companies Act, commercial companies can take the following forms: partnerships (including general partnership, limited partnership and silent partnership) and companies with share capital (including limited liability company, joint stock company and limited partnership with share capital). A joint stock company shall be managed by the executive management, whose members are appointed by the supervisory board (or the shareholders' meeting if there is no supervisory board in the company). The executive management will also have its reporting obligations to the supervisory board (if the company has one).

According to the 2003 results of the EBRD's Corporate Governance Sector Assessment Project, Slovenia is a country whose existing corporate governance related laws (i.e., "law on the books", not how the relevant legislation is being implemented) when compared to the OECD *Principles of Corporate Governance* were rated among "medium compliance" countries. General reform priorities for countries in this category are to improve effective implementation and enforcement of existing legislation, while continuing to reform their existing laws.

Quality of corporate governance legislation – Slovenia (2003)



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

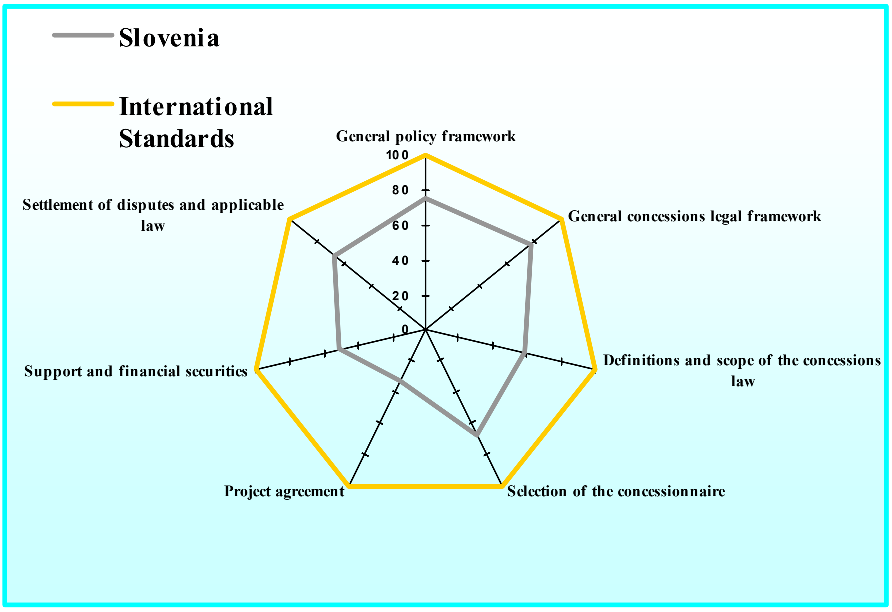
Source: EBRD Corporate Governance Sector Assessment project, 2003 assessment

As shown from the above chart based upon the EBRD's findings of the aforesaid assessment in 2003, Slovenia's regulatory framework concerning corporate governance issues fall short of international standards in several aspects. Specifically, Slovenia needs to strengthen its overall disclosure and transparency rules concerning the company's management and operations in general. Slovenia also needs to consider improving the way through which the interests of stakeholders are protected.

Concessions

At the moment Slovenia does not have a single general framework law regulating concessions. Instead, a number of general and sector specific laws contain rules governing concessions. According to the EBRD Concessions Sector Assessment conducted in 2004, the country still has some way to go until it reaches international standards applicable to this area. The assessment has highlighted in particular the lack of flexibility in regulating project agreements (see graph below).

Quality of concession legislation – Slovenia (2004)



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

Source: EBRD Concessions Sector Assessment 2004

The Government has created a policy and institutional framework for improving the legal environment and promoting Private Sector Participation ("PSP") in the country (e.g. the establishment of the "Investments, Public Procurement and Concessions Department" within the Ministry of Finance).

The 1993 *Public Trading Services Act* contains core provisions on concessions (e.g., dealing with the concessionaire, concession enactment, procedure, concession agreement, dispute settlement, termination). However, these provisions need to be enhanced as the scope of the law is unclear, procedure is only vaguely defined, the arbitration options are not regulated, and the law provides for discretionary powers of the contracting authority for termination.

The *Local Government Act* dated 1993 sets out a framework that permits municipal entities to award concessions for the performance of public services, but does not describe the conditions under which such concessions will be granted.

In addition, numerous sector-specific acts regulate the granting of concessions in specific sectors (e.g. *Railway Transport Act* of 1999, *Maritime Code* of 2001, *Aviation Act* of 2001, *Public Highways Act* of 1997, *Energy Act* of 1999, *Water Act* of 2001, *Mining Act* of 1999, laws regulating education, health care and social care).

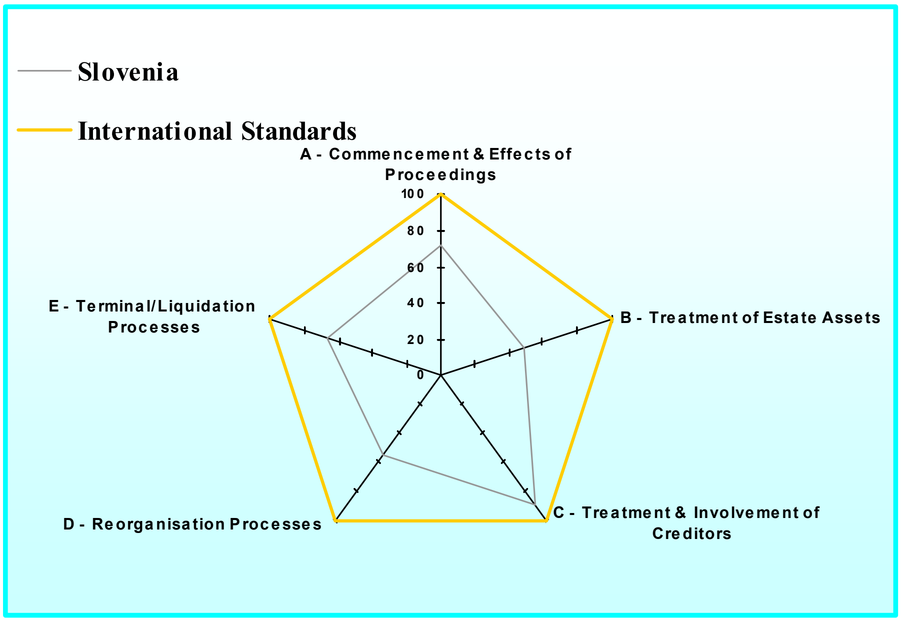
Further development of PSP in the country is conditional on the adoption of a general concession/PSP law, which would clearly and consistently regulate project agreement provisions, government support, financial securities and settlement of disputes throughout all sectors

A draft Law on Concessions has been prepared with EBRD assistance and is expected to be adopted in the very near future. If properly adopted and implemented, the new law will change dramatically the legal regime and provide one of the most advanced concession regimes in the region.

Insolvency

Bankruptcy and insolvency are governed by the “Law on Compulsory Settlement, Bankruptcy and Liquidation (as amended, 1999) of the Republic of Slovenia (the “Insolvency Law”). Despite being the subject of fairly recent reform, this law is missing many of the elements generally recognised in international insolvency standards and best practises as being critical to a well-functioning insolvency legal regime. The graph below, from the EBRD’s 2003 Insolvency Sector Assessment, shows the level of compliance of the Insolvency Law with these international standards in the five core areas most relevant to the sector.

Quality of insolvency legislation – Slovenia (2004)



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.

Source: EBRD Insolvency Sector Assessment 2004

The Insolvency Law applies to both individuals and corporate entities as well as to state-owned enterprises and allows for insolvency proceedings to be commenced by both debtors and creditors. The law is unclear, however, on what financial conditions are necessary to constitute insolvency and what evidence is required to prove these financial conditions and demonstrate that the debtor is insolvent.

Although this law notionally provides for reorganisation of troubled companies through a process called “compulsory settlement”, this process is largely unstructured and unlikely to be particularly useful. The compulsory settlement process does not prevent, for example, critical suppliers (such at telephone and utility companies) from cutting off supply to ransom old debts, does not permit priority reorganisation financing, does not provide for supervision of the implementation of any reorganisation plan that is approved and does not limit in any way "insider creditors" (such as shareholders and officers of the debtor) from voting on the reorganisation.

On the liquidation side, the Insolvency Law contains many elements of a sound law, such as designating a specialist bankruptcy court to hear bankruptcy matters and imposing interim protective measures when insolvencies are commenced, but is still in need of reform. Of particular concern are the provisions dealing with reviewable transactions (i.e. reviewing and reversing suspicious transactions that occurred on the eve of the debtor's insolvency), which are woefully inadequate. This will make it difficult for any insolvency administrator to pursue fraudulent transactions and increase the pool of assets available for distribution in the estate. Similarly, there is no positive obligation upon officers and directors of the debtor company to deliver assets of the debtor to the insolvency administrator, thus making the administrator's job both more difficult and more expensive.

Creditors, both secured and unsecured, are not entitled to direct notice of insolvency proceedings and therefore run the risk of having their claims disallowed or ignored if they do not become aware of the appropriate time periods for filing such claims. Finally, the Insolvency Law does not provide for the final resolution and wind-up of the insolvent estate in cases where there are not sufficient assets to pay for a liquidation. While this position may be a result of budgetary constraints and an unwillingness of the state to bear the costs of liquidating insolvent companies, it runs counter to international standards and best practices which strongly support the final wind-up and resolution of all estates.

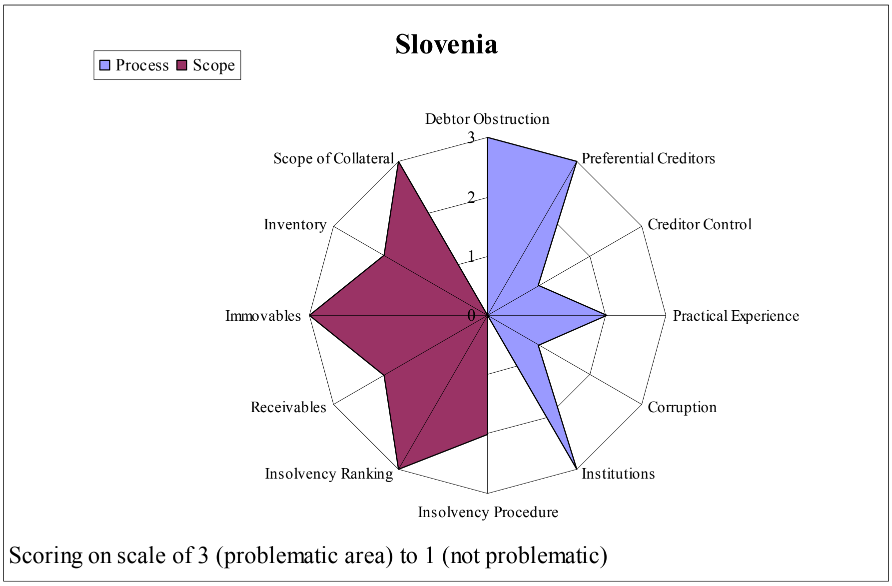
The EBRD is not currently engaged in any insolvency reform activities in Slovenia but it is recommended that such reform be pursued. The World Bank has recently undertaken a Report on the Observance of Standards and Codes in insolvency in Slovenia. The results of this report are expected to be published shortly. At this time, however, it does not appear that any other IFIs are actively engaged in insolvency reform in Slovenia.

Secured Transactions

In 2002, a brand-new Law on Property Rights was adopted which (in sections 128- 209) has changed considerably the way secured transactions can be structured. The reform clearly intended to modernise the system and to provide the much needed commercial flexibility in the regime for security on movable and immovable property. It is still too early to be able to assess the reform's effects, especially since some key institutions are not yet in place and functioning (such as the registry where charges would be registered).

In an EBRD-led survey conducted in 2003 on the enforcement of charges in the region, Slovenia scored relatively well in the region, yet the efficiency of the process was dramatically dented by the length involved in the process. Courts are remarkably slow in handling cases. This is a concern for all types of security (including mortgage), and also when the debtor has been declared bankrupt. The survey highlighted, among other serious obstacles, the significant threat of debtor obstruction to the proceedings and the general weakness of institutions (see graph below).

Obstacles to charge enforcement process – Slovenia (2003)



Note: The fuller the "web" of the graph, the more serious the problems are in each of the respective categories "Process" factors measure the impact of specific incidences on the enforcement proceedings. "Scope" factors relate to the ability of the system to deal with specific situations or items.

Source: EBRD New Legal Indicator Survey 2003

What already transpires from the legal provisions and discussions with local practitioners is that the new system has brought some improvements, but that it still encompasses considerable shortcomings or scope for improvement. A few examples are given below:

- The security agreement must be prepared in the form of a notarial deed exclusively, which is bound to limit the use of such instrument, especially to SMEs.
- 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 charger 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.
- A new registry for charges will be created and operated by the Chamber of Notaries. Typically, the efficiency of such registries depends heavily on the procedures to which perfection is subject. These details are not known since the registry is not yet functioning, but there are some worrying signs that the procedures may entail a number of checks, which would necessarily make perfection more costly and lengthy that it should be. It is also unclear whether searching facility will be made widely available (for example, via the internet) or would be restricted.
- Enforcement has been substantially improved: as soon as the debtor has defaulted, the creditor can demand delivery of the charged assets and sell them directly. Yet, should the debtor refuse to hand over the assets, the creditor will have no alternative but to file an enforcement petition at the local court where the assets are located. In this case, the procedure would take much longer, possibly from 1 to 5 years, and the debtor could obstruct the enforcement procedure by filing objections, delaying the seizure of the assets, etc.

Telecommunications

The telecommunications sector is currently administered by the Telecommunications Agency of the Republic of Slovenia (ATRP) and governed by the Law on Electronic Communications of 2004 (the "Communications Law"). ATRP was established as an independent institution in 2002 and its status and capacity were enhanced by the Communications Law, passed to move Slovenia in line with EU requirements for the sector. The Communications Law thus adopts all major EU standards for the sector and seeks to facilitate a modern competitive marketplace.

Incumbent former monopoly operator, Telecom Slovenije (TS), remains majority state owned (67%). While there has been partial privatisation, with a minority stake of TS being held by a number of predominantly domestic investors, progress in implementing further privatisation (or an indication of firm plans thereof) has been slow.

The fixed telecoms market in Slovenia was formally liberalised in January 2001, although certain transitional measures remained in place much longer than anticipated, resulting in full competition beginning to take hold only in 2003, when alternative operators began to enter the market. Notwithstanding this absence of competition and continued state involvement in the sector, Slovenia maintains very high levels of fixed and mobile service penetration, with the figures for 2003 displaying fixed-line levels at over 96% of households and mobile reach exceeding 92% of inhabitants (on a par with western European levels). Three mobile operators provide competing service in the marketplace, though Mobitel, the mobile arm of TS maintains a dominant position. TS's dominance across the mobile marketplace is further extended by virtue of Mobitel obtaining the only third generation mobile (UMTS) licence awarded in Slovenia.

Although the Communications Law moves to fully harmonise Slovenian legislation with that of the EU in the sector, as seen above, delays in implementing full market liberalisation has impacted upon the level of competition in the marketplace. While Slovenia is an attractive marketplace, given its relative wealth and level of development, the delays in practical implementation of a fully competitive framework, maturity of the market and dominance of TS gives rise to the potential for market saturation before competing operators can make any inroads. Accordingly, the authorities should ensure that competition is fully facilitated through the timely and full implementation of the EU framework for the sector. In particular, it is imperative that the authorities ensure TS's dominance in the marketplace is not allowed to prevent meaningful competition taking hold. Key tasks here are the full implementation of the EU interconnection regime and completion of cost-based tariffing.

Similarly, the award of only one UMTS licence, to TS's mobile arm, gives rise to concern for competition levels in the mobile sector. While the government has announced plans to issue two further UMTS licences, continuing delay to follow through in this respect could impact seriously upon the spread of effective competition in the mobile sector, particularly in light of Mobitel's ambitious plans to capitalise on its current monopoly status in this segment with launch of service during 2004.