

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

STRATEGY FOR SLOVENIA

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

1. INTRODUCTION

In accordance with the EBRD Public Information Policy (PIP), the draft Strategy for Slovenia was posted on the EBRD web site in English and in Slovenian for 45 calendar days starting from 24 December 2013 to 4 February 2014. The previous Strategy was also made available on the web site in English and in Slovenian at <http://www.ebrd.com/pages/country/slovenia/strategies.shtml>.

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

In line with the Bank's increased efforts to involve civil society at an early stage of country strategy development, the EBRD organised a consultation workshop with CSOs on 17 September 2013 in Ljubljana to gather civil society's feedback during the preparatory phase leading to the draft strategy. This was the first consultation workshop with civil society organised by the EBRD during the pre-drafting stage of a country strategy. The event provided a platform for dialogue between civil society representatives and relevant Bank's teams involved in the Strategy preparation process, including representatives from Banking, the Office of the Chief Economist and Vice Presidency Policy. The meeting attracted 22 participants from 15 civil society organisations working on topics spanning from environmental protection to transparency, and from public-private-partnerships to social entrepreneurship. The European Commission Representation in Slovenia participated to the consultation workshop as an observer. The list of organisations participating in the consultation workshop is provided in the Annex 1.

Also, on 23 October 2012 a delegation of the EBRD Board Directors met with representatives of CSOs with the objective to gather civil society's views on socio-economic and environmental challenges in Slovenia. The meeting was attended by the Centre for Information Service, Co-operation and Development of NGOs (CNVOS), the Institute for Economic Research, the Peace Institute for Contemporary Studies, Integriteta and FOCUS Association for Sustainable Development. The dialogue looked into the socio-economic, political and integrity issues related to privatisation and corporate restructuring (?). Civil society also recommended the Bank to invest more in renewables and energy efficiency and ensure an effective stakeholder engagement in relation to the Bank's financed projects

The objective of this report is to summarize key comments received from the general public and civil society stakeholders during the preparatory phase and consultation period for the Bank's new Strategy for Slovenia. The report reflects the thematic structure of the proposed Strategy for Slovenia and provides management responses to the comments received.

As no written comments were received during the public consultation period, the report includes comments received in oral format at the consultation workshops held during the preparatory works on the new Strategy.

2. PUBLIC COMMENTS AND STAFF RESPONSES

| Reference | Comment | EBRD Response |
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| Operational environment | | |
| 1. Macroeconomic context | <p>1.1 Slovenia entered EU in 2004 as one of the most successful EU-candidates with one of the lowest debt/GDP ratio in the EU (slightly above 20 per cent) and a surplus in the net international investment position. The financial crisis started with the country's access to the Eurozone and marked a period characterised by lack of regulation of the financial sector and monetary policy, and banking bail-outs. Like other indebted countries Slovenia has been an easy target of speculative capitals.</p> | <p>The Bank takes notes of the comment. In the section 2.2. <i>Macroeconomic context</i> and in the <i>Annex 3- Assessment of Transition Challenges</i>, the Strategy provides an analysis of the macroeconomic and sectoral challenges in Slovenia, the Bank will take into consideration while operating in the country.</p> <p>Foreign investors tend to consider membership in the EU and the Eurozone to be an asset, underpinning the country's financial stability. At the same time, abundant liquidity and rapid capital inflows in the pre-crisis years may have undermined sound lending standards, in particular as financial supervision was not monitored closely by euro area institutions.</p> <p>In the present crisis Slovenia's membership in the Eurozone has in fact been a stabilizing factor as it has given the country's banking sector access to substantial refinancing facilities at the European Central Bank, and sheltered the economy from vulnerabilities from currency mismatches (which represents a key problem in other economies of Central and Eastern Europe).</p> |

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| <p>2. Social context</p> | <p>2.1 Before the crisis the poverty rate was considerably low in Slovenia, while in the period 2008–2011 it noticeably increased in comparison to other EU countries (Eurostat). In 2012, as a consequence of the austerity measures, 185.000 persons were deprived of their social benefits in Slovenia, in particular with regards to child care and educational support. The savings amounted to EUR 102 million (if compared to the social welfare spending a year before).</p> | <p>In the section 2.5. <i>Social context</i> the Strategy reflects the concern expressed in terms of increased poverty rate in Slovenia and provides figures regarding public expenditure, including health and education, and prospects on dependency ratio (of the economically inactive population to those of working age).</p> |
| | <p>2.2 The implicit tax rate for labour in Slovenia is, on average, 2.5 point lower than the average in other Eurozone countries. The implicit tax rate for capital is 3.4 points lower than in other Eurozone countries. The employment protection of permanent workers is considerably higher than in other OECD countries; however, temporary employment particularly increased during the crisis and is estimated to absorb 40 per cent of the entire workforce. Reportedly, after the crisis, the state's capacity to sanction and to prevent violation of labour rights has declined.</p> | <p>The Strategy reflects in several sections some of the concerns raised in relation to labour rights. In section 2.5 <i>Social context</i> the Strategy notes that Slovenia's employment rate is still significantly below the EU-wide target for labour force participation. The section 2.2 <i>Macroeconomic Context</i> and the <i>Annex 2- Selected Economic Indicators</i> respectively elaborates and provides figures regarding labour costs and competitiveness.</p> |
| <p>Strategic orientations</p> | | |
| <p>3. Corporate sector restructuring, expanding the role of the private sector and promoting good</p> | <p>3.1 Some parts of the public perceive the urgency of pushing the liberalisation and privatisation agenda as a remedy to the economic crises whereas some others perceive</p> | <p>The Bank will participate in the privatisation of key enterprises either through debt or equity financing. In terms of restructuring, the Bank will seek bankable opportunities to help restore financial viabilities of companies with sound</p> |

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| <p>corporate governance</p> | <p>privatisation and corporate restructuring as highly controversial, in particular when foreign strategic investors are involved. In this context the Bank was encouraged to support investments in local companies and develop schemes to support internal buy-outs and cooperatives as an alternative to attracting foreign strategic investors.</p> | <p>underlying businesses. For a comprehensive overview of the Bank's strategic orientation regarding privatisation and restructuring issues please refer to <i>Section 3.1 Corporate sector restructuring, expanding the role of the private sector and promoting good corporate governance</i>.</p> |
| | <p>3.2 The EBRD is expected to support good corporate governance in the country and to clearly reflect its commitment towards transparency and accountability in the Strategy.</p> | <p>The Strategy reflects the comment by integrating the promotion of good corporate governance into its strategic orientations. For an overview of the Bank's good governance policies, currently under review, please visit http://www.ebrd.com/pages/about/policies/governance.shtml. For an overview of the Bank's commitments in relation to accountability, integrity and anti-corruption, please visit http://www.ebrd.com/pages/about/integrity.shtml.</p> |
| <p>4. Stabilizing the financial sector</p> | <p>4.1 The financial stability of the NGO sector deteriorated in Slovenia as a consequence of the economic downturn.. Against this backdrop, the Bank should consider providing ensure access to credit also to NGOs and social enterprises.</p> | <p>The Bank does not provide preferential credit lines through local financial intermediaries to NGOs and social enterprises. Please refer to section 3.2 <i>Stabilizing the Financial Sector</i> for details about the Bank's engagement in support to financial and non-bank financial institutions in Slovenia.</p> |
| | <p>4.2 Does the EBRD invest in equity funds and in SMEs?</p> <p>Given that the liquidity crunch is deeply affecting micro, small and medium-size enterprises (MSMEs), the Bank was recommended to provide access to credit to MSMEs through local financial intermediaries.</p> | <p>Yes, the EBRD invests in equity and supports the development of SMEs.</p> <p>During the upcoming strategic cycle in Slovenia, the Bank will (i) provide liquidity to sufficiently creditworthy private banks for specific programmes that would focus on supporting SMEs and mid-sized corporates whose access to credit is impaired by deleveraging; (ii) Support to non-bank financial institutions,</p> |

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| | | such as leasing and factoring, for financing SMEs and corporates whose access to finance has been affected by the crisis in the financial sector; and (iii) seek opportunities to invest equity, directly or through private equity funds, to support the financial and operational restructuring. For more details please refer to section 3.1 <i>Corporate sector restructuring, expanding the role of the private sector and promoting good corporate governance</i> and section 3.2 <i>Stabilizing the financial sector</i> . |
| 5. Supporting sustainable energy | <p>5.1 Slovenia faces severe energy dependence and the need to diversify energy sources. Reportedly, energy use is at 54% above the EU average in Slovenia and in order to meet the EU targets the country should reduce its energy consumption of one third. Against this backdrop, the Strategy should clearly commit the Bank to support Slovenia in meeting EU energy standards.</p> <p>The Bank was recommended to set up an energy efficiency financing facility especially dedicated to residential housing.</p> <p>Environmental organisations also highlighted energy retrofitting of residential buildings as one of the main challenge affecting the reduction of energy consumption.</p> | <p>In the section 2.7 <i>Energy efficiency and climate change context</i>, the Strategy recognises that Slovenia is facing important challenges in addressing the move towards a more sustainable energy future, in order to achieve the long-term goals set by the European Union for its member states. The Bank aligns its strategic objectives and modus operandi to EU standards and structures its projects to comply with national requirements and international best practice.</p> <p>The Bank will consider the recommendation to set up an energy efficiency financing facility for residential housing. Section 3.3 <i>Supporting Sustainable Energy</i> highlights that the Bank will continue exploring the possibilities of financing energy efficiency programmes focused on residential buildings and SMEs.</p> <p>The section on energy efficiency of the <i>Annex 4- Legal Transition</i> highlights some of the impediments to financing energy efficiency of residential buildings and in Section 3.3. <i>Supporting Sustainable Energy</i> it indicates the Bank's readiness to assist with relevant regulatory changes.</p> |
| | 5.2 The Strategy should clarify the criteria of the Bank's investments in the energy sector. | The Bank's investments in energy are guided by the 2013 EBRD Energy Sector Strategy |

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| | Reportedly, the Bank's future activities in the energy sector should not envisage further investments in fossil fuels and should ensure wider stakeholders engagement. While supporting sustainable energy, the Bank should also address energy poverty issues. | http://www.ebrd.com/pages/sector/powerenergy/energy-strategy.shtml , which provides an operational approach for secure, affordable and sustainable energy through the transition to a market oriented energy sector. The stakeholder engagement approach of the Bank at project level is guided by the EBRD Environmental and Social Policy, in particular with regards the Performance Requirement 10 on Information Disclosure and Stakeholder Engagement (the policy is currently under review and open to public comments until 5 March http://www.ebrd.com/pages/about/policies/governance.shtml .) |
| | 5.3 What is the EBRD's leverage in terms of policy dialogue on environmental issues, in particular in the context of the green budget reform? | The Strategy envisages policy dialogue for each of the strategic orientations identified. For instance, regarding policy dialogue related to environmental issues the Bank will consider conducting policy dialogue (i) to further enhance the investment framework for renewable energy; and (ii) to address deficiencies in housing legislation that represent key barriers to energy efficiency financing of residential buildings. |
| | 5.4 The strategic orientation related to the support to sustainable energy should be regarded as the most important investment area of the Strategy. | The identified strategic objectives should be regarded as equally important. |
| Annex 1 | | |
| 6. Political assessment | 6.1 Corruption and poor rule of law are regarded as one of the main obstacles hampering the development of a well-functioning market | The Bank shares some of the concerns regarding the rule of law and business environment, which represent serious challenges in all countries of operations. The situation in Slovenia in this area is assessed in the relevant section of the |

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| | economy in Slovenia. | political annex. |
| | <p>6.2 The severity of austerity measures in Slovenia led to backlash against democracy. In 2011, about 100 new laws were adopted by the fast procedure. Many of these laws retroactively deprived people of their already acquired rights (like pensions) and some were declared unconstitutional by the Constitutional Court. On 31 May 2013, the articles 90, 97 and 99 of Slovenian's Constitution were amended to deny the people the access to referendum when fiscal questions or ratification of international agreements are at stake. In September 2013, severe punishments of protestors led to concerns regarding freedom of expression and association.</p> | <p>The Bank shares some of the concerns regarding the rule of law and business environment, which represent serious challenges in all countries of operations. The situation in Slovenia in this area is assessed in the relevant section of the political annex.</p> |
| General remarks | | |
| 7. Strategy preparation | 7.1 Who is the author of the Strategy? | EBRD country strategies combine the work of several departments of the Bank including the following departments: Banking, Vice-Presidency Policy, , the Office of the Chief Economist, Environmental and Social Department, Office of the General Counsel. |
| 8. Criteria for selection of clients and projects | 8.1 The Strategy should clarify the Bank's criteria for the selection of projects and clients. In particular, the Bank was encouraged to use environmental and corporate social responsibility parameters to select potential clients. | Transition impact, sound-banking and additionality represent the three main principles for the selection of projects for financing. 'Transition impact' means that every EBRD investment must help move a country closer to a well-functioning market economy. Also, the investment should apply 'sound banking' principles and therefore look at the |

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| | | <p>market-based risk/return balance. 'Additionality' implies that the Bank should only invest when alternative sources of finance on reasonable terms are not available so as not to crowd out private investors.</p> <p>The Bank requires its clients to comply with the highest standards of good governance. As part of the due diligence process the Bank thoroughly reviews integrity issues related to all its clients, including with regards to reputation, business practices and transparency.</p> |
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ANNEX 1

List of organisations participating to the consultation workshop in Ljubljana on 17 September 2013

1. CNVOS
2. E- Forum
3. Eko Krog
4. FOCUS Association for Sustainable Development
5. Greenpeace
6. Humanitas
7. Institute for PPP
8. Institute Jožef Stefan
9. Mreža za prostor (Spatial Network)
10. Peace Institute
11. REC Slovenia
12. ŠKUC
13. The Environmental League
14. Transparency International
15. Umanotera