DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT

STRATEGY FOR SLOVENIA

As approved by the Board of Directors at its meeting on 26 February, 2014

TABLE OF CONTENTS

EXECUTIVE SUMMARY

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

Slovenia experienced a deep recession in 2009, then a weak recovery, and in mid-2011 entered a second recession which has continued this year. The GDP drop of 2.3 per cent in 2012 was the worst in the EBRD region and similarly weak performance is projected for 2013 and 2014. All indicators of economic activity remain well below the pre-crisis levels. The contraction in investment levels shows no signs of abating as it is almost 5 per cent below a year earlier, and over 48 per cent below levels prior to the financial crisis. Cross-border funding withdrawal of banks has been among the largest in the EBRD region, and Slovenia lost about 25 per cent of GDP in cross border funding since mid-2011.

Slovenian industry is particularly impacted by excessive leverage and the inability to secure liquidity, even for working capital purposes, from a banking sector under strain. This is a key problem for domestically owned companies without foreign banking relationships, or those geared towards the domestic economy, from which earnings are much diminished.

As a result of the recession, fiscal performance over recent years has deteriorated markedly, with deficits at or around 6 per cent of GDP in 2009-11. The previous government initiated fiscal consolidation in 2012, importantly resulting in the adoption of the crucial pension reform, allowing the deficit to decline to 4 per cent of GDP. After a sharp increase in 2013 relating to high bank recapitalisation outlays, a budget deficit of 3.2 per cent is planned for 2014.

Government debt has deteriorated rapidly to currently about 70 per cent of GDP, while substantial contingent liabilities in the banking sector, and the write down of equity stakes and other claims in the corporate sector are key concerns for sovereign credit quality.

The main risks to the budget and to any recovery emerge from excessive debt in the corporate sector which has a reflection in the under-capitalisation of the banking sector. Stabilising public finances is hence intricately linked to comprehensive structural reforms, which in turn are a precondition for arresting the economic contraction.

There is realisation across the political spectrum that the only viable route is to press on with domestic reforms, including cleaning up the banking sector, privatisations and a proactive policy to attract foreign direct investment. The new Slovenian government that came to office in March 2013 and won a vote of confidence in parliament on November 2013 is committed to fiscal consolidation and a continuation of key reforms. The government's *National Reform Programme* submitted to the European Commission in early May 2013 covers key areas of priority, such as the adherence to fiscal limits, legal reforms to contain the use of referenda, strengthening corporate governance, bank restructuring and the consolidation of the various state holdings as well as a firm commitment to privatisation. A comprehensive asset quality review of eight banks was conducted in the second half of the year, and stress tests results released in mid-December 2013 clarified the recapitalisation needs, which the government has met for the three largest banks out of own reserves. On this agenda the government has largely made good progress, though some important areas have also seen delays.

While Slovenia, an EU member state and a euro area country, is considered to be an advanced transition economy, the transition challenges that have not been addressed in the banking and corporate sectors over decades have proved to be serious enough to imperil macroeconomic stability and undermine growth. As the European financial markets still pose risks and the period of abundant liquidity is reaching its end, this represents a critical juncture in the development of the economy. The Slovenian authorities have seized this opportunity to revive reforms. The Bank stands ready to support Slovenia through its investments and policy dialogue. The Bank will remain highly additional over the strategy period as a much needed partner for the government in the implementation of the reform programme.

In the next strategy period the Bank will therefore focus on three strategic priorities:

- **Corporate sector restructuring, expanding the role of the private sector and promoting good corporate governance.** Lifting the obstacles presented by excessive leverage and poorly structured corporate finances is a precondition for preventing a rapid rise in insolvencies, stabilizing the banking sector and arresting the on-going economic contraction. The Bank will seek bankable opportunities to help restore financial viability of companies with sound underlying businesses. The Bank will participate in the privatisation of key enterprises currently under state control, either through debt or equity financing.
- **Stabilizing the financial sector.** In what will likely be a protracted process of deleveraging, recapitalisation and consolidation, the Bank will assist in bank asset restructuring, support healthy banks with medium term funding for the real sector, and help build up alternative funding channels. Progress with balance sheet cleansing and credible commitment to governance reform in the banking sector will open up opportunities for providing support for the privatisation of state-controlled banks.
- **Supporting sustainable energy.** The Bank will explore sustainable energy and resource efficiency investment opportunities, particularly in the SME sector and the residential sector. The Bank will also actively seek opportunities to identify and finance investments that would increase the renewable energy generation capacity in the country.

The success of the above agenda will be contingent on reform implementation by the government. Progress in financial and corporate sector restructuring will be closely intertwined, and delay in one area may hold up progress in others. In all these activities, both in policy dialogue and operations, the EBRD will closely cooperate with the European Commission (EC) and International Financial Institutions (IFIs), particularly on the issues of banking sector restructuring and privatisation of state-owned corporations.

1. THE BANK'S PORTFOLIO

1.1. Overview over Bank activities to date

As at the end of December 2013 the Bank has signed a total of 68 projects with a Net Cumulative Business Volume of EUR 789 million. Approximately 33 per cent of the Bank's investments were made in the corporate sector, 33 per cent in the financial institutions sector, 21 per cent in the energy sector and 13 per cent into the infrastructure sector. The private sector share was 54 per cent, down from 100 per cent at the beginning of the previous strategy period due to the size of EBRD financing for a power generation project with the state controlled energy company committed in 2011.

The Bank portfolio at the end of December 2013 consisted of 22 operations totalling EUR 218 million. The current portfolio is dominated by the large loan facility provided to TES, the state controlled energy company.

Table 1: Cumulative Business Volume and Portfolio in Slovenia as of 31 December 2013

Sector	**Net Cumulative Business Volume**			**Portfolio**				
Amount in EUR million	Number of projects	EBRD signed	*% of NCBV*	Number of projects	Portfolio	*% of Portfolio*	Operating Assets	*% of Operating Assets*
Energy	**3**	**167**	**21%**	**1**	**100**	**41%**	**100**	**45%**
Natural Resources	1	2	0%	0	0	0	0	0
Power and Energy	2	165	21%	1	100	46%	100	50%
Financial Institutions	**21**	**260**	**33%**	**3**	**19**	**9%**	**17**	**9%**
Bank Equity	2	84	11%	0	0	0%	0	0%
Bank Lending	13	132	17%	3	14	6%	14	6%
Insurance, Fin Services	2	16	2%	2	16	7%	13	7%
Leasing Finance	4	29	4%	0	0	0%	0	0%
Small Business	0	0	0%	0	0	0%	0	0%
ICA	**40**	**262**	**33%**	**18**	**98**	**45%**	**82**	**41%**
Agribusiness	2	63	8%	2	62	29%	62	31%
Equity Funds	17	34	4%	14	23	11%	7	4%
ICT	6	38	5%	1	6	3%	6	3%
Manufacturing & Services	12	95	12%	0	0	0%	0	0%
Property & Tourism	3	32	4%	1	7	3%	7	3%
Infrastructure	**4**	**100**	**13%**	**0**	**0**	**0%**	**0**	**0%**
MEI	1	15	2%	0	0	0%	0	0%
Transport	3	85	11%	0	0	0%	0	0%
TOTAL	**68**	**789**	**100%**	**22**	**217**	**100%**	**200**	**100%**

Table 2: Portfolio Development in Slovenia, 2009- December 2013

Amount in EUR million	2009	2010	2011	2012	2013
Net Cumulative Business Volume	627.8	633.8	787.7	765.4	788.6
Number of operations	63	64	66	68	68
Current Portfolio Stock	118.7	111.1	215.1	211.2	217.5
Number of Operations	28	28	26	26	22
Operating Assets	90.6	84.8	131.7	126.9	199.5
% Undrawn	24%	24%	39%	40%	8%
Annual Business Volume	15.6	3.3	103.0	27.7	47.8
Number of Operations	6	2	3	2	4
Gross Disbursements	10.2	4.6	71.2	26.3	107.7
Annual Cancellations	0.0	0.0	0.3	0.0	4.6
Private Sector Share (% Portfolio)	100%	100%	54%	53%	54%
Equity share (% Portfolio)	64%	71%	28%	30%	24%

1.2. Implementation of the previous Country Strategy

The previous Strategy for Slovenia, approved in July 2010, was formulated in the midst of the global financial crisis and the economic recession in the European Union. Slovenia's economy experienced a deep recession in 2009 and after a weak recovery it slid back into recession in mid-2011. Although Slovenia is an advanced transition country with a technologically sophisticated economy, the absence of a consistent structural reform policy, combined with certain ambivalence towards foreign investment, and the parallel crises of the banking sector and the corporate sector that escalated during the second half of 2012, offered the Bank limited opportunities for operational engagement over the last strategy period. The total business volume in the period 2010-2012 amounted to EUR 133.9 million, including regional projects.

The previous Strategy had the following objectives:

- Promote better governance, aid restructuring and plan for the eventual privatisation of enterprises remaining under state control once market conditions improve.
- Help restructure bank balance sheets and improve governance in order to improve the sector's efficiency and restore its ability to provide finance to enterprises.
- Support investments in energy efficiency and renewable energy and promote competition in the energy sector to reduce energy intensity and address the growing demand-supply imbalances. Promote increased private sector participation and efficiency improvements in the infrastructure sectors.

Among the most significant of EBRD transactions during the last strategy period was a EUR 100 million loan for the Šostanj power plant that applies state of the art technology with emission levels below EU requirements. It was also the Bank's first project with Carbon Capture Storage readiness. The Bank also financed a regional project with Atlantic Grupa, as part of a new debt package to this regional corporation headquartered in Croatia, of which EUR 22.7 million was related to their recently acquired operation, Droga Kolinska in Slovenia. Another example of cross-border investment was the Bank's financing to Nectar, another agribusiness company, headquartered in Serbia, to acquire Fructal, Slovenia.

A EUR 30 million senior debt facility was signed with Nova Ljubljanska Banka (NLB) for the financing of SMEs via its Western Balkans subsidiaries. During 2013, the Bank signed two important transactions, the first one was an EUR 40 million senior loan to Spar Slovenia, a leading retailer, to support its expansion plans in 2013-2015. In 2013 EBRD also supported Sava Reinsurance Company in its capital increase of EUR 55 million via public offering under continuing difficult market conditions. EBRD's participation with EUR 7.5 million in the capital increase was a positive sign to other institutional investors seeking risk in Slovenia and the region. Through this transaction EBRD has contributed to some consolidation in the insurance sector of Slovenia with Sava Re acquiring 100% of Maribor Insurance, the second largest non-life and the third largest life insurer in Slovenia.

The Bank has worked with the authorities to help Slovenia develop a more sustainable and enabling business environment, and thus maintained policy dialogue with various stakeholders, including the Ministry of Finance, the Agency for Managing Public Property, the Restitution Fund (SOD) and the Pension Fund (KAD). In 2013, the discussions focused on the key issues of financial and operational restructuring of some of the large corporates, recapitalisation and privatisation in the banking sector and consolidation of smaller privately owned Slovenian banks with the support of private investors. In this process, the Bank has reviewed number of corporate sector cases. The EBRD has consulted with the relevant commercial banks, advisory and legal firms and pursued a dialogue with the government stakeholders. In some of the cases, EBRD has provided advice based on best international restructuring practice. The EBRD's further engagement may not be immediate as it depends on a lengthy restructuring process led by current lenders and is exacerbated by the challenges of the legacy of bilateral lending and the lack of a syndicated approach (and hence complex security structures), coupled with a complex web of interests amongst lenders and shareholders. Another stumbling block in the restructuring processes, which impedes fair burden sharing among shareholders and lenders, is the recognition of realistic market valuations by the shareholders.

The Bank has provided legal technical assistance in support of Slovenia's corporate restructuring and insolvency framework. Together with external legal advisors, the EBRD advised in September 2013 on new draft legislation to promote corporate restructuring entitled the 'Systemic Deleveraging Act'. However, this draft legislation was widely considered incapable of implementation and the government redirected efforts into a broad ranging set of amendments to the existing Insolvency Law, aimed at facilitating corporate restructuring for medium to large sized enterprises. The amendments to the Insolvency Law were adopted by the Parliament on 27 November 2013 with broad cross-party support and incorporated advice on a number of key points provided by the Bank during the course of its discussions with the drafting committee. The proposed amendments considerably improve the tools available for corporate restructuring of large and medium-sized enterprises, a key element in banking sector restructuring and in the overall revival of the economy. Nevertheless the Bank has identified that further efforts are needed to strengthen the extra-judicial private or consensual restructuring framework, such as by, for example, the development of multi-bank restructuring guidelines.

The Bank has commenced policy dialogue with relevant parties, including the Ministry of Infrastructure and Construction, the Ministry of Agriculture and Environment and the Ministry of Economic Development and Technology to help the Slovenian Government prepare an enabling legal framework for energy efficiency investments to comply with the EU targets set in relation to climate change.

1.3. Transition impact of the Bank's portfolio review

The Bank has addressed transition objectives through its operational activities in Slovenia in 2010-2013 generally in line with strategic directions identified in the country strategy. Given Slovenia's advances in the process of transition to date and few specific remaining transition gaps, a very selective approach has been adopted by EBRD to address the existing gaps (private sector participation, corporate governance, and energy security) posed in sectors underlined in the strategy. As a result, only three transition-rated[1] operations were signed by the Bank in Slovenia during the strategy period (July 2010-December 2013). This includes a facilities modernisation and energy efficiency improvement project with a large retail chain in the country which introduces standards of corporate governance and business conduct (in particular, supply chain management, reporting, and resource efficiency) to the levels far exceeding requirements and existing practice in the region. Another project addresses the main remaining challenge in the Slovenian financial sector – continued state involvement – and aims to contribute to increased private ownership and competition in the insurance market. Finally, a thermal plant modernisation project with the largest power generator in the country is set to introduce upgraded environmental standards by applying best available state-of-the-art technology.

In addition, three regional operations, all in equity funds, were signed during the strategy period for implementation in multiple countries, including Slovenia. These projects aim at operational and financial restructuring of investee companies in the region, as well as improvements in the corporate governance and business conduct.

To ensure quality, the Bank assesses internally the projects' potential impact in addressing identified transition challenges. Two out of three new operations signed and rated in Slovenia during the strategy period (i.e. from July 2010 to December 2013) were assessed as having "Good" transition impact potential[2]. This represents a 67 per cent share of total, which is below the institutional target of at least 80 per cent of projects to be rated "Good" or "Excellent". The above mentioned project in the power and energy sector has been rated "Satisfactory" due to the constrained transition impact related to the client's state ownership and dominant position in the market, which may affect competition. The significance of this assessment is limited by the small number of projects rated.

The Bank regularly monitors transition performance of all projects to ensure that transition impact expected from its activity is ultimately delivered. Reflecting the generally positive progress of the country in transition process, the performance of projects in the Slovenia's portfolio has been very good. The expected transition impact of the country's active portfolio, proxied numerically by the average rank[3], at end-December 2013 stood at 2.75, well surpassing both the institutional target of 4.35 and the result for the whole portfolio of the Bank (4.00). All four projects in the Slovenia's active portfolio[4] have already largely

[1] This number excludes one extension to an existing Bank's client that was not individually rated for transition due to no incremental impact.

[2] See http://www.ebrd.com/pages/research/economics/transition.shtml for transition impact assessment and monitoring methodology

[3] The rank is a combination of the transition impact potential rating and risks to transition impact. The expected transition of each operation is usually monitored once a year and is ranked numerically from 1 to 8, with 1 to 3 indicating mostly realised impact, 3 to 6 – generally on track to achieve transition objectives, and 7 to 8 – minimum transition impact achieved or excessive risks.

[4] i.e. All active operations more than 6 months since signing and are monitored for their transition impact at least once

achieved their expected transition objectives. This includes successful extension of financing products and improved capacity and corporate governance derived from realisation of two projects in the country's financial sector.

Six operations have been completed (i.e. fully re-paid by clients) during the strategy period. Four of these have fully achieved the expected transition objectives. This includes three projects in the financial sector that were successful in extending SME lending in the envisaged underserved areas and delivered the institution building targets. An equity investment in the manufacturing sector has also been successful in introducing corporate standards (health and safety and environmental, in particular).. Two remaining completed projects with commercial banks under the Global Environmental Facility have only partially achieved their envisaged transition objectives, due to sustainability issues related to successful introduction of the environmental finance products.

2. OPERATIONAL ENVIRONMENT

2.1. Political Context

The last general elections, which took place in December 2011, led to the establishment, in the beginning of 2012, of a five-party coalition government led by the centre-right SDS. The government tried to implement the policy of consolidating public finances and launched some of the structural reforms. However, the implementation of consistent policies was not easy, both because of the composition of the governing coalition and given the accumulated popular frustrations over difficult economic situation in the country. The end of 2012-beginning of 2013 witnessed massive anti-government and anti-establishment protests. In the beginning of 2013 a controversy related to the publication of a report of the anti-corruption commission containing allegations against then PM Janša led to a political crisis. The government fell in no-confidence vote in the parliament on 27 February 2013.

On 20 March 2013, the parliament endorsed a new four-party coalition government led by Slovenia's first female Prime Minister, Alenka Bratušek of Positive Slovenia. The governing coalition includes also the centre-left Social Democrats and a party of pensioners, as well as the centre-right DL, which had participated in the previous government as well. The coalition agreement reaffirmed the continuing implementation of the labour market and pension reforms. It also envisaged continuation of the two other key reform initiatives – reform of the banking sector and the privatisation of some of the 'state assets'. The newly elected Prime Minister committed herself to working towards restoring Slovenia's political stability and financial credibility and to accelerating reforms. Among the first acts of the new government was the adoption, in May 2013, of the National Reform Programme in order to stabilise the banking sector, promote growth, and deal with the budget deficit.

The current coalition government was established on the understanding that it would have to go through a confidence vote in one year's time. Upon the initiative of the Prime Minister, this vote was brought forward and linked to the vote on the supplementary budget for 2014 and the draft budget for 2015. The government won the vote of confidence in the parliament on 15 November 2013, which has strengthened its position and ability to continue with the implementation of the reforms. There is a growing consensus in the political establishment and among the public regarding the need for continuing with these reforms.

2.2. Macroeconomic context

Slovenia experienced a deep recession in 2009, then a weak recovery, and in mid-2011 entered a second recession. The GDP drop of 2.3 per cent in 2012 was the worst in the EBRD region. Current EBRD projections foresee a GDP contraction of 2.0 per cent this year after the Slovenian GDP contracted by 1.6 per cent in 2013. Experience elsewhere in the euro area underlines that a recovery from private debt excesses is protracted, in particular if conducted in the context of very weak demand in principal trading partners. A return to meaningful growth over the strategy period seems challenging.

All indicators of economic activity remain well below the pre-crisis levels. The contraction in investment levels shows no signs of abating as it is almost 5 per cent below a year earlier, and about 48 per cent below levels prior to the financial crisis. Cross-border funding withdrawal of banks has been among the largest in the EBRD region, and Slovenia lost well approximately 25 per cent of GDP in cross-border funding since mid-2011.

Slovenia is a highly trade dependent economy (with a share of about 80 of exports in goods and services in GDP), and hence directly impacted by variations in demand in the rest of the euro-zone. Unit labour costs and competitiveness improved slightly in 2013 as the recession contained wage costs. While there has been a welcome modest growth in the export sector in the first half of 2013, unlike the other central European countries Slovenia has lost export market shares in the last four years, though this trend appears to have reversed more recently. This is likely have been to the fact that wage cost outpaced productivity over recent years.. The evolution of industrial production – which saw a decline of about 1.5 per cent from March to October last year and being 11 per cent below the pre-crisis peak – is a reflection of this development.

Industry is particularly impacted by excessive leverage and the inability to secure liquidity, even for working capital purposes, from a largely dysfunctional banking sector. By end-2013 credit outstanding to the corporate sector had contracted by 16 per cent. This is a key problem for domestically owned companies without foreign banking relationships, or those geared towards the domestic economy, from which earnings are much diminished. Leverage of corporates remains on the highest EU level of 133% as of half of 2013.

As a result of the recession, fiscal performance over recent years has deteriorated markedly, with deficits at or above 6 per cent of GDP in 2009-11. The previous government initiated fiscal consolidation in 2012, importantly resulting in the adoption of first steps in the crucial pension reform, allowing the deficit to decline to 4 per cent of GDP. Under the budget approved for 2014 a budget deficit of 3.6 per cent is planned though substantial additional expenditures of about EUR 3 billion (8.4 per cent of projected GDP) will also need to be factored in.

Government debt has deteriorated rapidly to 70 per cent of GDP at end-2013, though is set to rise further once announced bank recapitalisation is completed. Slovenia successfully accessed international debt markets in October 2012 and in May 2013 with two substantial issues, which cover the 2013 financing needs. A third issue of EUR 1.5 billion was placed privately in mid-November 2013 and on the back of positive progress on the banking sector recapitalisation, the government successfully placed USD 3.5 billion 5- and 10-year issues on 18 February 2014.

The asset quality review and stress test results that were announced in mid-December identified recapitalisation requirements of EUR 4.8 billion, of which EUR 3 billion arose within the three largest state banks, for which the government committed to a full and immediate recapitalisation from existing fiscal reserves. The scenario of a stabilisation in the public debt ratio remains contingent on a revival in growth.

2.3. Structural reform context

In late 2013, Slovenia confronts an intensifying crisis of private sector deleveraging. The fundamental cause of the current crisis lies in two decades of cross-ownership of corporates and banks, directly or indirectly, by various state-controlled funds and the ensuing poor corporate governance practices. The early privatisation process was flawed in often relying on leveraged management buyouts, and thereby discouraging the injection of outside capital and management expertise.

Arresting the contraction in private sector demand and in the provision of credit by the banking system will require broad structural reforms aimed at reducing corporate debt levels, injecting fresh private capital, and reforming ownership and corporate governance, in particular by the withdrawal of the state from ownership in the corporate and banking sectors.

Already under the previous government, by early 2013 some key reforms had been enacted. For instance, labour market reforms, including the easing of employment protection, now facilitate the restructuring of companies.

The government that came to office in March 2013 is committed to fiscal consolidation and a continuation of key structural reforms. Unlike in other crisis cases in the Eurozone, fiscal risks emerge not from distress in present day financing conditions (two out of three sovereign ratings remain at investment grade in late 2013. However, key risks to the budget and to any recovery emerge from excessive debt in the corporate sector which has a reflection in the under-capitalisation of the banking sector. Stabilising public finances is hence intricately linked to comprehensive structural reforms.

The government under Prime Minister Bratusek presented a *National Reform Programme* to the European Commission in early May 2013. This programme covers key areas of priority, such as the adherence to fiscal limits, legal reforms to contain the use of referenda, strengthening corporate governance; bank restructuring, and the consolidation of the various state holdings.

The government has largely made good progress on this agenda.

- The government has established the Bank Asset Management Company (BAMC) that is in the process of taking over non-performing assets from banks, followed by the recapitalisation of the restructured banks. This process has been delayed until the end of 2013 as the European Commission demanded an asset quality review (AQR) and stress tests for the entire banking system as a precondition for determining the price for the non-performing assets to be transferred and subsequently for approving a capital injection by the state in any one bank.
- A privatisation programme for 15 enterprises was adopted by the government in June 2013 and this seems to be progressing with some cases being well on track. Realism of valuation expectations, as well as political support for ownership and restructuring by foreign strategic investors will be key.
- A draft law on the Slovenia Sovereign Holding (SSH) has been submitted to parliament which envisages a consolidation of key state holdings, with the current state restitution fund (SOD) at its core. This is essential for a unified management of

the privatisation programme and enforcement of good corporate governance practices in state enterprises.

- Subsequent to the establishment of the SSH a comprehensive strategy for the privatisation within the law on SSH. This strategy is essential to provide certainty with regard to the state's ultimate ownership stakes. Despite the targeting of an initial 15 enterprises for privatisation this broader strategy remains unclear.

At the same time broader public support of this reform programme, while timidly growing, is still fragile, and historical preferences for gradualism and state involvement might resurface. Therefore, there is a risk that policy implementation may slow down over the strategy period as austerity measures drag on, and corporate restructuring impacts employment. As corporate leverage remains one of the highest within EU countries and the often numerous creditors to any one enterprise may be increasingly unable to roll over existing liabilities, this may lead to more serious liquidity problems as working capital runs out and markets and client relationships are lost.

With the support of the government and Bank of Slovenia, a comprehensive and rigorous asset quality review and stress tests have been conducted over the second half of 2013. These stress tests have established the capital shortfall in the eight banks that remained in the exercise at EUR 4.8 billion, and the government has committed to a swift recapitalisation of the three largest banks. While the government committed to the privatisation of NKBM, the plan is to keep 25 per cent plus one vote in NLB, and the path to a broader consolidation in the sector remains unclear. More broadly, the successful implementation of the privatisation efforts will depend on valuations that can be realised in the market.

Slovenia has been assessed as suffering from excessive macroeconomic imbalances by the European Commission, a designation made for only one other EU economy. Under this procedure EU recommendations on structural reform and fiscal policies are closely monitored.

2.4. Business environment

According to cross-country surveys Slovenia continues to score relatively well in the Central European and Baltics region. In the 2013 World Bank *Doing Business* Index the country was at rank 35, ahead of Poland, Hungary and the Slovak Republic but behind all three Baltic States. This global rank has not changed over the previous year. However, if *absolute* changes in business regulations are considered, Slovenia registered some minor improvements. There have been improvements through reforms to the administration of tax payments, contract enforcement, and investor protection has been strengthened. At the same time these improvement have been muted by lower scores in all other sub-indicators. Tax payments by enterprises are below the OECD average, at about 34.7 per cent of commercial profits, compared to 42.7 for the OECD as a whole. However, registering property, dealing with construction permits and most importantly getting credit remain areas of serious concern.

Slovenia was ranked 37th among 176 countries in the latest *Corruption Perceptions* Index by Transparency International published in 2012. The country was below the OECD average and at rank 16 in the EU. The report highlights the need for independence of investigators and prosecutors strongly criticizing the government's movement of the Prosecutor's Office under Ministry of Interior in early 2012. Surveys of public perceptions, such as the *Eurobarometer* compiled by the EU Commission, showed that corruption is perceived as a major concern by 95 per cent of Slovenians, while 83 per cent characterise corruption as widespread among politicians – the highest share among EU members.

2.5. Social context

Slovenia has experienced a moderate progress in living standards since the beginning of transition. The *UNDP Human Development Index* (a measure of general wellbeing) has been improving since 1990 and ranked the economy 21st worldwide in 2012, the highest rank among all CEB economies. According to Eurostat, only 13.6 per cent of population was at risk of poverty in 2011, a ratio significantly below the EU average. According to commonly used inequality statistics, such as the Gini coefficient, income distribution is relatively even when compare to other EBRD countries.

Unemployment in Slovenia has traditionally been very low, at a rate of only 4.2 per cent in November 2008, but has risen rapidly over the course of the on-going recession. Currently it stands at 10.4 per cent, according to the Eurostat definition. As in other EU economies, this rise has been driven by youth unemployment, which reached 25 per cent. Slovenia's employment rate stood at only 64.1 per cent in 2012, more or less unchanged from before the crisis, and due in particular due to the low participation of older workers. This is the EU-28 average but it is still significantly below the EU-wide target for labour force participation of 75 per cent.

The European Commission's 2012 Ageing Report suggests that over the next fifty years the total workforce is expected to decrease by more than 20 per cent. As a result of these trends the total dependency ratio (of the economically inactive population to those of working age) is expected to deteriorate sharply from currently about 55 per cent to over 100 per cent. In part as a result, health care spending is similarly expected to rise. This component of public expenditures stood at 8.6 per cent of GDP in 2010, the highest share among the CEB economies, of which public health spending was about 6.22 per cent.

Education expenditure currently stands at 5.66 per cent of GDP, slightly above the EU average. In the 2009 OECD Programme for International Student Assessment (PISA), the country ranked 31th out of 66 with an above OECD-average rating for science and mathematics but with an average score for reading.

2.6. Legal context

Slovenia's laws governing corporate, commercial and financial activities are broadly in line with EU standards. As Slovenia continues to confront the repercussions of the Eurozone financial crisis, however, several sectors have been targeted for reform. Foremost among these sectors has been Slovenia's insolvency regime. In May 2013 amendments to the Insolvency Law (effective in June 2013) introduced several measures to remove existing obstacles from insolvency proceedings, including the ability of shareholders to obstruct the compulsory settlement restructuring process. The May amendments also introduced a new accelerated compulsory settlement procedure for sole traders and micro-sized companies.

A second, more comprehensive set of amendments came into effect early December 2013. These amendments introduce two new procedures for medium to large sized enterprises: the so-called preventative insolvency procedure for restructurings involving corporate debtors that are not yet insolvent and their financial creditors (conducted mostly out of court) and in-court modified compulsory settlement proceedings for insolvent corporate debtors, which envisage the possibility of achieving a comprehensive restructuring of both unsecured and secured claims. The December amendments thus represent a significant step forward in enhancing Slovenia's corporate restructuring framework and the judicial tools available for corporate debtors. It is hoped that the December amendments will incentivize medium to large sized corporate debtors and banks to reach an early, consensual restructuring solution outside of a judicial procedure.

The Slovenian state has continued to retain a high degree of ownership in key enterprises and financial institutions, which the European Commission has identified as restraining foreign direct investment, company development and exports. In an effort to improve the management of these assets, the government has adopted legislation to establish the Slovenia Sovereign Holding (SSH) to manage all state-owned assets and, in 2013, expressed a commitment to privatize at least some of Slovenian's state holdings, including the second largest state-owned bank and the incumbent telecommunications provider.

The Slovenian court system suffers from long delays and extensive backlogs, and has been identified by the government as a further area in need of reform. Recent measures adopted to improve efficiency include strengthening alternative dispute resolution mechanisms. Bolstering the autonomy of the judiciary and shortening deadlines have also been areas of focus.

2.7. Energy efficiency and climate change context

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. Furthermore, Slovenia's external energy dependency remains high; it imports 100% of its petroleum product use, and depends heavily on natural gas from Russia to provide space heating. Energy use is not efficient either, with intensity being around 50% higher than the average energy intensity in the EU countries.

In response to the challenges, the government adopted the *National Energy Action Plan 2008–2016 (NEEAP)* in 2008, which includes a set of targets for energy efficiency improvement instruments in the residential, industrial, transport and tertiary sectors. The target of the NEEAP is to save final energy amounting to at least 4,261 GWh or 9 per cent of baseline consumption in the 2008–2016 period.

The feed-in-tariff system for renewable energy is based on preferential dispatch. A system to improve the differentiation of tariffs to take account of technology, size and capacity was proposed in July 2009 but is delayed to facilitate further assessment. A Climate policy is in place and on track to achieve EU 20/20/20 targets. Transposition and implementation of the 2012 EU directive on energy efficiency will be done with the new Energy Bill which was adopted on 24 February 2014. Remaining challenges include the facilitation of sustainable energy project activity. A new action plan for renewable energy for 2010-2020 period in accordance with EU targets has been adopted.

With a share of 9.2 per cent, Slovenia has the fifth highest share of renewables in the primary energy balance in Europe. Nevertheless, much of the renewables capacity is based on old hydro plants, and the share of new renewables has remained low, at less than 2 per cent of power production. Hydropower has the largest potential for development: refurbishment of existing small scale hydropower, and increasing the capacity of the large-scale units, are part of the Slovenian renewable energy strategy. The technically feasible hydropower potential of the Slovenia is estimated 8,800 GWh/yr, of which a third has currently been exploited.

Energy pricing encourages energy efficiency investments, but nevertheless, considerable potential for energy efficiency improvements in all sectors of the economy remains. Slovenia's third largest energy user is the building sector, behind the industrial sector.

Accordingly, there is large potential for energy savings and investment in this specific sector. However, housing legislation is a key barrier to the development of the sector. It lacks regulations that would pave the way to practical implementation.

3. STRATEGIC ORIENTATIONS

During 2013 Slovenia faced increased risk of insolvency and liquidity stress in its banking and corporate sectors. This is mitigated by the ongoing cleaning of banks' balance sheets that commenced in December 2013, forthcoming restructuring of enterprises and new insolvency legislation. The state has emerged as the source of capital funding of last resort, though as government debt indicators have already markedly deteriorated, EU state aid rules will not allow this role to be viable for much longer in the absence of deep restructuring.

The main strategic priorities of the Bank remain largely the same as under the previous strategy. This is due to the fact that until recently there has been very little progress in the privatisation process or structural reforms. The crisis exposed the failures of two decades of poor corporate governance practices. The corporate sector has suffered from excessive leverage primarily used for financing privatisations via management buy-outs or non-core activities such as acquisition and development of real estate rather than investment in the modernisation of assets and expansion of core business activities. This in turn led to the deterioration of assets in the banking system. The complex cross-ownership structures and lack of managers' and shareholders' accountability prevented the recognition of problems early in the process which led to a rise in insolvencies.

Slovenia's traditional preference for national ownership of large corporates directly or indirectly through government controlled funds, including ownership of commercial corporations and banks, and resistance to foreign investment is slowly changing albeit not without resistance from the broader public and the civil society. The government that came into power in March 2013 has committed anew to a comprehensive reform programme. It has become evident through the recent vote of confidence of the ruling coalition in November 2013, that there is a realisation across the political spectrum that the only viable alternative to a potential external financial support programme is to press on with domestic reforms, including privatisations and a proactive policy to attract foreign direct investment, irrespective of the government's continued ability to issue bonds in the international debt markets.

At the same time, more radical reforms such as the establishment of a consolidated Slovenian Sovereign Holding and a comprehensive privatisation strategy remain to be defined.

While Slovenia, an EU member state and a euro area country, is considered to be an advanced transition economy, the transition challenges that have not been addressed in the banking and corporate sectors have proved to be serious enough to imperil macroeconomic stability and undermine growth.

The Bank's financial resources will remain highly additional over the strategy period, and with its expertise in privatisation and restructuring of banks and corporates the Bank can be a valuable partner to the government as long as reform implementation continues. Within the parameters defined in the operational responses below and the principles of sound banking, the Bank will proactively seek investment opportunities.

Slovenia remains committed to the principle of graduation from EBRD operations, taking into consideration its specific circumstances and remaining transition challenges. The strategic outlook adopted in the Bank's Fourth Capital Resource Review (CRR4), namely, the improvement of global market conditions, the return of financial flows associated with reducing the Bank's additionality, the region's sustainable recovery and the reduced threat to transition, have not taken place. Moreover, Slovenia, prompted by the current crisis, has just started addressing some of the most significant transition challenges related to the corporate and banking sectors.

In the next strategy period the Bank will focus on three strategic challenges:

- **Corporate sector restructuring, expanding the role of the private sector and promoting good corporate governance.** Lifting the obstacles presented by excessive leverage and poorly structured corporate finances is a precondition for preventing a rapid rise in insolvencies, stabilising the banking sector and arresting the on-going economic contraction. The Bank will continue to seek bankable opportunities to help restore financial viability of companies with sound underlying businesses. The Bank will participate in the privatisation of key enterprises currently under state control, either through debt or equity financing. Such transactions could signal options for financial restructuring within an evolving restructuring and insolvency regime.
- **Stabilizing the financial sector.** In what will likely be a protracted process of deleveraging, recapitalisation and consolidation, the Bank will continue the policy dialogue on the privatisation and restructuring of the banking sector and will assist in bank asset restructuring, support healthy banks with medium term funding for the real sector, and help build up alternative funding channels. Progress with balance sheet cleansing and credible commitment to governance reform in the banking sector will open up opportunities for providing support for the privatisation of state-controlled banks.
- **Supporting sustainable energy.** The Bank will explore sustainable energy and resource efficiency investment opportunities, particularly in the SME sector and the residential sector. The Bank will also actively seek opportunities to identify and finance investments that would increase the renewable energy generation capacity in the country.

The success of the above agenda will be contingent on reform implementation by the Government. Progress in financial and corporate sector restructuring will be closely intertwined, and delay in one area may hold up progress in others.

3.1. Corporate Sector Restructuring, Expanding the Role of the Private Sector and Promoting Good Corporate Governance

Transition challenges

Slovenian non-financial enterprises generally have a distinguished know-how, established brand names and a good customer base. However, the failure to reform corporate and financial governance has led the sector into a protracted recession, and is now jeopardising Slovenia's macroeconomic and financial stability. Competitiveness needs to be further bolstered through investment in new equipment and technologies to secure and further expand export market shares as well as improvement in efficiencies. Progress with corporate restructuring to preserve value in inherently viable but over-leveraged companies is now critical.

- The privatisation and corporate restructuring model adopted during the 1990s has effectively preserved the state remaining dominant share across many sectors. The dominance of financially weak state-owned enterprises (SOEs) in the economy stands in the way of attracting fresh capital and contributes to the distress of the banking sector.
- Across the corporate sector shareholder structures are cumbersome and exacerbated by many conflicting interests (web of cross-shareholdings among many banks, funds and companies) and tend to stunt recovery and growth. Indirect government ownership is common, either via state owned banks or state funds, such as KAD (pension and investment fund) or SOD (the state restitution fund). As a result of the need to obtain approvals from numerous shareholders, often in the government, corporate decision making can be slow and outcomes distorted. The government is planning the consolidation of the principal state holdings which would resolve some of the existing ownership and corporate governance issues and may enhance ownership accountability.
- The corporate sector is over-indebted as a result of poor lending practices in the boom years, coupled with the overall slow-down of the economy; the debt equity ratio of 133 per cent, among the highest in the OECD. Technological expertise and know how in the corporate sector are not always matched by financial expertise. Debt is generally structured through numerous and complex bilateral lending relationships, and often without adequate considerations for financial conditions and cash flow.
- There is an urgent need for financial restructuring of shareholder structures and debt. Companies are at risk of running into liquidity constraints, and foregoing opportunities for investment. It is difficult to envisage new lenders or investors (be it private equity, distressed funds or restructuring funds) being attracted into investments given the existing shareholder and corporate structures. Restructuring of shareholder structures should embolden those owners that have the capacity to inject fresh capital, as opposed to government controlled entities that will remain financially constrained for the foreseeable future.
- Companies need to lower their debt burden through lenders' partial debt forgiveness and debt-equity conversions, thereby bringing leverage ratios down to reasonable levels. Enterprise valuations need to be drastically adjusted to reflect the deterioration of performance. In many instances there may be no equity value left and lenders that have used corporate equity as collateral will need to write off such exposures.
- The legal and institutional framework for restructuring and insolvency is being therefore relatively new and untested. Implementation remains a concern. Legal procedures for insolvency and restructuring have in the past tended to be protracted and have resulted in low recovery rates for creditors. The law on insolvency was amended in April 2013 and further more substantial amendments were adopted at the beginning of December 2013.

<u>Operational response</u>

- The Bank will seek opportunities to participate in the financial and operational restructuring of carefully selected corporates with a viable core business model, aiming to achieve operational and financial sustainability based on corporate governance improvements, introduction of best industry standards, simplification of shareholder structures and optimisation of capital structures. The Bank will provide know how and engage in selected corporate restructuring cases, in conjunction with private equity providers and/or strategic investors, acting as a catalyst in the restructuring process and working alongside existing lenders. This is expected to have important demonstration effects.

- The Bank will participate in the privatisation of key enterprises currently under state control, either through debt or equity financing. Such financing will be provided alongside other strategic and/or financial investors, commercial lenders and IFIs, as well as possibly capital markets.
- As many enterprises remain stymied financially by the banking sector under strain, the Bank will also finance directly bankable corporates in cases where the Bank is additional.
- The Bank will devote particular attention to cross-border investment opportunities, both with Slovenian companies investing in the EBRD region and with corporates from EBRD countries of operations planning to invest in Slovenia. This work will be in line with the priorities outlined in the Post-Graduation Operational Approach of EBRD.
- The Bank will seek opportunities to invest equity, directly or through private equity funds, to support the financial and operational restructuring process of enterprises as well as the business expansion and modernisation of some of the healthy corporates.

Policy Dialogue and TC

There is an overall lack of restructuring experience within Slovenia within the government and the private sectors. The Bank provided assistance in the reform of the Insolvency Law, and is exploring opportunities for further assistance on capacity building with the Slovenian authorities to enable effective implementation of the new legislation. In addition, the EBRD can contribute in the area of consensual out-of-court restructuring and specifically in the promotion of 'soft law' or guidelines for multi-bank restructurings. Such assistance would complement improvements to the judicial insolvency law framework.

Economic research on the potential benefits of the corporate restructuring process has been undertaken by EBRD, and outreach events and policy dialogue will seek to build broader local stakeholder support for this process.

3.2. Stabilizing the Financial Sector

The banking sector remains undercapitalised, poorly governed with a large degree of state control, and unable to meet the needs of the corporate sector as a source of liquidity, and long-term funding. It is at once a symptom and a cause of Slovenia's recession.

Returning the banking sector to a fully functional state and EBRD's assistance to that effect will be intricately linked to a comprehensive restructuring of corporate debt, both through the Bank Asset Management Company (BAMC) and through regular restructuring procedures.

Transition challenges

- The balance sheets of Slovenian banks have deteriorated considerably and the banks have been insufficiently capitalized to face those challenges. This has led to steadily rising share of non-performing loans and the fact that the two largest state-owned banks were repeatedly deemed to be in need of capital injections. The asset quality review published in December 2013 highlighted NPL levels at 20.9 per cent, considerably higher than previously assessed. NPLs remain concentrated in the corporate sector, primarily construction companies and financial holdings, though more recently loan delinquencies have spread to other sectors.

- As a result, credit to the corporate sector continues to contract rapidly (by about 16 per cent over the course of 2013). Slovenian banks do not have access to European wholesale markets. Their funding position is nevertheless good at present as it is underpinned by government deposits, and the substantial drawdown of ECB refinancing instruments, which will need to be repaid from end-2014. Slovenia saw the second most rapid pace of outflows of external bank liabilities in the EBRD region.
- The three largest banks are state owned or indirectly state-controlled, giving the state a dominant stake in over half of the sector assets. Poor corporate governance in the state banks contributed to inadequate credit standards, excessive risk taking and misallocation of credit and the bulk of NPLs resides within these state banks. The second largest bank, NKBM, has been designated for privatisation. Whether the state will continue to control NLB, the largest bank in the country, is not clear.
- Through the recapitalisation of three banks, the state is set to considerably extend its ownership role within the banking sector. Five other banks were shown to have a potential capital shortfall based on the stress tests and will need to strengthen capital adequacy by mid-2014. A strategy for broader consolidation of the sector, and speedy transfer into private ownership need to be spelled out.
- Under EU state aid rules NPLs can only be transferred to the BAMC in areas that the bank concerned has designated as 'non-core' in restructuring plans approved by the European Commission, and coherence between these plans with a view to reviving credit to the entire economy will need to be assured.
- Non-bank finance and local private sector bond-issuance remain underdeveloped. Equity and bond markets remain plagued by low liquidity. State-owned KAD and SOD have been the preeminent local institutional investors, and the second pillar pension fund remains very small.

<u>Operational response</u>

The Bank's engagement in support of Slovenia's financial sector will rest on a number of complementary elements:

- Support in consolidation and privatisation of state-owned banks, following the process of NPL clean-up and provided the highest standards of corporate governance are applied. This could most likely only be done alongside other, preferably strategic, investors.
- Providing 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.
- Support to non-bank financial institutions, such as leasing and factoring, for financing SMEs and corporates whose access to finance has been affected by the crisis in the financial sector.

<u>Policy Dialogue and TC</u>

- The institutional prerequisites for the crucial bank asset restructuring process are in place through BAMC, and the European Commission has guided a comprehensive health check of the banking system on which basis the government has committed to capital injections in the three largest banks. The EBRD will continue to engage in dialogue with the government and central bank on the pace of this process and on sensible restructuring procedures in the sector, based on its experience from across the region.

- The Bank stands ready to advise the government on the options of bank privatisation and will advise on appropriate modalities of restructuring, corporate governance reforms and consolidation in the sector.
- As the now well-staffed BAMC commences its operations, EBRD will remain available to support BAMC with its own expertise, including through participation in relevant BAMC governance structures.
- A group of banks, domestic and European regulators was convened by the Slovenian government in mid-2013, and the EBRD will continue to support such dialogue, which could be a useful forum for the coordination of individual banks' approaches to restructuring, thereby counter-acting any free-rider behaviour.

3.3. Supporting Sustainable Energy

Transition challenges

- Challenges are linked to the high energy dependency of Slovenia coupled with inadequate mechanism to access climate finance and EU Structural Funds in a market-oriented and efficient way to enhance energy efficiency across the sectors of the country's economy.
- Slovenia has achieved significant progress with transposition of the EU Directives. However, challenges remain with the implementation of some of the Directives and further assistance may be needed such as in the case of energy performance of buildings.
- As regards renewable energy, the main support system is a feed-in-tariff with preferential dispatch. A system to improve the differentiation of tariffs to take account of technology, size and capacity was proposed but remains delayed.

Operational response

- Under the Sustainable Energy Initiative (SEI), the Bank will continue to use energy audits as a tool to identify sustainable investment potential in Slovenia. Prospective clients will be supported in addressing energy efficiency by appropriately targeted investments as well as energy efficiency enhancing activities (e.g. energy management training).
- The Bank will continue actively exploring ways to design and implement energy efficiency and resource efficiency programmes using effective instruments including dedicated credit lines, utility demand side facilities and ESCOs.
- In the area of renewable energy, the Bank will consider direct support for renewable energy projects like small hydropower, wind and solar plants, on the basis of a sustainable feed-in-tariff system.

Policy Dialogue and TC

- EBRD could provide the necessary technical assistance for capacity building and awareness, as well as establishing policy dialogue channels that would help pave the way for future investments in the area of Energy Efficiency, Resource Efficiency, and Renewable Energy.
- EBRD to explore activities to address the deficiencies in housing legislation. Improvements needed for policy frameworks in residential energy efficiency.

3.4. Environmental and Social Implications of Bank Proposed Activities

Since joining the European Union and implementing EU Directives Slovenia has made substantial progress in addressing its environmental legacies, mainly associated with the historic structure of the industry. These legacies and the costs of addressing them have been recognised as part of the EU Accession Treaty and have been raised by civil society organisations in the past. To the date, the Bank has assisted and continues to assist in the financing of projects aimed at attaining compliance, for instance in the power sector. The planned privatisation of a number of state owned enterprises which the Bank may be able to support, could also provide the opportunity for energy efficiency enhancements and further environmental improvements.

The recent implementation of the EU Industrial Emissions Directive (IED) is a challenge to many operators, notably as existing facilities are to comply with Best Available Techniques (BAT) post 2016. The needed investments will require substantial capital and know-how and this could affect the planned privatisation of some facilities.

4. ACCESS TO FINANCE

4.1. Private sources of capital

Slovenia's sovereign rating has been gradually downgraded since 2006 by all three major rating agencies. The assessment by Moody's went furthest in assessing the country sovereign credit quality as below investment grade in May 2013, largely due to problems in the banking sector. The other two rating agencies, S&P and Fitch, still assess the country as 'investment grade' (at A- and BBB+ respectively), though the latter with a negative outlook.

All three agencies see mounting risks from the need to inject public funds into the undercapitalised banking sector, and in light of growing debt distress in the corporate sector. Moreover, rating agencies expect a deeper and more protracted recession than is reflected in official forecasts. At the same time, rating agencies point out positive aspects such as Slovenia's large current account surplus and as yet significant buffers of fiscal reserves.

On the back of these partially supportive sovereign ratings and investor confidence in continued reform implementation Slovenia issued substantial amounts in the international bond markets in October 2012 (USD 2.25 billion), and May 2013 (USD 3.5 billion) and in a private bond placement of EUR 1.5 billion in November 2013 and on the back of positive progress on the banking sector recapitalisation, the government successfully placed USD 3.5 billion 5- and 10-year issues on 18 February 2014. The government is looking to conduct further bond issues to cover ongoing financing requirements, including from a maturing bond.

By contrast domestic banks and enterprises remain largely cut off from international bond financing, though have drawn on substantial amounts of ECB refinancing instruments.

4.2. Co-operation with the European Union and IFIs

4.2.1. The European Union

European Commission

The Directorate General Economics and Finance (DG EcFin) has substantially stepped up its coverage of Slovenia. The country is subject to a number of common EU procedures, including for excessive deficits and excessive macroeconomic imbalances.[5] Recommendations on structural reforms in the financial and corporate sectors issued by the EU Commission correspond closely to those set out in this country strategy.[6]

DG Competition has set state aid procedures for Nova Ljubljanska Banka (NLB) in 2012, and Cimos, an automotive producer, in 2013. The government has advised the Commission that state aid may be notified for a number of other non-financial corporates.

The government is in the process of drafting the operational programmes for the structural and cohesion funds for the period 2014-2020. For the 2007–13 period Slovenia was allocated more than EUR 4 billion of Structural Funds and Cohesion Fund financing under the Convergence Objective. The Slovenian development priorities have been implemented through three programmes: 'Strengthening Regional Development Potential'; 'Human Resources Development' and 'Environmental and Transport Infrastructure Development'.

European Investment Bank

In 2013, EIB financing in Slovenia amounted to EUR 747 million focused on SME and midcap financing channelled mainly though SID as well as commercial banks. Over the past five years (2008–2012), the EIB pledged to provide funds totalling some EUR 2.4 billion for projects promoting EU objectives in Slovenia. EIB operations in Slovenia cover all major sectors of the economy ranging from basic infrastructure, energy, manufacturing and services, including support for small and medium-sized companies through local financial institutions, to the promotion of the productive sector, competitiveness and the knowledge economy.

In 2011, the EBRD signed a EUR 200 million senior loan for the Šostanj energy plant (of which EUR 100 million was syndicated) to finance the construction of a new power block. The operation is co-financed by the EIB. During 2012 the Bank has been involved in the dialogue with the Ministry of Finance on the issuance of the sovereign guarantee in favour of the EIB. The issue was successfully resolved and the guarantee agreement was signed and ratified by the Government. In 2012, the EIB provided the biggest ever loan in Slovenia – EUR 500 million to the Slovenian government to facilitate the implementation of the National Strategic Reference Framework.

4.2.2. International Financial Institutions

IMF

Slovenia has been a member of the IMF since the dissolution of the former Socialist Federal Republic of Yugoslavia in 1992, and there has been no financial programme since then. Fund staff monitors closely macroeconomic and financial sector developments in the country, including through the latest Financial Sector Assessment Programme, and in a staff visit in October 2013.[7] At present, there is no request for financial support from the government, nor work towards such a programme on the side of the Fund.

International Finance Corporation (IFC)

Slovenia graduated from the World Bank Group in 2004. While the Government of Slovenia has indicated interest in IFC support, at this point in time IFC can only consider providing financing for Slovenian companies, which intent to expand their activities over the region.

---

[5] http://ec.europa.eu/economy_finance/publications/occasional_paper/2013/pdf/ocp142_en.pdf
[6] http://ec.europa.eu/europe2020/pdf/nd/csr2013_slovenia_en.pdf.
[7] http://www.imf.org/external/np/ms/2013/102813.htm

Organisation for Economic Cooperation and Development (OECD)

Slovenia joined the OECD in 2010, and leading up to that accession, the country made a number of important legal and regulatory changes, importantly the establishment of the state ownership agency (which has since been abolished). Two in depth country reports have been issued in 2011 and 2013 which provided analytical input for the Bank's work.[8]

[8] http://www.oecd.org/economy/surveys/slovenia-2013.htm

ANNEX 1 – POLITICAL ASSESSMENT

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

The constitutional and legislative framework for a pluralistic parliamentary democracy is in place. The separation of powers and checks and balances in the political system, guarantees for fundamental rights and the protection of minorities, and for a meaningful role of civil society are largely in line with international and European standards, as assessed by the Council of Europe. Elections are conducted in a manner deemed by the OSCE and the Council of Europe to be free and in line with international standards.

In the period since the adoption of the previous Strategy, Slovenia has made further progress in all areas of democratic reform, facilitated by the deepening of its integration into the European Union (EU), which the country joined in 2004. At the same time, certain challenges remain in the areas of public administration and the judiciary, whose efficiency, according to the latest assessments by the European Commission (EC), could be further improved.

Free Elections and Representative Government

Free, fair and competitive elections

The existing legal framework provides a sound basis for democratic elections, as assessed by the OSCE's Office for Democratic Institutions and Human Rights (OSCE/ODIHR). The legal framework has benefited from a series of reforms over the years. The most recent changes included the introduction of a 4 per cent threshold for participation in the distribution of seats (as required by the Constitution), a minimum of 35 per cent quota for the representation of each gender in the candidate lists, modified procedures for appointing members of elections commissions, and the extension of the list of legal persons not permitted to donate funds to political parties.

However, certain aspects of the legislation could benefit from further consideration. In view of OSCE/ODIHR, shared also by the Council of Europe's European Commission for Democracy through Law (Venice Commission), the existing dual voting rights for citizens belonging to the Italian and Hungarian minorities, they can cast their votes in their regular constituency of permanent residence and in the special constituency of their respective national community, diverge from international good practice and OSCE commitments regarding the equality of the vote.[9] The OSCE/ODIHR has also recommended introducing in the electoral law an explicit provision for election observation, currently lacking, that would set out rights and responsibilities of observers and accreditation arrangements.[10]

Previous elections in the country were assessed as "free and fair" by observers from the ODIHR, as well as by other competent international observers. Elections are generally competitive, starting with inclusive candidate registration that offers a diverse choice to the

[9] OSCE/ODIHR, Early elections of the National Assembly of Slovenia, Election Assessment Mission, Final report, 7 February 2012; and The Council of Europe's European Commission for Democracy through Law (Venice Commission), CDL-AD (2008) 013, Report on Dual Voting for Persons Belonging to National Minorities

[10] OSCE/ODIHR, Early elections of the National Assembly of Slovenia, Election Assessment Mission, Final report, 7 February 2012, page 8

electorate, and conducted in a calm atmosphere. The candidates are able to campaign freely. The National Election Commission is an independent body, appointed by the National Assembly, and is responsible for the overall conduct of the elections, including ensuring the uniform application of the election law, coordinating the work of lower-level election commissions, declaring the results, and considering appeals. Overall there is a relatively high level of public confidence in the work of the election administration.

Under the Constitution, the parliament (National Assembly) has 90 seats, 88 of which are elected on the basis of proportional representation and two of which are elected by the Italian and Hungarian minorities through a majoritarian preferential system. The latest general elections, which took place on 4 December 2011, were marked by a calm and peaceful environment and were genuinely pluralistic. Their conduct was assessed by the OSCE/ODIHR Election Observation Mission as well administered and transparent.

Separation of powers and effective checks and balances

The constitutional and legislative framework for a parliamentary democracy – underpinned by the separation of powers and checks and balances in the political system, independent legislature and well established procedures of legislative oversight in prescribed domains of decision-making – is in place in Slovenia and is in line with international and European standards. The scope of powers of the legislature to hold the government to account and to exercise parliamentary oversight is largely in line with international standards.

The functioning of the parliament is in line with democratic practice. Representatives of the opposition head a number of parliamentary committees. The prime minister and government ministers participate in monthly Q&A sessions with MPs. They also respond in writing to enquiries from MPs. Ministers participate in the interpellations requested by the parliamentary opposition, as well as in hearings at the parliamentary committees. The parliamentary committees and MPs exercise their right to initiate and amend legislation, although the number of bills adopted upon the initiative of MPs is very low.

Effective power to govern of elected officials

Slovenia has established institutional, legal, and financial arrangements for elected officials to exercise effective power to govern and they are not constrained by any non-democratic veto powers or other undue influences.

Civil Society, Media and Participation

Scale and independence of civil society

There is a satisfactory legal framework for civil society organisations. There is a diverse network of institutions responsible for cooperation between the government and CSOs, including the Council for Cooperation (comprising both government and CSO representatives and chaired by a CSO representative), and a specialised agency in charge of cooperation with CSOs within the Government. The Strategy for the Development of Civil Society expired a few years ago, but was not replaced with a new one, since the CSOs opted for a new Law as a more practical and efficient tool. This Law (Law on CSOs) is being prepared and is due to be adopted in 2014.

The procedures for the registration of CSOs are straightforward, which explains their large number (more than 25,000), given the size of the country. More than 600 CSOs are united in the Centre for Information, Cooperation and Development of NGOs (CNVOS). They are particularly active in the areas of environment, human rights, social issues, culture, regional development, and development cooperation

The right to form trade unions is enshrined in the law and respected in practice. Trade unions traditionally enjoy a very strong voice in Slovenian society and play a particularly active role in the National Council (see more about the National Council in “multiple channels for civic participation”).

Independence and pluralism of media operating without censorship

Slovenia has a diverse media environment, which includes public and private broadcasters and which offers citizens a wide range of political views. Pluralism in the media, which operate freely and without censorship, has increased overall in recent years. The legal framework is largely in place and in line with international standards. The RTV Act regulates, among other things, impartial political coverage. The Media Inspectorate of the Ministry of Culture and the Market Inspectorate of the Ministry of Economy ensure supervision of the implementation of the RTV Act.

The public broadcaster (RTV Slovenia) has three national televisions and three radio channels, as well as a few regional channels. RTV broadcasts special programmes for the Italian and Hungarian minorities. Commercial television includes three main national stations. Television remains the predominant source of public information, since circulation of printed media is relatively narrow. Recent years have witnessed a rapid growth in internet access. According to the International Telecommunication Union (ITU), the percentage of population with internet access grew from 15.11 per cent in 2000 to 70 per cent in 2012.[11] Social media is playing an increasingly important role. In 2012, 36.6 per cent of Slovenians were active Facebook users.[12]

Multiple channels of civic and political participation

Multiple channels of civic and political participation are in place. Slovenia has, besides the directly elected National Assembly, an indirectly elected body – the National Council – which has a secondary role in the legislative process. The National Council comprises 40 representatives of different professional groups and local communities and is designed to enhance civic and political participation. It has a right to a suspension veto prior to the law’s promulgation, and may require a parliamentary enquiry or initiate new legislation. The National Council is an additional corrective tool for the functioning of the political system. Although there are different views in the Slovenian society and among the political parties today regarding the functioning and the organisation of this body, overall it enables a better representation of the interests of specific professional and social groups.

The system of public consultations is largely in place, although the rules are not always enforced.

[11] ITU (2012) http://www.itu.int/en/ITU-D/Statistics/Pages/stat/default.aspx
[12] Internet World Stats (2012) http://www.internetworldstats.com/stats4.htm

Freedom to form political parties and existence of organised opposition

The freedom to form political parties is guaranteed by the Constitution and implemented in practice, as highlighted by the existence of a significant opposition able to campaign freely and oppose government initiatives. The main opposition political party currently holds about 30 per cent of seats in the national parliament, its representatives head a number of parliamentary committees, and they are also in majority in a number of municipalities. 20 political parties participated in the last general elections in Slovenia, and seven parties are currently represented in the parliament.

Rule of Law and Access to Justice

Supremacy of the law

Necessary legislative and institutional safeguards for the supremacy of the law are in place. Citizens have the right to a free and fair trial, and are free from arbitrary arrest or detention. In the years preceding accession to the EU, Slovenia made progress in comprehensive reforms of the judiciary and in aligning it with European standards and legislation. The work has continued since then.

Independence of the judiciary

The independence of the judiciary is guaranteed by the Constitution and key safeguards are in place to ensure its impartiality.

According to the EC's assessment of the 2013 national reform programme and stability programme for Slovenia, despite recent progress and a distinct positive trend, judicial proceedings remain long and the rate of resolving litigious civil and commercial cases is low.[13]

Government and citizens equally subject to the law

There has been progress in access to justice for citizens. The Law on Free Access to Public Information, which ensures that everyone has free access to the public information held by state and local self-government bodies, public agencies and funds, and public powers holders, is in place. Efforts continued towards building a modern, professional, transparent, merit-based and citizen-oriented administration.

Effective policies and institutions to prevent corruption

An adequate institutional and legal framework for fighting corruption is in place, as assessed by the Council of Europe's Group of States against Corruption (GRECO).[14] The key piece of legislation, the Integrity and Prevention of Corruption Act (IPCA), was adopted in 2010 and amended in 2011. IPCA confers a central role in supervising the implementation to the Commission for the Prevention of Corruption (CPC), an independent body.

---

[13] European Commission, Country-specific recommendations for 2013, Council Recommendation on Slovenia's 2013 national reform programme and delivering a Council opinion on Slovenia's stability programme for 2012-2016, 29 May 2013

[14] Council of Europe, Group of States against Corruption (GRECO), Slovenia, Fourth Evaluation Round (corruption prevention in respect of members of parliament, judges, and prosecutors), Evaluation Report, 30 May 2013, page 5

In a second compliance report adopted in May 2012, GRECO noted existing deficiencies in implementing its previous recommendations with regard to the transparency of party funding. These recommendations related to the need for providing detailed financial reports of the political parties and campaign organisers and the need for strengthening the capacities and resources of the relevant institutions for monitoring party and campaign financing. A new legislation has been drafted designed to improve transparency and accountability of political parties and campaign financing. It has been approved by the government but has yet to be adopted by the National Assembly.

GRECO's current round of evaluation, launched in 2012, focuses on corruption prevention concerning MPs, judges, and prosecutors. In its evaluation report adopted in October 2012, GRECO acknowledged that Slovenia has improved integrity rules for MPs, judges, and prosecutors. However it also concluded that much remains to be done to educate them about integrity and conflicts of interest. A first compliance report looking at the implementation of recommendations addressed to Slovenia is expected in the second half of 2014.[15]

According to the latest (20133) Transparency International Corruption Perception Index (CPI), Slovenia has one of the lowest levels of corruption among transition countries. The CPI placed Slovenia as 43rd out of 177 countries, which, alongside some Baltic states, is the best position among all of EBRD's countries of operations[16].

Civil and Political Rights

Freedom of speech, information, religion, conscience, movement, association, assembly and private property

Overall civil and political rights continue to be well respected in Slovenia. The last assessment of the track record of Slovenia in the area of human rights in the framework of the United Nations Universal Periodic Review (UPR) was adopted in June 2010. The top three recommendations for Slovenia included women's rights (26.42 per cent of recommendations); the rights of the child (23.58 per cent); and minorities (16.98 per cent). Slovenia accepted 90 per cent of the recommendations made through the review process.[17]

Slovenia is a signatory to all major international human rights instruments. The Constitution guarantees the basic freedoms and rights of citizens recognized in international law, while international treaties are directly enforceable by domestic courts and their status is superior to the domestic law. Freedom of speech, information, religion and conscience, movement, association and assembly, and private property are therefore fully guaranteed. The Constitution and relevant laws prohibit discrimination on grounds of sex, race, language, religion, national or social origin, property or social status. Property rights are generally respected and protected.

---

[15] Council of Europe, Group of States against Corruption (GRECO), Slovenia, Third Evaluation Round (Incriminations and transparency of Party Funding) 2010-2012; and Fourth Evaluation Round (corruption prevention in respect of members of parliament, judges, and prosecutors) 2012-.

[16] Transparency International, Corruption Perceptions Index (CPI), December 2012

[17] United Nations, Universal Periodic Review (UPR), Slovenia, February-June 2010 and UPR Info Statistics

Political inclusiveness for women, ethnic and other minorities

The data provided by the Slovenian Statistics Office does not provide information on ethnic affiliation. The last census to include such data was the one conducted in 2002. According to that census, ethnic Slovenes were 83.06 per cent of the population. Among minorities the largest group is ethnic Serbs (1.98 per cent of the population), followed by Croats (1.81 per cent) and Bosniaks (1.1 per cent).

Constitution and relevant laws single out Italian and Hungarian minorities, which are defined as 'indigenous', as well as members of the Roma community, to which the authorities apply provisions of the European Framework Convention for the Protection of National Minorities and the Act on Equal Treatment. The Italian and Hungarian minorities, which according to the 2002 census had 2,258 and 6,243 members respectively, are granted special rights and enjoy a high level of protection, particularly when it comes to the preservation and development of their identity and culture, use of language, media, education, as well as participation in decision-making at central and local level. Representatives of Italian and Hungarian minorities are guaranteed one seat each in the parliament (National Assembly). Although not explicitly stated in the law, the members of these two communities are *de facto* granted the right to cast two votes for elections. While noting commendable efforts by the Slovenian authorities to facilitate participation of minorities in the election process, the OSCE/ODIHR and the Venice Commission are of the opinion that dual voting rights diverge from the principle of equality of the vote.

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

In the context of the dissolution of the former Socialist Yugoslavia, on 26 February 1992 approximately 25,000 individuals who had been citizens of the former SFRY and had resident status in Slovenia were erased from the registry for permanent residence. Slovenian Constitutional Court has made multiple decisions which ruled that this was unconstitutional. In 2006, a case was brought to the European Court of Human Rights (ECHR), which ruled that Article 8 of the European Convention on Human Rights was violated. In 2011, upon the request of the Slovenian authorities, this judgment was referred to the Grand Chamber of the ECHR, which on 26 June 2012 upheld the verdict.

The key legislative elements for gender equality are in place in Slovenia. Women are active at the grassroots level and have a few high-profile representatives at the national level, including the Prime Minister and two other members of the current Government.

Political participation of women has been increasing gradually throughout the last decade. The number of women elected in the national parliament elected to the national Parliament, European Parliament, and local institutions of self-government increased mainly because of the introduction of quotas and lobbying by women. The quotas were introduced gradually starting with 2004 Law on elections to the European Parliament, then in the laws on local elections, and finally in the law on election to the national parliament. The 2011 general elections were the first in which the gender quota was applied fully (35 per cent of candidates). As a result, the share of women in the national parliament has increased from below 15 per cent in 2004 and 2008 to 31 per cent in the current parliament that was elected in 2011.

Although the Employment Relationships Act stipulates that equal opportunities for, and equal treatment of women and men should be ensured as regards pay and other income arising from employment relationship, on average women in Slovenia earn 10 per cent less than men with equal level of professional qualifications. The labour market is uneven regarding gender both horizontally and vertically: women prevail in services, education, tourism, as well as financial intermediation.

Freedom from harassment, intimidation and torture

Constitutional guarantees against harassment, intimidation, and torture are in place and are largely upheld in practice.

A delegation of the Council of Europe's European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT) carried out a periodic visit to Slovenia in February 2012 to assess progress made since the previous visit in 2006 and in particular the extent to which the Committee's recommendations have been implemented in the areas of police custody and imprisonment. The report was published on 19 July 2013. The CPT acknowledged the efforts made by the Slovenian authorities to improve the conditions in prisons and concluded that the material conditions of detention in police facilities were, on the whole, satisfactory, even if overcrowding continued to be a problem in some prisons.[18]

[18] Council of Europe, European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT)

ANNEX 2 – SELECTED ECONOMIC INDICATORS

Slovenia

	2008	2009	2010	2011	2012	2013 *Estimate*	2014 *Forecast*
Output and expenditure			*(Percentage change in real terms)*				
GDP	3.4	-7.9	1.3	0.7	-2.5	-1.7	-2.0
Private consumption	2.3	-0.1	1.5	0.8	-4.8	na	na
Public consumption	5.9	2.5	1.3	-1.6	-1.3	na	na
Gross fixed capital formation	7.1	-23.8	-15.3	-5.5	-8.2	na	na
Exports of goods and services	4.0	-16.1	10.2	7.0	0.6	na	na
Imports of goods and services	3.7	-19.2	7.4	5.6	-4.7	na	na
Industrial production	2.5	-17.4	6.2	2.2	0.0	na	na
Labour Market[1]			*(Percentage change)*				
Gross average monthly earnings in economy (annual average)	8.3	3.4	3.9	2.0	0.1	na	na
Real wage growth	2.5	2.5	2.1	0.2	-2.4	na	na
			(In per cent of labour force)				
Unemployment rate (end-year)	4.3	6.4	7.8	8.7	9.5	10.1	na
Prices			*(Percentage change)*				
Consumer prices (annual average)	5.5	0.9	2.1	2.1	2.8	1.9	na
Consumer prices (end-year)	1.8	2.1	2.2	2.1	3.1	0.9	na
Fiscal Indicators			*(In per cent of GDP)*				
General government balance	-1.9	-6.3	-5.9	-6.3	-3.8	-4.4	na
General government revenues	42.2	42.3	43.6	43.6	44.2	na	na
General government expenditure	44.1	48.7	49.4	49.9	48.1	na	na
General government debt	22.0	35.2	38.7	47.1	54.4	na	na
Monetary and financial sectors			*(Percentage change)*				
Broad money (M2, end-year)	5.2	2.5	1.6	2.5	-0.9	-1.3	na
Credit to the private sector (end-year)	18.3	1.0	0.1	-3.5	-7.2	-23.9	na
Non-Performing Loans to Total Gross Loans (end-year)	4.2	5.8	8.2	11.8	13.2	20.9 (Oct.)	na
Interest and exchange rates			*(In per cent per annum, end-year)*				
Main refinancing operations policy rate (ECB)	2.5	1.0	1.0	1.0	0.75	0.25	na
External sector							
			(in per cent of GDP)				
Current account (end-year)	-5.4	-0.5	-0.1	0.4	3.3	na	na
Trade balance	-6.5	-1.3	-2.4	-2.7	-0.4	na	na
Merchandise exports	54.5	46.8	53.5	59.3	61.2	na	na
Merchandise imports	61.0	48.2	55.9	62.1	61.7	na	na
Foreign direct investment	3.6	-1.3	0.8	2.0	-0.1	na	na
External debt stock	105.3	113.8	114.8	110.9	115.7	na	na
Public external debt	24.5	39.4	46.5	46.8	56.0	na	na
Private external debt	80.8	74.4	68.3	64.1	59.6	na	na
Memorandum items			*(Denominations as indicated)*				
Population (end-year, million)	2,032	2,047	2,050	2,055	2,059	2.061	na
GDP (in billions of Euros)	37.2	35.4	35.5	36.2	35.3	na	na
GDP per capita (in Euros)	18,420	17,349	17,320	17,610	17,172	na	na
Share of industry in GDP (in per cent)	29.6	27.0	26.1	26.5	27.0	na	na
Share of agriculture in GDP (in per cent)	2.0	2.1	2.2	2.4	2.3	na	na
net FDI (in millions of Euros)	327.4	-662.9	428.2	633.1	165.8	na	na
External debt/exports of goods and services (in per cent)	154.0	192.7	172.8	152.5	152.4	na	na
Broad money (M2, end-year in per cent of 2012 GDP)	49.2	53.1	53.8	54.1	54.9	54.1	na

[1] Figures do not include emigrant workers abroad.

ANNEX 3 – ASSESSMENT OF TRANSITION CHALLENGES

The table and the supporting text below provide an overall assessment of Transition Challenges by sector, based on the Office of the Chief Economist's 2013 Assessment of Transition Challenges. There are two separate scores for each sector, rating market structures and market-supporting institutions. As in all other countries, specific transition challenges reviewed in Section 3 above may only lead to limited downgrades in either market structure or market institutions, even though they may be serious enough to put at risk transition gains more broadly, and indeed define the operational responses of this country strategy.

Sectors	Market structure	Market-supporting institutions
Corporate sectors		
Agribusiness	Small	Medium
Manufacturing and Services	Small	Small
Real estate	Negligible	Negligible
Telecommunications	Small	Negligible
Energy		
Natural resources	Small	Small
Sustainable energy	Small	Small
Power	Medium	Small
Infrastructure		
Water and Wastewater	Small	Small
Urban Transport	Small	Small
Roads	Medium	Medium
Railways	Medium	Small
Financial sectors		
Banking	Medium	Medium
Insurance and other financial services	Small	Small
MSME Finance	Medium	Small
Private Equity	Medium	Medium
Capital Markets	Medium	Small

Agribusiness
Market structure: *Small*
Market institutions: *Medium*

Key challenges: (i) accelerate the sales of residual direct and indirect ownership of stakes held by the state to enhance overall efficiency in the sector; (ii) improve access to financing by primary agriculture.

Since accession to the EU in 2004, Slovenia has been integrating into the EU's CAP. As an EU member, the country benefits from substantial EU agricultural support although this is considerably less than in some other EU member states. Following the 2013 CAP reform, the level of support will converge ensuring that no single Member State receives less than 75 per cent of the Community average by 2019. Small-scale private farms already existed before independence. The privatisation of agribusinesses is complete, although the government still own direct or indirect stakes in a number of agribusiness companies. Efficiency improvements have been somewhat hindered by lack of openness to FDI into the sector but this is now changing as a number of companies have been offered for sale to foreign strategic buyers including agribusiness companies in the context of the work-out of the balance sheet of state-owned commercial banks. The retail sector is very developed. Skill levels are very high. The institutional framework concerning building a warehouse and registering property need to be improved. The traceability of produce still remains a challenge. Access to financing by primary agriculture remains limited.

Manufacturing and Services
Market structure: *Small*
Market institutions: *Small*

Key challenges: (i) reduce direct and indirect state involvement in the sector through resuming privatisation and sell-off of enterprises owned by state-owned banks; (ii) support the restructuring of the corporate sector, which is plagued by complex shareholder structures, poor corporate governance and excessive leverage.

The rating for market institutions has been recently changed from “negligible” to “small” to reflect the downgrade in the competition policy score. Slovenia’s tradition of consensus-based policy-making has meant that progress with structural reforms has been slower than in other central European countries. The industrial sector continues to suffer from a high level of government involvement and the financial crisis highlighted the need of many enterprises for financial and operational far-reaching restructuring to become internationally competitive. Indirect government ownership is common, either via state owned banks or state funds, such as KAD (pension and investment fund) or SOD (the state restitution fund). Corporate decision making can be slow and outcomes distorted, due to the need to obtain approvals from numerous shareholders, often in the government. The legal and institutional framework for restructuring and insolvency has recently been reformed with the adoption of amendments to the Insolvency Law at the beginning of December 2013. A new privatisation agenda was adopted by the government in early 2013. However, realism of valuation expectations as well as broad political support for ownership and restructuring by foreign strategic owners are likely to determine the outcomes of the privatisation efforts. The government that came to office in March 2013 considers pursuing these reforms, including the shift of certain non-performing bank assets to the Bank Asset Management Company (BAMC) for restructuring purposes. A Slovenia Sovereign Holding (SSH) is expected to be established, with the current state restitution fund (SOD) at its core. The mandate of this agency is to implement long-delayed plans for privatisation and enforcement of good corporate governance practices in the remaining state enterprises. Nevertheless, there is a risk that policy implementation slows down as austerity measures drag on, and corporate restructuring impacts employment. The competition authority, until last year, was not fully independent from the government and lacked adequate resources. A significant drop in competition cases was among the factors that led to a downgrade of the country last year, together with protracted failure to unwind state ownership, and implement effective corporate governance standards. During last year, an outstanding reform has led to the establishment of a new independent competition authority which has also been significantly staffed. In spite of the reform, gaps are kept small in order to evaluate the enforcement activity of the competition authority and monitor the evolution of the restructuring/privatisations efforts.

Real estate
Market structure: *Negligible*
Market institutions: *Negligible*

Key challenges: The sector is already well developed, although regional tourism infrastructure could still be further improved and a large number of developments are in default after the crisis.
The real estate sector has rapidly developed in the period in between EU accession and the financial crisis of 2008/09. New types of property as well as financing instruments developed.

Increased consumption has led to a strong growth in the retail sector, while improved infrastructure has triggered massive investments in the residential sector, especially in Ljubljana. Slovenia also has a relatively high market penetration of innovative construction technologies by regional standards, although regional cities continue to lag behind the capital in relation to tourism infrastructure. Since the financial crisis, a large number of bank financed developments have gone into default, with effective restructuring yet to begin. The legal framework for mortgages is relatively efficient. Primary and secondary legislation supporting the sustainability of real estate (energy efficiency, impact on environment) is well developed and public awareness of the sustainability issues is also good.

Telecommunications
Market structure: *Small*
Market institutions: *Negligible*

Key challenges: (i) privatising the fixed line incumbent Telekom Slovenije and the leading mobile operator Mobitel.

The telecommunications sector is regulated by the Post and Electronic Communications Agency (APEK). The regulatory framework is already relatively well developed, generally aligned with the EU requirements.

The fixed-line sector is still dominated by the state-controlled incumbent Telekom Slovenije, which is now designated for privatisation. Competition from alternative operators / cable TV providers, such as Telemach, has been increasing. In the mobile segment, there is competition between four operators, Mobitel (the mobile arm of Telekcom Slovenije), Si.mobil, Tusmobil and T2, and a number of mobile virtual network operators (MVNOs). The mobile segment is still dominated by Mobitel, whose share has however been declining over time. Slovenia's high Internet penetration is on par with Western European countries. 4G/LTE services have already been launched in Slovenia, thus further improving the conditions for improved access to broadband internet. DSL and cable broadband services are widely available, with SiOL, the internet arm of Telekom Slovenije, the most significant player in the market, facing competition from ISPs and cable operators.

Natural Resources
Market structure: *Small*
Market institutions: *Small*

Key challenges: (i) enhance private sector participation and competition at all levels of the O&G value-chain and promote privatization of state-owned mining assets; (ii) increase competition and reduce market concentration in the oil distribution and gas supply sectors; (iii) promote price liberalisation for fuels; and (iv) ensure independence of the Energy Agency.

Slovenia has minor oil resources and very modest natural gas deposits. The country mostly relies on imports to cover its energy needs. There are no active oil refineries anymore, as the Nafta Lendava plant was closed in 1999 for economic reasons. Slovenia has modest proven coal reserves. The country does not have a strategic deposit and currently rents gas storage capacities in Austria and Croatia.
The State maintains significant participations in the main upstream and downstream companies. The upstream oil sector is dominated by the national oil exploration, production and processing company, Nafta Lendava, which is state-controlled and was legally unbundled in 2002 through the creation of independent fully-owned subsidiaries by lines of business.

The oil downstream sector is open and competitive, yet dominated by Petrol d.d. The gas market was nominally fully liberalised for industrial customers in July 2004 and to all customers in July 2007, but no significant alternative wholesale supplier has appeared in the market so far. State-owned natural gas company, Geoplin, is the main gas supplier in Slovenia and also owns the gas grid, has long-term contracts with industrial customers and is responsible for practically all the purchasing, transport and wholesale of gas in the country. Distribution of gas for households and the commercial sector is handled by around 17 municipal entities - 7 of which are private concessions. Coal-mining is dominated by the Velenje deposit, fully state-owned.

The regulatory and legislative framework is generally supportive but oil and some oil product prices (gasoline and LPG) are regulated by the Government, with excise taxes being used to smooth out the impact of world-price fluctuations. Given the record of interventions from the Government, the actual independence of the Energy Agency has been questioned in the past.

Sustainable Energy
Market structure: *Small*
Market institutions: *Small*

Key challenges: (i) transposition and implementation of the 2012 EU directive on energy end-use efficiency and facilitation of sustainable energy project activity; and (ii) strengthen support mechanisms for renewable energy projects.

An adequate legal and institutional framework for sustainable energy is in place. Energy pricing encourages energy efficiency investments. Support systems for energy efficiency and renewable energy are in line with EU practices, although outcomes are still lagging behind EU average. The main support system for renewable energy is feed-in-tariffs with preferential dispatch. A system to improve the differentiation of tariffs to take account of technology, size and capacity was proposed in July 2009 but is delayed to facilitate further assessment. A Climate policy is in place and on track to achieve EU 20/20/20 targets. Remaining challenges include transposition and implementation of the 2012 EU directive on energy efficiency and facilitation of SE project activity. A new action plan for RE for 2010-2020 period in accordance with EU targets has been adopted.

Power
Market structure: *Medium*
Market institutions: *Small*

Key challenges: (i) increase in private sector participation in the generation market; and (ii) increase private sector cross border trade.

Progress has been achieved in improving the market structure of the power sector. Notably, the sector has been unbundled into generation, transmission, and distribution, though all these activities remain fully state owned. In addition, since July 2007, Slovenia has fully liberalised its electricity market and all electricity consumers can choose their supplier. However, there is still limited private sector participation and competition in the sector is limited. Notably, the state is still the majority owner of all generation facilities. On the other hand, private sector participation has increased, with fourteen suppliers being active in the retail market. The quality of Slovenian institutions has improved. An independent regulator is in place. Some tariffs are cost reflective but cross-subsidies from industrial consumers to households are still present. A feed-in tariff mechanism to support the development of renewable energy is in place and the guaranteed purchasing and the paying out of the support are now the responsibility of the state-owned market operator. The government is subject to infringement proceedings for failure to appropriately implement rules aimed at increasing the capacity and transparency of gas and electricity markets; and failure to provide an adequate alternative dispute settlement system for consumers.

Water and wastewater
Market structure: *Small*
Market institutions: *Small*

The remaining key challenges are: (i) development of improved incentive based contractual arrangements; and (ii) full elimination of cross subsidies between consumer groups.

Control over local infrastructure rests with the municipalities. Water utilities are normally operated by joint stock companies owned by the municipalities. Some private sector participation in the form of concessions and management contracts has taken place in the water sector. The operational and financial performance is overall good with adequate metering and billing procedure being the norm. Tariffs are set by the municipalities and are in general covering all costs although substantial investment grants are being provided.

Urban Transport
Market structure: *Small*
Market institutions: *Small*

Remaining challenges are linked to: (i) some further improvements of public service contracts and their full deployment in smaller towns; and (ii) further liberalisation of the regulated urban transport sectors.

Control over local infrastructure rests with the municipalities. There has been significant liberalisation in the urban transport routes throughout the country. The operational and financial performance is overall good and both public and private service providers operate with adequate contractual arrangements. While commercial financing is available, grant funding is still quite widespread when upgrading the capital stock of the municipal companies.

Roads
Market structure: *Medium*
Market institutions: *Medium*

The transition challenges remain in the following areas: (i) enhancement of competition in road maintenance; (ii) development of performance based contracts; and (iii) development of PPP projects.

The road directorate is a semi-independent body under the Ministry of Transport. The responsibility concerning the operations, maintenance and development of the motorway networks has been assigned to DARS (100 per cent state owned) in 1993. There has been private sector participation in construction and periodic maintenance of the network since the early 90s, but there is limited competition as these works are usually undertaken by a limited number of domestic companies. Road user charges include motor vehicle tax, fuel excise tax, road and pollution tax, and are sufficient to cover road related costs. There is relatively high quality concession legislation but no PPP projects have been closed so far.

Railways
Market structure: *Medium*
Market institutions: *Small*

The remaining key challenges are: (i) improvements in financial conditions of the core railway businesses; (ii) establishment of fully functioning independent regulator; and (iii) liberalisation of the track access and enhancement of competition in the market.

In railways, operating and policy setting functions have been separated and core railway businesses (infrastructure, passenger, freight, etc.) have been unbundled while ancillary services have been divested. In 2004, the Slovenian Railways (SZ) was transformed into a holding company with fully separate subsidiaries for freight transport, passenger transport and infrastructure. Infrastructure access has been granted but there are a limited number of operators competing in the market. Freight tariffs were liberalised while the framework for PSO was adopted. These reform efforts are largely in line with EU directives.

Banking
Market structure: *Medium*
Market institutions: *Medium*

Key challenges: (i) privatize and re-capitalize state-owned banks, (ii) improve funding structure to reduce reliance on short-term wholesale funding (iii) address credit quality issues and stock of NPLs

Despite its Eurozone status, the Slovenian banking sector has lagged in transition. Key challenges are the continued dominance and weak condition of state-owned banks, and heavy dependence on wholesale external funding of the gap between bank assets/GDP of 128 per cent and deposits/GDP of 96 per cent. EBA's 2011 stress test estimated the recapitalization needs for Slovenian banks at EUR 1.5 billion, over 4 per cent of GDP. As the market awaited resolution of the long-running banking crisis, credit growth turned negative as banks cope with an economic slowdown, high NPLs, difficulty in raising new wholesale funds, pressures on capital, and a special tax on bank balance sheet assets imposed from August 2011.

There are 25 banks in Slovenia, providing relatively high levels of financial intermediation (private sector credit to GDP 79 per cent). There are 11 foreign owned banks, three of which were branches of foreign banks. Although Bank of Slovenia reports Government ownership at 23 per cent of sector equity, the state controls banks accounting for over half of banking assets, including Nova Ljubljanska Banka d.d (25.3 per cent of system assets), Nova Kreditna Banka Maribor d.d. (9.6 per cent), SID Bank (state-owned export and development bank; 9 per cent) and Abanka Vipa d.d (7.9 per cent). In December 2012 Belgium's KBC agreed to sell its 22 per cent stake in NLB at a loss to the Government; the transaction closed in March 2013, consolidating Government ownership. 49 per cent of NKBM - the country's second largest bank – was sold via an initial public offering in December 2007, and the bank was listed on the Warsaw Stock Exchange in 2011. However, as of June 2013, over 80 per cent of NKBM was in state hands and only 2 per cent held by investors on the WSE.

Banking sector efficiency and productivity indicators have consistently been lower than in other new member states and the segment experienced shortages in wholesale funding and rapid asset quality deterioration with NPLs officially standing at 14.6 per cent, but estimated to be 19 per cent of total loans (about EUR 7 billion) by the OECD in an April 2013 report. Excessive leverage in the corporate sector (among the highest in the EU), and essentially no growth since the record recession in 2009 have resulted in a culture of ever-greening loans;

renewed loans for the purpose of loan restructuring accounted for 43 per cent of all new loans in 2011. Capacity for appropriate structuring of bank loans and agreeing on inter-creditor workouts is extremely limited. System-wide CAR has hovered just below 12 per cent, but this is widely recognized as meaningless given the acknowledged recapitalization needs of the largest banks.

After insufficient capital injections into state-owned banks and the results of the EBA stress test in 2011, in 2012 the Government passed a Law on Bank Stability laying the basis for creation of a Bank Asset Management Company ("BAMC") to transfer assets out of a bank where the Government establishes that the bank does not have sufficient capital and, as a result, the stability of the financial system is threatened. The BAMC was formally registered as a company in March 2013, and is expected to focus on the three state-owned banks, NLB, NKBM, and Abanka. NLB was reported to be transferring its first tranch of bad loans, in the amount of EUR 2 billion, in June 2013. The supplementary budget approved by parliament in July 2013 includes EUR 1.2 billion (3.4 per cent of last year's GDP) for bank recapitalizations.

The banking crisis in Slovenia has highlighted that Bank of Slovenia lacked adequate intervention and resolution authority and capabilities. Supervisory powers also require further improvements with respect to ability to force shareholders to increase capital and other areas.

Insurance and other financial services
Market structure: *Small*
Market institutions*: Small*

Key challenge: (i) further reduce state ownership of the insurance sector by privatising the remaining major state-owned company; (ii) further develop insurance industry product range and skills (iii) strengthen the independence of the regulator

As with banking, the sector is relatively well developed in Slovenia and the key challenge for non-bank financial services remains concentration and state dominance of the sector, principally the still dominant market share of state owned insurers. Further pension reform and opening of Pillar II would be beneficial. Insurance legislation and regulation almost meet IAIS standards, although there remains scope for strengthening corporate governance in the insurance sector and enhancing the independence of the insurance regulator and transparency of its decision making. There are 15 insurance companies and 2 re-insurance companies active in the market. During 2012 the insurance sector registered a 2.6 per cent decrease in premiums YoY. The insurance premia to GDP ratio is of 5.7 per cent, and does not lag much behind the EU27 average of 8.2 per cent. Premia are 71 per cent non-life and 29 per cent life. Although the state-owned insurance companies continue to be the dominant players in the market (also acting as default consumer credit insurance providers), recent years saw a dynamic growth of private insurance and privately managed pension funds. Distribution through banks and other channels has increased, but insurance agents still account for over half of premiums.

The non-life market is highly concentrated, with the top 5 players accounting for 96 per cent of the market, in part due to earlier mergers involving Triglav/Triglav Zdravstvena and Maribor/Tilia, creating the number 1 and number 3 players (both then state-controlled). During 2012 state-owned NKBM bank began the process of selling its 51 per cent stake in number 3 insurer Maribor, and the sale to Sava Re was completed in 2013. Overall, the government share in the sector is 32.5 per cent (if threshold is state ownership greater than 50 per cent); however compounding all state shares the percentage is around 56.6, down from 77 per cent following the Maribor sale. The range of insurance products available in the market could be further developed; very few life products are available and penetration is low give income levels. A new insurance act is being drafted in order to implement the EU Solvency II Directive. The new Solvency II regime is expected to come into force on 1 January 2014.

There is an active investment funds sector with 139 investment funds (only two of which had market share above 7 per cent), most of which are mutual funds. The sector had EUR 2.3 billion AUM as of March 2011. It too is bank dominated, with 40 per cent of AUM held by bank-affiliated investment managers.

In the leasing segment, Slovenia also counts among the better developed amongst EBRD countries, with leasing assets at 8.9 per cent of GDP, lower than only Estonia, and well above the EU average. The five largest leasing companies account for about 75 per cent of the sector. A major share of leasing activities (70 per cent in 2010) is accounted for by the real estate sector (principally commercial buildings and rental facilities). The volume of real estate leasing has been in sharp decline since 2008.

Both voluntary and mandatory private pension systems are operating, however Pillar II is open only to certain occupations. Pension reform has been under discussion as the system may not be sustainable given the rapidly aging population. Pension reform raising the retirement age was passed by Parliament in December 2012 and became effective January 2013. Retirement age will rise to 65 (or 60 with 40 years of pensionable service), and incentives to continue working through partial payments will be introduced. Mortgage penetration remains at a modest 7.9 per cent of GDP, although mortgages are available at longer tenors than in many markets, typically up to 25 years.

Micro, Small and Medium-sized enterprises
Market structure: *Medium*
Market institutions: *Small*

Key Challenges: (i) increasing the range of bank specialised financial products available to SMEs the presence of venture capital firms providing finance to start-up; and (ii) improving the quality and scope of the credit information available to lenders.

Micro, small and medium businesses play an important role in the country and they are estimated to account for about 70.6 per cent of employment and generated nearly 63 per cent of value added of non-financial enterprises in 2011. Commercial banks have been active in MSME lending, although increased risk aversion and undercapitalisation coupled with the rapid rise in loan delinquencies following the crisis has disproportionately affected access to finance for MSMEs.

Collateral legislation and very low costs of registering collateral are supportive of MSME lending. However, the depth of credit information in both scope and quality needs to be improved, as the public bureau coverage remains low. At the end of 2011 the banks and saving institutions in Republic Slovenia decided to establish an independent credit bureau, Kreditni Biro Sisbon d.o.o., to manage the Slovenian database with information on indebtedness of individuals and single entrepreneurs. It now covers 98 per cent of the population. Slovenia has recently introduced online procedures in the cadastre system, reducing cost and increasing the efficiency of the system. The insolvency process has also been simplified. In order to improve MSMEs' access to start-up capital, several activities have been carried out and the relevant laws were adopted.

In 2007, the government adopted the Venture Capital Companies Act and introduced individual tax breaks for investment by venture capital firms in fast-growing SMEs. Only a few private and public venture capital firms provide finance to start-up capital or grant loans to fledging entrepreneurs. Angel business finance is at a low level, around 0.025 per cent of GDP, albeit at a much higher level than in regional peers (Poland). In response to the crisis, the government has introduced additional measures to reduce financing gap to SMEs in 2009. These include loan guarantees with subsidized interest rates through commercial banks, working capital support schemes to solve liquidity problems of enterprises in endangered industrial sectors, reduction of the payment periods for the VAT reimbursement, and support of venture capital and other financial instruments to innovative and high growth SMEs through a holding fund.

Private equity
Market structure: *Medium*
Market institutions: *Medium*

Key challenges: (i) broaden the deployment of private equity across available investment strategies (ii) foster additional locally focused funds capable of working with smaller enterprises (iii) increase participation by local institutional investors

More than 10 regional managers have been identified to include Slovenia in scope, alongside one dedicated country fund manager. Estimated amounts for active capital and capital available for investment remain at 0.46 and 0.12 per cent of GDP. The focus of net committed capital remained in buyouts and growth investment, but venture capital and mezzanine are now observed to a significant extent in the net committed capital amounts. The lack of experienced locally based funds and small domestic market will make it more difficult to establish specialised strategies or to provide private equity to smaller enterprises. Conformity with OECD Principles of Corporate governance is reasonable. With the Alternative Investment Fund Managers Directive that was to come into effect as of 22 July 2013, EU private equity funds and their investment managers will face a tighter regulatory framework, including a new set of rules on authorisation requirement, delegation, transparency, conduct of business, remuneration, leverage and reporting. However the Directive has not yet been transposed into national law in Slovenia.

Capital markets
Market structure: *Medium*
Market institutions: *Small*

Key challenge: (i) deepen the capacity of the listed market to provide financing, possibly through linkages and/or cross-listing with other regional exchanges

Despite Euro- membership, Slovenian capital markets continue to lack depth and liquidity. Following the adoption of the EU *acquis communautaire* securities market legislation complies with high international standards. The Slovenian bond market is comparatively bigger than its peers and is predominated by public issuance. Since the adoption of the euro in 2007, the infrastructure of government bond market was further integrated to the EU market and the money market is linked to the broader Euro-area money market. Prior to the crisis Slovenian borrowers had ready access to the international wholesale markets mainly in the form of syndicated loans and direct bank placements. The corporate bond market, however, has scope for further development; government guarantees for certain bonds (eg those of state owned banks) may hamper the ability of standard issues to attract investors.

The Slovenian government issues bonds with maturities of 3, 5, 10, 11 and 15 years, with a substantial volume of 10 year USD bonds having last been issued in February 2014. The Slovenian Benchmark Government Bonds and Treasury Bills are listed on the stock exchange market.

Equity market capitalisation has decreased quite substantially from around 20 per cent of GDP in 2010 to 14 per cent in 2012 (market capitalisation on Ljubljana Stock Exchange – prime market shares - dropped from EUR 7,028 million to EUR 4,911 million). There were 63 shares issues and 60 bonds (17 issues of government bonds, 26 issues of bank bonds, 17 corporate-bond issues and 9 issues of state treasury bills) and 3 commercial papers listed on the Ljubljana Stock Exchange at end-2012. Turnover is low (with a turnover ratio of 0.036), deterring investors and limiting the attractiveness of public equity issuance as a source of capital.

ANNEX 4 – LEGAL TRANSITION

This annex presents some analysis of legal topics directly relevant to the Bank's strategy for the new period. It is based on assessments prepared by the EBRD Legal Transition Programme and its experts. In the context of the current strategy, the main legal topics relevant to the Bank's proposed activities are (1) insolvency and restructurings and (2) energy efficiency and renewable energy.

Insolvency and restructurings

A number of issues in the insolvency framework have been addressed through the June and December 2013 amendments to the Insolvency Law, yet some concerns about the effectiveness of the insolvency and restructuring framework remain.

The further set of amendments to the Insolvency Law adopted in early December 2013 encourage greater corporate restructuring and deleveraging. These amendments provide two new regimes for Slovenian medium to large enterprises: (i) preventive insolvency proceedings for non-insolvent enterprises (conducted mostly out of court); and (ii) modified compulsory settlement proceedings for insolvent enterprises (court driven proceedings), both of which will be aimed at reorganisation or restructuring of the debtor's business.

Nevertheless a number of issues were identified in recent visits by the Legal Transition Team to Slovenia in 2013 with respect to the Slovenian insolvency and restructuring framework and it remains to be seen whether these will improve going forward under the new legal framework:

- *Lengthy insolvency proceedings*: Insolvency proceedings in Slovenia are widely perceived by stakeholders as lengthy and inefficient and, consequently, value-destructive. Part of this derives from overly complex insolvency laws, which require a high level of court involvement and approvals at numerous stages throughout the insolvency process. Another reason is the lack of judicial capacity: courts are struggling to meet the rising demand arising from the sharp increase in the number of insolvency cases since 2009.
- *Complex out-of-court restructuring environment*: There are few syndicated loans in Slovenia. Most loans are extended by one lender to one or more borrowers on a bilateral basis. In many cases, banks have different collateral positions in respect of the same corporate debtor. Loans are frequently cross-collateralised within a borrower group. This creates a complex restructuring environment, in which banks are typically unwilling to surrender their individual security or compromise their position in favour of a common restructuring deal that envisages a shared pool of secured assets. A significant obstacle to multi-bank restructurings in the country is therefore the lack of a common security portfolio and alignment of bank interests.
- *Lack of liquidity*: Following a corporate restructuring, debtors are typically in need of liquidity to carry on their business as a going concern. Many insolvencies are triggered by a lack of working capital in the first instance. Given the lack of liquidity amongst domestic banks, there is a real need for foreign bank lending. All local and foreign banks consulted by the EBRD acknowledged the importance of the principle that new money should be given super-priority above other liabilities in a restructuring scenario, given the increased risk taken by the new money provider. Nonetheless obstacles for the provision of new money in restructurings include poor assessment of individual lenders of the financial situation of the corporate debtor and

incapacity of corporate management who often delay in appointing professional advisors to assist with a financial restructuring until it is too late.

A complete assessment of the insolvency and restructuring framework will only be possible once the amendments to the Insolvency Law, effective as of December 2013, are tested in practice. To date there have been no cases of the new preventive procedure. These amendments constitute an improvement to the existing Insolvency Law, but do not give any real discretion to the judiciary to determine either the classes or groups of creditors voting on the reorganisation plan or the overall fairness of such plan. This may give rise to issues with their effective implementation. In terms of future EBRD engagement in restructuring and insolvency, proposed areas of technical assistance might include support for out of court restructuring and the promotion of multi-creditor restructuring guidelines (partnering with the Bank of Slovenia and the Ministry of Finance) and capacity support for the key players under the Insolvency Law, in particular the judiciary and insolvency practitioners (partnering with the Ministry of Justice). Nevertheless any technical assistance would require strong partnership with, and support from, all government stakeholders to be effective.

Energy Efficiency

The draft National Energy Programme up to 2030 (NEP) recognises energy efficiency (EE) as one of the priority fields of energy development and envisages concrete targets and measures to improve EE in various sectors in line with EU objectives. The draft NEP sets out ambitious targets for Slovenia up until 2020, including a 20% improvement in energy consumption efficiency; reduced end-use energy consumption, excluding transport, of 7% relative to the base level of 2008; ensuring a 100-percent share of almost zero-energy buildings among new and renovated buildings by 2020, and in the public sector by 2018; and other EE commitments for the public sector.

The Second National Energy Efficiency Action Plan (NEEAP 2) of Slovenia adopted in 2011 has set an energy savings target of 4.3 TWh (or 366 ktoe) for 2016. The NEEAP 2 provides financial incentives for the households and services sectors in relation to thermal retrofitting of existing buildings, construction of energy-efficient buildings, high-efficiency heating systems and rational electricity use. It also establishes minimum energy efficiency requirements for electrical appliances.

Improved energy efficiency of residential buildings is a key aspect of meeting the state targets for lower energy consumption. The state is planning on setting incentives for a comprehensive programme of energy-saving building restoration, development of financial mechanisms for their implementation and an increased role of energy suppliers for the promotion and implementation of the efficient use of energy projects. The leading role in the restoration of buildings will be played by the public sector. The government should review and update the current housing legislation that regulate management, maintenance and upgrade of multi-storey apartment housing, as well as representation and decision making powers by home-owners associations. The aim of these improvements would be to facilitate further and better energy efficiency investments in the housing stock.

Renewable Energy

In accordance with Directive 2009/28/EC of the European Parliament on the promotion of the use of energy from renewable energy sources (RES), Slovenia has adopted the National Renewable Energy Action Plan for 2010-2020 (NREAP). The policy objectives of Slovenia for developing renewable energy, as set out in the NREAP include an increase to 25% share of RES in the final energy consumption and 10% share of RES in transport by 2020, which would entail doubling the energy generated from renewable sources relative to the base year 2005. Further, NREAP has placed efficient energy use and renewable energy sources on the country's priority list for economic development and aims at halting the growth of final energy consumption.

Electricity from RES is mostly promoted through a feed-in tariff with a premium and through a series of subsidies and low-interest loans. Renewable energy sources for heating purposes are promoted mainly through loan and subsidy schemes offered by the Eco Fund (Eko Sklad) and the Ministry of Infrastructure and Spatial Planning. Electricity produced from RES has grid access priority over electricity produced from other sources. There are a number of state policies aimed at promoting the development, installation and use of RES installations. The main incentives for RES use in transport are a quota system and a tax regulation mechanism (including tax exemptions). The quota system obliges the state to achieve a certain percentage of biofuels in the fuel market.

Slovenia has set ambitious targets in line with the EU 2020 strategy and even the NREAP itself states that these targets are reachable only with an intensive EE policy and effective measures to reduce energy consumption. The NREAP defines the possibility of implementing a quota system in addition to the feed-in system, which would mean that the obligation would fall on the electricity suppliers.

To increase the share of RES, the government should adopt policies to reduce the final energy consumption and at the same time increase the production from RES. Certain regulatory procedures should be simplified, such as the next-year price calculation, the incentive level and the procedure for refurbishment of old power plants. Further improvements in the grid infrastructure are needed, which would require substantial financing.

ANNEX 5 – GENDER EQUALITY

Gender Equality and Human Development

According to the UNDP 2012 Human Development Index (HDI)[19], Slovenia is among the countries with a very high human development index. It is ranked 21st out of 187 countries, which is above the regional average for Europe and Central Asia. The HDI is comprised of three dimensions: health, education and decent standard of living. The country ranks much better in terms of the UNDP Gender Inequality Index (GII), at 8th (out of 148 countries globally).[20]

Labour force participation and gender pay gap

Women's participation in the labour market in Slovenia remains low. With a female labour force participation of 53 per cent in 2011, women's participation in the labour market lags behind that of men (male labour participation of 65%) according to World Bank data. The data available for 2012, show a female activity rate of 52.3 per cent, as compared to 63.1 per cent for men, and a female employment rate of 47.3 per cent, as compared to 57.8 per cent for men (Statistical Office of the Republic of Slovenia). Gender differences in pay also remain high with a gender pay gap of 2.3 per cent in 2011 according to Eurostat.

Table 1. Men and Women's Participation in the Labour Market by

Slovenia: total employment by economic activity	Male	Female
General and keyboard clerks	10.2%	89.8%
Teaching professionals	19.3%	80.7%
Health professionals	24%	76%
Customer service clerks	34.5%	65.5%
Service and sales workers	38.1%	61.8%
Administrative and commercial managers	57.3%	42.7%
Legislators, chief executives and senior officials	64%	36%
Labourers in mining, construction, manufacturing and	68.6%	31.4%
Science and engineering professionals	70.4%	29.6%
Skilled agricultural and fishery workers	70.8%	29.2%
Plant and machine operators and assemblers	76.9%	23.1%
Metal, machinery and related trades workers	94.3%	5.7%
Building and related trades workers	98.5%	1.5%
Drivers and mobile plant operators	98.7%	1.3%

Source: Statistical Office of the Republic of Slovenia, 2011

Entrepreneurship, access to finance

According to the Business Environment and Enterprise Performance Survey (BEEPS) 2009, 42.2 per cent of the 276 firms surveyed in Slovenia had women among its owners and 15.9 per cent had women among its top managers. In terms of female ownership, Slovenia has a

[19] According to the HDI, countries fall into four broad human development categories: Very High Human Development, High Human Development, Medium Human Development and Low Human Development
[20] The GII is a composite measure, which captures the loss of achievement, within a country, due to gender inequality, and uses three dimensions t : reproductive health, empowerment and labour market participation

higher proportion compared to Eastern Europe and Central Asia, however, regarding women in top management, Slovenia is below the European average (36.4 per cent).

According to the same survey, women-managed firms in Slovenia use financial services substantially less than male-managed firms (only 15.3 per cent of the firms applying for loans were managed by women in 2009). However, when they do apply for loans, their success rate is substantially higher than that of male managed firms (only 4 per cent of female loans, compared to 9.4 per cent of male loans were rejected).

Indicator	Female	ECA*	Year
Percent of firms with female participation in ownership	42.2%	36.4%	2009
Percent of firms with a female top manager	15.9%	19.1%	2009
Proportion of full-time workers that are female (in the firms surveyed in the survey)	29.9%	38.6%	2009

Source: BEEPS 2009 **Eastern Europe and Central Asia*

According to the World Bank's Global Financial Inclusion Index, in 2011, 98 per cent of women aged 15 or over had an account at a formal financial institution compared to 96 per cent of men for the same age category.