



**REPUBLIC OF SLOVENIA**

***REPORT ON STRUCTURAL  
REFORMS***

Ljubljana, November 2003



## **FOREWORD**

In accordance with the conclusions of the Cardiff European Council in 1998, the Member States prepare annual national reports on structural reforms – the so-called Cardiff Reports. The purpose of these reports is to obtain an overview of structural reforms which affect the performance of goods and services markets, and to gather comparable information between Member States of the European Union.

The national reports are the subject of examination in the so-called “peer review” exercise carried out by the Economic Policy Committee (EPC); based on this examination, the EPC then prepares its Annual Report on Structural Reforms and submits it to the European Council. The report is one of the most important documents for the spring session of the European Council, and also a source for preparation of the EU’s Broad Economic Policy Guidelines.

This year, the EU accession countries have joined in the activities of the EPC as observers and have also been invited for the first time to voluntarily submit their national reports. Slovenia’s delegation at the EPC is led by the Institute for Macroeconomic Analysis and Development (IMAD), while the Ministry of Finance also participates in the delegation. The elaboration of Slovenia’s Report on Structural Reforms was co-ordinated by the IMAD, which in the past also co-ordinated the preparation of chapters on structural reforms in the Pre-accession Economic Programme.



## **EXECUTIVE SUMMARY**

The Slovenian government regularly reviews implementation of its strategic objectives. The national Report on Structural reforms deals with issues of opening up markets to competition, policies with impact on product markets, public utilities and network industries, acceleration of a knowledge-based society, environmental policy, structural reforms in capital markets, as well as other reforms that shape product and capital markets.

### **The legal framework for the free flow of goods and services**

Slovenia has fulfilled most requirements from the accession negotiations concerning the free movement of goods, further, most directives regulating technical harmonisation in the area of the free movement of goods have been transposed into national legislation, while regulations and decision will be directly applicable after full membership in the EU. Slovenia also complies with the principle of national treatment in foreign direct investments so no specific barriers apply to foreign investors.

### **Public policies impacting on the functioning of markets**

What appears to be critical for enterprises and their competitiveness are reforms designed to improve the effectiveness of the institutional regulatory framework and public administration, including measures to improve the business environment. Reforms are being implemented in all these areas and some progress in improving competitiveness has been recorded. In competition policy, Slovenia has adopted legislation covering the main principles of the *acquis* (both in anti-trust and state aid sectors). The Competition Protection Office is an independent authority tasked with adequate powers to exercise control over restrictive agreements, any abuse of a dominant position and mergers. Its administrative capacity will be strengthened. No significant tax reforms were introduced in 2003 that could influence the products market. The main weakness remains the comparatively high tax burden on labour. Reforms of personal income tax and corporate tax, as well as property tax are envisaged for 2004 and 2005. Changes in the area of taxation will be accompanied by the more effective administration of public taxation.

Legislation in the field of public administration has mostly been modernised and is currently in the process of implementation. Computerisation of public administration is progressing and is also supported by regulations regarding work practice of the administration. The key weakness of the public administration in Slovenia is the long-lasting processing of certain administrative procedures, which also affects economic competitiveness, though several measures to simplify business legislation and administrative environment were adopted.

### **Utilities and other network industries**

Liberalisation of network industries should allow more competitors to provide their services and enable consumers to choose between different providers. The telecommunications market has been largely liberalised, and competition has been established in all segments of the market with the exception of fixed telephony for inland calls, where the introduction of competition remains a matter of priority. Slovenia continues to open up its electricity market in line with the guidelines adopted in 1999. Liberalisation has brought about lower prices for the biggest consumers whose bids were accepted at a call for tenders to import electricity, while the outcome is still unknown for other users. As regards transport, legislation allowing free access to railway infrastructure has been adopted, while the restructuring of Slovenian Railways will open some railway transport areas to competition.

### **Fostering a knowledge-based society**

The basic areas of a knowledge-based society – research and innovations, the information society and education and training – are being given increasing importance in Slovenia. Investments in research and development activities are at a relatively high level, although the co-operation between R&D actors in different sectors is weak and the transfer of know-how and technological achievements to the business sector is still insufficient. Measures were taken to link the public research sphere to the business sector and to speed up the transfer of know-how among them and to create a more simulating environment for research and development.

In the area of education and training, positive quantitative shifts were seen in youth education and in relatively high spending for education. Key weaknesses remain in the low levels of adult enrolment in education, the low percentage of people who have finished tertiary education and the need to improve functional literacy. Special attention and different measures have been developed to strengthen the involvement of adults in all forms of lifelong learning.

### **Environmental policies**

Slovenia has already transposed nearly all of the EU's environmental legislation. The transfer demanded the introduction and adoption of various economic mechanisms and instruments, which have major impacts on the functioning of product markets. However, there is a need to improve implementation of environmental regulations.

### **Capital markets and financial services**

According to the main indicators of the level of the financial system's development, Slovenia is one of the most developed accession countries. The key financial intermediaries in Slovenia's financial market are banks, reflecting the selected method of privatisation. However, advancement of the capital market is lagging behind; most trading involves existing securities while new issues (except government securities) are practically non-existent. Development of non-banking financial intermediaries was slow as a result delayed privatisation of insurance companies, the long-lasting transformation of authorised investment companies into regular financial institutions, i.e. mutual funds, and the relatively late introduction of private pension schemes. Reforms are being pursued effectively in the areas of regulating, supervising and aligning Slovenia's legislation with the EU's directives, while further reforms will concentrate on raising the financial system's competitiveness and efficiency.

### **Other reforms affecting product and capital markets – the labour market & pension reform**

Annual active employment policy programmes are based on the Community's common employment policy guidelines, while priority funding is given to regions with above-average unemployment rates. The government will introduce additional assistance to employ the long-term unemployed, while paying a particular attention to unemployed women. Slovenia has already carried out a pension reform so expenditure on pensions relative to GDP has stopped rising. Pension funds have also been set up to provide voluntary pension insurance schemes along with insurance companies.

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## **I. INTRODUCTION**

Slovenia prepared an integral strategy for economic development for the first time as an independent state in 1995<sup>1</sup>, putting it into concrete terms with a schedule of measures required for accession to the EU<sup>2</sup>. The medium-term economic policy guidelines and national development priorities were laid down in the *Strategy for the Economic Development of Slovenia (SEDS)* and in the *National Development Programme*. The SEDS' primary objective is sustainable development, which means balanced progress of the economic, social and environmental dimensions of the welfare of individuals, including balanced regional and spatial development. In view of the present differences in development between the three components of welfare, sustainable development's priority is to narrow the economy's development gap. However, this is to be achieved without increasing the gaps in social and environmental development which are relatively smaller.

In the economy, the paramount objective is a long-term, stable economic growth rate, which will make it possible to narrow the development gap compared to the average of the EU countries. The SEDS determined the following principal elements as a means to achieve this objective: (i) the gradual reduction of inflation; (ii) the gradual elimination of the public finance deficit; (iii) speeding up structural reforms; (iv) increased investment in modern development factors, in particular in the creation of a knowledge-based society, enhancing the economy's competitiveness, strengthening social cohesion, more efficient government, and reducing the government's role in managing and regulating the economy and markets. An important aspect of economic policy, in particular in speeding up structural reforms, is the continuous improvement of product and capital markets.

At the European level, the SEDS is comparable with the Lisbon strategy of economic, social and environmental renewal adopted in 2002 and amended in the subsequent sessions of the European Council.<sup>3</sup> Similar to the present Member States of the EU, Slovenia is thus building its national development vision and its basic strategic objectives on the Lisbon development strategy.

This Report on Structural Reforms describes developments in product and capital markets, identifies remaining obstacles to the operation of these markets, and lists the existing and planned measures to eliminate these obstacles. The report deals with structural reforms in product and capital markets, but also touches upon other reforms affecting product, services and capital markets. Within the section on product markets, special consideration is given to opening the markets up to competition, to policies affecting product markets, public services, and other network industries, fostering a knowledge-based society, and environment policy.

## **II. ASSESSMENT OF MARKET PERFORMANCE AND STRUCTURAL REFORMS**

### **II. A. PRODUCT MARKETS**

#### **II. A.1. OPENING NEW MARKETS UP TO COMPETITION AND FURTHERING ECONOMIC INTEGRATION**

The Slovenian economy is much more intensively integrated into global economic trends through trade flows than through foreign direct investment (FDI). The 57.8% share of exports and 56.4% share of imports of goods and services in GDP in 2002 indicate the Slovenian economy's relatively high integration into the global economy, and the openness of Slovenian

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<sup>1</sup> Strategy for Economic Development: Approaching Europe – Growth, Competitiveness and Integration.

<sup>2</sup> EU Accession Strategy of the Republic of Slovenia: Economic and Social Sections, 1998.

<sup>3</sup> E.g. in Gothenburg with guidelines for the environment, in Barcelona with guidelines for research activities etc.

markets to foreign competition.<sup>4</sup> In the 1993-2001 period Slovenia reduced its effective protection rate from 7.0% to 5.9%. In 2001, the non-weighted average MFN custom rate was 10.8%, that is higher than the total EU customs rate for non-EU countries in the same year.<sup>5</sup> This means that accession to the EU will lead to further liberalisation of the Slovenian market for imports from those countries which have no free-trade agreements with Slovenia.

In 2001 (EUR 412 million) and 2002 (EUR 1707 million), Slovenia registered record inflows of FDI. At the end of 2002, the share of FDI stock in GDP was 18.2%, compared to just 13.6% the year before. In 2001, foreign-owned companies accounted for 14.2% of total assets, 11.6% of all employees, 18.6% of total sales, and 31.3% of total exports in Slovenia's corporate sector. A further clear trend was the increasing outward direct investment of Slovenian companies; in the 1999-2002 period the stock of Slovenian outward FDI increased from EUR 625 million to EUR 1397 million. Most of this investment involves the successor states of former SFR Yugoslavia. If the growth trend of Slovenia's outward investments is quite robust and can be expected to continue in the future<sup>6</sup>, the situation with inward FDI is less certain. The high inflows of 2001 and 2002 mainly resulted from several major acquisitions; in 2003, there were no such acquisitions and this explains the major drop in inflows in the first seven months of this year.<sup>7</sup> According to UNCTAD data, Slovenia ranks only 105<sup>th</sup> among 140 countries in terms of attracting FDI, whereas it occupies a high 29<sup>th</sup> place in terms of its potential to attract FDI.<sup>8</sup> This indicates Slovenia is failing to make proper use of some of its advantages to attract FDI.

### **The legal framework for the free flow of goods and services**

Slovenia is generally meeting the commitments and requirements arising from the accession negotiations in the field of the free movement of goods. The horizontal administrative infrastructure needed for assuring the free movement of goods<sup>9</sup> is in place and functioning. Conformity-assessment bodies are also in place; proper co-ordination and effectiveness of market surveillance bodies are ensured.

Delays have occurred in the transposition of aspects of the new and old approach directives: the delays regard implementing regulations in the fields of foodstuffs, motor vehicles, medicinal products for veterinary use and construction products. The Act Amending the Public Procurement Act and the Law on Cableway Installations to Carry People are in parliamentary procedure. The Act on the Return of Cultural Heritage Objects is also undergoing its first reading in parliament. The institutions for implementing sectoral legislation are in place and functioning. It is foreseen that the remaining legislation will be adopted by the end of 2003 or by the time of accession to the EU at the latest.

Slovenia is also actively implementing the policy of the national market's integration in the field of the free movement of services. The adopted negotiating positions in the field of non-financial services do not foresee any exemptions from ensuring the right of establishment and the freedom to provide non-financial services in accordance with Articles 43 and 49 of the Treaty establishing the European Community. The Ministry of the Economy is exercising appropriate co-ordination between other sector ministries and is carrying out an internal screening of the legislation within its competence.

By the end of 2003, the Ministry of the Economy will finalise an internal screening of the alignment of legislation in light of Articles 43 and 49 of the Treaty establishing the European

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<sup>4</sup> The IMAD, Spring Report 2003

<sup>5</sup> WTO data

<sup>6</sup> In the first seven months of 2003 outward FDI amounted to EUR 140 million, twice as much as in the same period of 2002.

<sup>7</sup> In the first seven months of 2003 inward FDI amounted to EUR 14 million, compared to no less than EUR 718 million in the same period of 2002.

<sup>8</sup> UNCTAD, World Investment Report 2003

<sup>9</sup> The Slovenian Institute for Standardisation, Slovenian accreditation, Slovenian Metrology Institute etc.

Community with relevant transposition tables and in accordance with the list of competent service sectors. Emphasis is also placed on the examination of non-harmonised legislation within the list of competent service sectors within the responsibility of the Ministry. The next phase anticipates continuous monitoring of the alignment of internal legislation and, through a co-ordination mechanism, also other legislation with rulings of the European Court of Justice, as well as the transfer of expertise to other sector ministries (a contact point). Slovenia will thus continually track the regulatory and strategic guidance of the EU's internal market.

The Republic of Slovenia has signed (preferential) free-trade agreements with 33 states: (i) an association agreement with the EU (15 states), (ii) EFTA (4 states), (iii) CEFTA (Bulgaria, Czech Republic, Croatia, Hungary, Poland, Romania, and Slovakia); (iv) other states (Estonia, Latvia, Lithuania, Israel, Turkey, Macedonia and Bosnia and Herzegovina). Slovenia's Accession Treaty to the EU stipulates that all these agreements must be terminated. The decision to terminate these agreements has already been passed by the government. All agreements will start winding up by the end of 2003 and remain in use up until 30 April 2004 at the latest. Upon accession to the EU, Slovenia will have completely adopted the EU's trade policy and all agreements that have been and will then have been adopted by the EU.

The termination of agreements with succeeding states to former Yugoslavia (Croatia, FYR of Macedonia, Bosnia and Herzegovina) will have the biggest effect on Slovenia's foreign trade. The effect of termination of these agreements is estimated<sup>10</sup> at -0-1%, however, the effects of adoption of the EU's common customs tariff, the freeing up of trade with sensitive products in the EU, the abolition of border control and formalities and the accompanying drop in trade costs will have a positive effect on economic growth, so the net effect on economic growth will be positive.

### **Technical barriers to trade**

The free movement of goods is one of the key freedoms in the EU's internal market. Its functioning is based on technical harmonisation, mutual recognition and the elimination of any new obstacles to trade.

Slovenia has already transposed a majority of the directives in the field of technical harmonisation in the regulated area of the free movements of goods into its legal order, while the application of regulations and decisions will start directly upon membership in the EU.

The mutual recognition or validity of documents and marks of conformity has been determined in the Technical Requirements for Products and Conformity Assessment Act. As regards the non-harmonised area (Articles 28 and 30 of the Treaty establishing the EC), a horizontal government regulation on mutual recognition (MRC) is being prepared which will include a clause on mutual recognition, abolishing technical barriers to trade in the field.

The most important measure regarding the prevention of new barriers to trade is the enforcement of an information procedure under the Decree on notification procedures in the fields of standards, technical regulations and conformity assessment (the transposition of Directive 98/34/EC). The decree stipulates that competent national bodies inform all participants in the information procedure of their programmes of preparation of standards and technical regulations and obliges a standstill.

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<sup>10</sup> Damjan, Jazbec, Majcen, Polanec, Masten: Estimate of Macro and Microeconomic Effects of the Accession of Slovenia to the EU, GZS, May 2003

## **Barriers to cross-border investment**

Slovenia fully complies with the principle of national treatment in foreign direct investment, so practically no barriers apply only to foreign investment in Slovenia<sup>11</sup>. The conditions in the business environment are equal for both domestic and foreign investors. Various analyses (FIAS, IMD etc.) show that the business environment in Slovenia is not very favourable. As a consequence, Slovenia is attracting less foreign direct investment than it might. Surveys among foreign investors point out two problems in particular: a lack of building land for investments and the insufficient competitiveness of Slovenia in attracting investment. The current and planned activities of the Government of the RS in these two spheres are as follows:

- i. The availability of building land for investments; within the framework of encouraging local communities to increase the availability of building plots for industry they were offered financial stimulation as the first step in 2001 in order to get organised and invest in the preparation of building land in line with their spatial possibilities and available human resources in the local community. Thus, in 2001, the Ministry of the Economy published a public tender to increase the offer of building areas for industrial needs. Based on this public tender, the municipalities received co-financing for 24 projects of industrial zone development.

As the next step in upgrading financial stimulation to construct industrial zones, the project called "The model for promoting foreign direct investment at the regional level" was carried out in 2002/03. The purpose of this project was to survey the situation in the regions and the readiness (or barriers) to speed up foreign direct investment, to set up and launch business areas, to train one consultant in the region to promote direct investment and to prepare promotional materials on business zones for all regions.

- ii. Minor non-refundable financial support for capital-intensive investments; in Slovenia a system of allocating non-refundable financial stimulation to investors has been in place since 2000. It is adapted to both the state aid legislation and the bids that some countries competing with Slovenia offer to investors. The tenders to promote foreign direct investment published between 2000 and 2003 were aimed exclusively at foreign companies, which intend to directly invest in Slovenia and fulfil certain conditions as regards the amount of investment and the opening of new jobs. The amount of stimulation to which an individual investment project can apply for depends on the quality of the newly created jobs, the scope of investment in capital assets, and the regions in which the investment is to be located.

For capital-intensive investments, non-refundable financial stimulations in Slovenia are relatively small compared to the stimulation offered by other competing states for this type of projects. The existing system of stimulation will also be upgraded for capital-intensive investments.

## **II. A.2. PUBLIC POLICIES IMPACTING ON THE FUNCTIONING OF MARKETS**

A clear and efficient regulatory framework including appropriate policies has an important impact on the efficiency of product markets and constitutes an important factor of Slovenia's competitiveness, which is itself improving steadily. In 2002, this improvement was indicated

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<sup>11</sup> Slovenia acceded in 1999 to the »OECD Declaration on international investments and multinational enterprises«. Upon its accession, Slovenia notified only three exceptions from the national treatment, namely in the field of (i) aircraft registration, (ii) gambling, and (iii) production and trade of arms. No later than upon its accession to the EU, the first two restrictions will be abolished for the EU Member States.

by several international researches; the IMD World Competitiveness Report 2003<sup>12</sup> recorded higher values for all aggregate indices of competitiveness, including government efficiency and infrastructure; according to the World Economic Forum Global Competitiveness Report for 2002-2003<sup>13</sup>, Slovenia is ranked 28<sup>th</sup>, three places higher in the growth competitiveness index than the year before. Within this assessment, public institutions are ranked 23<sup>rd</sup> and constitute one of Slovenia's comparative competitive advantages. A notable improvement by 5 places was also recorded for microeconomic competitiveness, ranking Slovenia 27<sup>th</sup>, and, within this aspect, the quality of the national business environment saw great improvement.

The 2002 Handler Report,<sup>14</sup> which included Slovenia in its assessments, identified the following major challenges facing accession countries in their efforts to increase international competitiveness: establishing an efficient framework for competition policy and an efficient regulatory system, including a stimulating business environment for entrepreneurship, and strong competition in product markets. While all accession countries recorded major progress in institutional and legal convergence, specific areas remain to which every individual country must pay particular attention.<sup>15</sup> Concerning the competitiveness indices for 2002/03, Slovenia reveals individual weaknesses in infrastructure, the administrative framework, and government efficiency. To increase competitiveness and improve the position of companies in the market, key reforms must be aimed at improving the efficiency of the institutional regulatory framework and that of the public administration, including measures to improve the business environment. Competition legislation and policies, state aid, tax legislation, the rules on public procurement, the efficiency of the public sector, and the legal-administrative framework have different impacts on the operation of markets and their competitiveness; these impacts have to be constantly monitored.

### Competition policy

From the legislation point of view<sup>16</sup> the field of competition protection is substantially aligned with the EC legislation. The Competition Protection Office is officially determined as a functionally independent authority tasked with adequate powers to exercise control over restrictive agreements, any abuses of a dominant position and mergers<sup>17</sup>. For the time being, the ability of the system to enforce and implement of anti-trust legislation within the scope, adequate organisational support and system transparency in integrating competition policy to all spheres of public policy where this is sensible, represent challenges in improving the efficiency of the protection of competition.

Due to Slovenia's new and additional responsibilities, the Office's administrative capacity will be strengthened<sup>18</sup>. Taking into account the administrative capacity and current market structure, the lion's share of procedural activities is bound to involve rulings on mergers. In 2002, out of 54 decisions the Office adopted 48 were in the area of mergers.<sup>19</sup> In the future,

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<sup>12</sup> IMAD, Economic Mirror, no. 5/2003, p. 17.

<sup>13</sup> IMAD, Economic Mirror, no. 11/2002, p. 12.

<sup>14</sup> Economic Policy Committee, Brussels, 29 April 2003 (EPC/ECFIN/114/03). Key structural challenges in the acceding countries: the integration of the acceding countries into the Community's economic policy co-ordination processes.

<sup>15</sup> Strategy Paper and Report by the European Commission on progress towards accession by each of the candidate countries (COM (2002)700) of 9 October 2002.

<sup>16</sup> Prevention of Restriction of Competition Act, Law on the Protection of Competition (in the field of anti-dumping), Decree defining the contents and elements required for the notification form for the concentration of undertakings, Decree on block exemptions, Instructions on the Method and Conditions for Defining the Relevant Market, Decree on Dumped and Subsidised Imports.

<sup>17</sup> Decisions of the Office are final. The Administrative Court assures the possibility of legal protection for undertakings treated in the procedure.

<sup>18</sup> In September 2003 there were 13 employees in the Office who are constantly upgrading their expertise knowledge. Due to the additional responsibilities of Slovenia reflecting the implementation and modernisation of competition rules, deriving from Regulation 1/2003, the Office needs at least 37 employees for its optimal functioning.

<sup>19</sup> Due to the limited administrative capacity of the Office, the major part of proceedings represent rulings on mergers while more demanding cases are rarely treated. The number of notified mergers of undertakings in the EU reached the highest point in 2001/2002 and has afterwards been in decline (XXII Report on Competition Policy 2002). In Slovenia, there is a time lag in the process, which continues to result in a slightly growing number of notifications of mergers.

stronger emphasis is anticipated for rulings on more demanding infringements of anti-trust legislation such as cartel agreements and abuses of a dominant position<sup>20</sup> and the introduction of sectoral competition rules in the process of liberalising monopoly sectors.

### State aids

The volume of state aid in Slovenia is falling quickly in terms of its GDP share (2002: 1.45%; 2001: 1.96%) as well as in terms of state aid per employee (2002: SIT 98,120; 2001: SIT 119,209), which is the consequence of less intensive industrial policy and structural changes while closing the transition process. The aid given to agriculture (state aid and structural aid, which in EU Member States are covered from European sources) have already substantially outgrown the aids assigned to other sectors. The growth of aid to agriculture is the outcome of pre-accession processes in Slovenia, which is already implementing the European agricultural policy with its national funds. Aid to other industries is dropping rapidly. Aid granted to the transport sector and particularly to the manufacturing industry are below the average of EU Member States and EU Candidate Countries<sup>21</sup>, respectively. The structural changes of individual state aid categories to the manufacturing industry are not as intense as sector changes, but are moving in the direction of increasing aid which supports the market (research & development, environmental protection, small and medium enterprises and training) on account of lowering aids which create the market (rescue and restructuring, employment, particular sectors of the manufacturing industry). State aid granted on the basis of regional criteria is still quite limited.

The gradual reduction of the total volume of state aid is, like with structural changes, to some extent the result of higher transparency. This year the fifth survey on state aid was issued (covering the period from 2000 till 2002) which, for the first time, also comprised local-level data. Namely, in the previous year the monitoring system of state aid granted by local communities was established. The third inventory of state aid, including data on aid granted in the last three years, was prepared in December 2002<sup>22</sup>. The system measuring the effectiveness of state aid granted has not become operational yet, while the preparation of an adequate method with relevant indicators is in progress.

In the past, the energy sector (except for coal mining) had received minor amounts of state aid. As a result of discovered stranded costs and decisions taken on rescuing them,<sup>23</sup> state aid for this purpose is forecast to amount up to SIT 81.8 billion until 2006.

### Taxation policy

The level of the general VAT rate in Slovenia is roughly average compared to the EU Member States and acceding states.

Table 1: General VAT rate (in %) in certain European countries for 2003

Country	DK	S	H	A	I	D	L	EU15*	EU candidates*	Slovenia
Rate (%)	25	25	25	20	20	16	15	19.6	19.3	20

Note: \*unweighted average  
Source: Ministry of Finance

<sup>20</sup> In relation with the modernisation of the European competition rules which will be enforced at the time of the accession of Slovenia to the EU, the Office has established a working group tasked with preparation of the necessary amendments to the national competition legislation and changes of the internal organisational structure until the end of 2003 at the latest.

<sup>21</sup> Data comparison with other countries, acting 2002 still as Candidate Countries for accession to the EU indicates (State Aid Scoreboard, Special edition on the candidate countries, autumn 2002 update) that the average share of state aid granted to GDP in those countries was 0.8% of GDP, whereas in Slovenia it was only 0.58% of GDP (without agriculture and fisheries).

<sup>22</sup> The State Aid Inventory comprises data on state aid schemes, legal basis, instruments and granted amounts of state aid. It indicates the financing procedure of individual measures over years and through this the dynamics of spending funds.

<sup>23</sup> The act on the stranded costs rescuing programme in electric energy producing undertakings.

In terms of taxation on labour, compared to the EU Slovenia is one country with the highest tax burdens. In 2002, taxes and social security contributions for a single wage earner without children, whose sole income source is a salary of 67% of the average salary for a production worker in the manufacturing industry, amounted to 39.8% of total labour costs; this is 2 percentage points more than the average in EU Member States in the same year (37.8 %).

No significant tax reforms were introduced in 2003 that could influence the market for products. The level of excise duty on cigarettes increased in line with the adopted statutory framework.<sup>24</sup> In the area of determining excise duties on mineral oils and gas, by reducing excise duties the government prevented the negative impact that an increase in the price of oil would otherwise have had on inflation and economic growth. In 2003, the government also continued gradual completion of the system of environmental taxes, through which it is striving to reduce environmental pollution and encourage the more rational use of renewable resources. Thus, new fees were introduced for environmental impacts caused by the disassembly of used automobiles, while existing regulations setting out individual environmental taxes were updated.<sup>25</sup>

In the area of indirect taxes (particularly VAT and excise duties), no major substantive changes are envisaged.<sup>26</sup> We will continue to adjust (raise) excise duties in accordance with the undertakings made in the pre-accession negotiations.<sup>27</sup>

Several reforms are proposed for 2004 and 2005. Tax policy will follow from the renewal of direct taxes, that is personal income tax and corporate profit tax, and reforms in the area of property taxes. Changes in the area of taxation will be accompanied by the more effective administration of public taxation.

The new Personal Income Tax Act will be prepared based on starting points that will ensure a general lowering of the burden on taxpayers. It will provide a more equal tax treatment of various types of income. The effects of all these changes are first envisaged for 2005.

The objective of the new Corporate Income Tax Act will be to adjust the burden on each taxpayer to their particular economic strength better than under the current arrangements, and to prevent any flight of the tax base abroad. The aim is to ensure the neutrality of the tax system in terms of the organisational forms of legal entities and the competitiveness of market appearances of subjects. The proposed measures to achieve this will be: (i) removal of loopholes in the existing Corporate Profit Tax Act; (ii) expansion and protection of the domestic tax base, particularly a broad coverage of taxpayers and incomes; and (iii) establishing rules against tax evasion.

The introduction of property tax in 2005 will abolish compensation for the use of building land and tax on the property of natural persons. The existing system will be replaced by a unified system of property valuation and determination of tax liability at the national level. The tax burden on an individual property will remain roughly the same. The financial impact of the changes will therefore be relatively modest, most of all as a consequence of the more complete coverage of taxable subjects through better quality registers.

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<sup>24</sup> On 1 January 2003 it reached 53%, and on 1 July 2003 55% of the retail price of the best-selling cigarettes in the Slovenian market.

<sup>25</sup> Excise duties on mineral oils and gases will remain one instrument to limit inflation. In the area of prescribing environmental taxes, the government will continue its outlined plan for constructing a system of environmental taxes.

<sup>26</sup> The second revision of the VAT Act harmonised our VAT system with the EU system in the area of Intra-Community trade .

<sup>27</sup> Excise duties, which under the law are determined in an absolute amount, will be determined before the start of the budget year so that those liable to pay excise duties will be aware of the operating conditions, and will thus represent a stable source for the state budget.

## Public procurement

The efficiency of public procurement procedures crucially determines efficiency of the public sector. There are about 3,000 public procurement parties in Slovenia. The total contractual value of all public procurement projects amounted to SIT 464 billion in 2002 (EUR 2.05 billion), representing 9% of GDP. In the same year, there were about 320,000 public procurements, 310,000 of which involved low values<sup>28</sup>. The statistical analysis also shows that the presence of foreign bidders has increased significantly in the Slovenian public procurement market<sup>29</sup>. In both 2001 and 2002, the open and limited public procurement procedures were most frequently used (in 90% of the cases), while negotiations were rare, which is not surprising given that the basic public procurement rules are best adhered to in these procedures.

The Public Procurement Act lays down the rules of conduct for ordering parties and bidders at the national and regional levels<sup>30</sup>. Provisions of this law are largely in line with EU directives; however, the aim is to fully align provisions with the EU law.

In Slovenia, public procurement is regulated by the Public Procurement Act and the Auditing of Public Procurement Procedures Act. Five implementing regulations accompanying the former Act have also been adopted and they regulate individual steps in the public procurement procedure<sup>31</sup>. The act amending the public procurement act is going through the National Assembly; the draft law has been fully harmonised with the European Commission concerning implementation of the EU law in the area of public procurement.

## The public administration's efficiency

In 2003 Slovenian legislation in the field of the public administration has mostly been modernised and is currently in the process of implementation. The main problems are the unregulated status of those performing civil services (notably in institutions and public companies), non-competitive salaries for experts in the public sector, the lack of efficiency criteria and of motivating factors for rationalisation and organisation that are not completely adapted to business processes. As regards computerisation of the public administration, it is only in its beginning phase. This is why Slovenia in 2002 and 2003 has enforced a modernised regulatory framework for work of the public administration. New systemic acts have been adopted<sup>32</sup>, some basic acts have been amended<sup>33</sup> and the act on public institutions, on the public's participation in decision-making, on electronic commerce and electronic signatures are being drafted. From the viewpoint of the implementation of new legislation, all implementing regulations had been adopted by July 2003 and we are currently conducting training in the fields concerned.

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<sup>28</sup> The Budget Implementation Act for 2002 and 2003 set the national threshold at SIT 8 million for launching a public procurement procedure to purchase goods and services and at SIT 15 million for launching a public procurement procedure to construct a building. The Budget Implementation Act for 2003 and 2004 raised this threshold to SIT 10 million and SIT 20 million, respectively.

<sup>29</sup> There have been few successful bidders from EU Member States, however, the value of orders given to entities from the EU represent a large share in total orders involving large values.

<sup>30</sup> It also lays down the rules of conduct for ordering parties and bidders in public procurement procedures to purchase goods, hire a contractor for construction works and get a supplier of water, energy, transport and telecommunications services.

<sup>31</sup> Preparation of tender dossiers, forms used to publish invitations to tender in official publications, the procedure of opening bids, the rules of collecting and keeping public procurement statistics, a record of foreign entities that issue certificates necessary to prove that bidders meet the given criteria.

<sup>32</sup> Public Administration Act, Public Agencies Act, Inspection Control Act, Civil Servants Act, Public Sector Salaries Act, Access to Information of Public Nature Act.

<sup>33</sup> Public Funds Act, General Administrative Procedure Act, Local Self-government Act, Administrative Fees Act.



In July 2003 the Government of the Republic of Slovenia adopted the Strategy of further development of the Slovenian public sector for the period 2003-2005<sup>34</sup>. In the area of public administration the strategy specifies the objectives and measures in the following fields: (i) human resources management; (ii) functional and organisational restructuring of the public administration; (iii) business processes in the administration and E-government – standardisation, optimisation and computerisation of administrative procedures and other business procedures; (iv) quality management in the administration and the public administration's orientation to the customer; (v) an open public administration and (vi) increase in both economy and efficiency in the use of public funds and in business effectiveness of the state sector.

In the field of E-government, the government strategy of electronic commerce was adopted in 2001 as well as the action plan E-government by 2004. The core objective is to promote and develop electronic commerce within the administration as well as between the administration on the one side, and the citizens and legal entities on the other, including the development of two-way interactive administrative services and the modernisation of public procurement procedures.

Co-ordination of the Programme of the Government of the Republic of Slovenia for the elimination of administrative barriers<sup>35</sup>, which was adopted in 2001, has been conducted since January 2003 by the Project Group of Ministers for public administration reform and development of an efficient, open and user-friendly administration.

The key problem of the Slovenian administration is the long-term processing of certain administrative procedures, which also affect the economic development. In the period from 2001-2003 a number of regulatory, informational and other projects for a solution were carried out.<sup>36</sup> Standards of business of the administration with customers were defined<sup>37</sup>: application forms for all administrative procedures were made uniform, since 2002 the exchange of data from official records has been defined as a burden of public administrative authorities and not the users of administrative services, electronic filing of claims for certain administrative services has been introduced as has the paying of administrative charges and other costs with debit and credit cards and through the mobile network (from February 2003), while the state portal E-government has also been established (March 2001).

### **Fostering entrepreneurship and reducing administrative barriers**

Under the programmes of removing administrative barriers, the ministries made an analysis of all legal acts and regulatory decrees, and the corresponding analysis of how the national legislation affects entrepreneurship. Based on these analyses, and with the purpose of creating a friendlier entrepreneurial environment, and also taking into account the situation of small and medium-sized companies<sup>38</sup>, the Ministry of Economy has been preparing draft

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<sup>34</sup> The introductory part envisages, for the whole public sector, modernisation of legislation in the field of public institutions and public companies, rationalisation of employment, establishment of a uniform, balanced and flexible salary system in the public sector and development of an open society.

<sup>35</sup> Since 2001 it has been conducted in a decentralised way in the ministries, co-ordination of the programme has been taken over in 2003 by the project group for public administrative reform and development of an efficient, open and user-friendly administration. The programme covers drafting regulations, their modifications and deregulation, implementation and supervision of implementation. It is composed of three groups of measures, oriented towards: (i) internal operation of the government sector; (ii) the relationship between the state/administration and the citizens, and (iii) the relationship between the state/administration and the private sector and economic entities. The third part has key significance and is to intensify in 2003 and 2004 also through the government programme on the privatisation of certain state tasks.

<sup>36</sup> In its attitude towards the users of public services the public administration redefines its tasks and structure, simplifies and computerises the processes, manages quality and trains the civil servants in the relation to their attitude towards the customers.

<sup>37</sup> The Government Decree adopted in March 2001 also provides for advisers to assist the customers, issuing general information on the operation of the public administration, notification on the course of individual procedures, a book of comments, yearly evaluation of customer satisfaction etc.

<sup>38</sup> The situation in the field of small and medium-sized companies (SME) in Slovenia is as follows: in 2001, there were 102,895 companies in Slovenia broken down in terms of their size structure: 98.6% small companies, 1.2% medium-sized and 0.3% large companies. In the structure of employees, small companies represented 42.5%, medium-sized 21.4% and large companies 36.1%.

amendments of laws and regulatory decrees. The new act on setting up a supporting environment to promote entrepreneurship and innovation, and amendments to the Crafts Act will allow exemptions for small companies from certain legislative obligations.

The act on setting up a supporting environment to promote entrepreneurship and innovation will replace the existing Small Business Development Act. The new Act will presumably be adopted by the end of 2003.<sup>39</sup> Special forms of relief were envisaged for micro-companies<sup>40</sup>, namely concerning (i) special relief for starting up a business; and (ii) holding business books (single-entry bookkeeping).

Adoption of the Act Amending the Crafts Act, presumably by the end of 2003 or beginning of 2004 will: (i) partly change current regulation of craft and craft-like activities, especially as regards better transparency; (ii) change appropriate qualificatory and other conditions for performing craft and craft-like activities, (iii) determine easier conditions to accede to the foreman's exam; and (iv) change organisation of the Chamber of Crafts.

In order to reduce the time necessary to register a company and the costs involved in establishing and operating companies, the Government of the RS has prepared amendments to legislative and regulatory decrees. The amendments address, one by one, problems in the field of: (i) tax legislation – the Act Amending the Value Added Tax was adopted; (ii) regulatory decrees representing barriers to entrepreneurship; as regards: (a) personal and supplementary work – referring to the Act on preventing illicit recruiting and work; (b) road transport – referring to the regulatory decree deriving from the Road Transport Act; (c) agriculture – referring to the Agriculture Act and related regulatory decrees, especially due to excessively strict conditions for qualifying for supplementary work on a farm; and (d) registration of a proprietary business – simplification of the IRS procedures. Last year, two new laws were adopted in order to simplify and reduce procedures for obtaining land and permits (a single planning and building permit)<sup>41</sup>.

Of special importance to the entrepreneurial environment is the reform of the state administration in terms of approaching and improving its services for entrepreneurship and the creation of an entrepreneurship-friendlier and accessible state administration. Establishment of the VEM<sup>42</sup> system (ONE STOP SHOP) is essential to reduce current costs (time and money) upon start-up, and later when companies are running<sup>43</sup>. The VEM project is in the phase of establishment. Very important within the framework of the public sector will

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In the structure of added value, the most significant were large companies (43.4%), followed by small companies with 35.3% and medium-sized companies with 21.3%. In 2002 there were about 58,000 emerging companies in Slovenia (in the phase of registration or start-up of the business activity) and new entrepreneurs (individuals, owners /managers of companies younger than 3.5 years). This means that 4.63% of the active population was either the »emerging« entrepreneurs or the »already operating« entrepreneurs, which put Slovenia in 25<sup>th</sup> place on the list of 37 countries world-wide. Among 58,000 entrepreneurs, as many as 2/3 were the emerging entrepreneurs and 1/3 the new ones. Such a ratio is not favourable because the entrepreneurs who started their business life are very vulnerable. Slovenia was placed less favourably in case of entrepreneurship caused by opportunity (30<sup>th</sup> place) than in case of entrepreneurship caused by necessity (15<sup>th</sup> place), which confirms the fact that in Slovenia the environment is still not favourable to entrepreneurship, and the conditions for the setting-up and growth of the companies (GEM Slovenia 2002) are not created yet.

<sup>39</sup> The law stipulates the principles and goals and regulates the method of enacting the policy of entrepreneurship. It determines the institutional arrangement necessary to promote entrepreneurship (Entrepreneurship Promotion Agency, entrepreneurial fund) and measures and instruments for strengthening the support environment for entrepreneurship and innovation.

<sup>40</sup> Definitions determining the types of companies (micro, medium-sized, large) comply with the Commission's recommendations.

<sup>41</sup> The Spatial Planning Act and the Construction Act.

<sup>42</sup> VEM is composed of info, support and communication points. Info and support points are either being established or in the phase of final activities (the Ministry of the Economy is covering them entirely by its programme of work). The objective of the project of setting up the VEM system is to simplify and speed up the procedures for setting up new small companies, entering them in the register and recording the changes of status through the central contact bodies that would be exclusively authorised for carrying out the procedures of establishing the companies. This would allow all those concerned to do all the registration formalities in the one place and before one single authority or institution through the local entry points.

<sup>43</sup> Based on the research »Project of setting-up companies«, the minimum time necessary to establish a proprietary company is 8 days, and 14 days for commercial companies, respectively. Total costs of establishing a proprietary company are about EUR 180, and for commercial companies EUR 800, where the costs also depend on the type of the commercial company. The research was done by the company Kin, d.o.o. in January 2003.

be reform of the regulation involving the participation, dialogue and consultation of the broad public concerned (non-governmental organisations, the private sector etc.).

A special project underway since autumn 2002 involving the co-ordination of the inter-ministerial working group and the participation of associated professional institutions is preparation of the new law or governmental act, and the accompanying RIA methodology (the so-called Regulatory Impact Assessment). In preparing this project, Slovenia will in line with its goals comply with the OECD's recommendations and the Mandelkern report. The main goals of the project are, among others: to study whether the regulation in a certain issue is necessary at all and in what form, achieve higher quality regulations, reduce the costs of regulation, obtain the participation of stakeholders and other individuals concerned. The Act is included in the programme of the RS Government for 2003 or 2004.<sup>44</sup>

Concrete measures carried out in 2002 and 2003 include: abolition of special declaratory decisions concerning the conditions required for doing the business of self-employed entrepreneurs and commercial companies, and transfer of the burden of data-collecting from the official records of clients in administrative procedures to those public administration authorities who hold these records. Further in 2003, with the aim of independent, more efficient and user-oriented operations some state administration bodies of the time were transformed into independent public agencies (e.g. Railway Transport Agency, Regional Development Agency etc.).

The efficiency of the regulatory framework in Slovenia upon accession to the European Union points to the need to analyse the existing regulations, legislation and policies, and institutional changes as regards the efficiency of competition, and the absence of adequate measures for amending legislation, and increasing the efficiency of the competition. One such case is the insufficient analysis of the efficiency of the regulation and the possibilities to improve the broader regulatory framework of certain professions<sup>45</sup> from the viewpoint of providing efficient competition in terms of offer in the market etc.

### **The impacts of environmental regulation on the functioning of product markets**

The Republic of Slovenia has already transposed nearly all of the EU's environmental legislation. The transfer of the EU's environmental regulation to its national *acquis communautaire* demanded the introduction and adoption of various economic mechanisms and instruments which have major impacts on the functioning of product markets. Among the most important instruments here are taxes like the tax on water discharge, on land filling of waste, on CO<sub>2</sub> emissions, on the use of lubricant oil and liquids, on end-of-life vehicles etc. Accordingly, the accepted regulation has already limited the supply of energy-inefficient products<sup>46</sup> or become incentives for producers to produce energy-efficient domestic equipment which contributes to the reduction of greenhouse gases.

Within the policy frame of setting-up regional centres for waste management, new specialised companies have already been established. In the last two years the regulation governing the way, object and conditions of carrying out the public service for handling waste automobile tyres and end-of-life vehicles has been adopted and, on the initiative of the government, a private company SLOPAK for waste packaging management has been founded.

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<sup>44</sup> When the act is adopted, it will, among others, define the goals, key issues and acts subject to the RIA application as an obligatory instrument (presumably all acts with a direct impact on the economy, the institutional structure of the public sector, the environment and the social affairs); which authority will carry out RIA (presumably the body which originally proposed the act), the methodology, the procedure (consultation of the public), and which authority will control the implementation of RIA.

<sup>45</sup> Doctors, dentists, veterinary surgeons, opticians, lawyers, notaries, architects etc.

<sup>46</sup> Refrigerators, freezers, boilers etc.

The Agency of the Republic of Slovenia for the Efficient Use of Energy (AEUE), together with the magazine *Gospodarski vestnik* each year grants recognitions and awards to the most energy-efficient company, energy-efficient project and the best energy manager in order to stimulate energy-efficient systems and investments in energy efficiency in general. Also a system of energy certificates for energy-efficient buildings is being put in place in Slovenia.

The Ministry for the Environment, Spatial Planning and Energy (MESPE) works with implementation of the EMAS and Eco-label schemes. On the ground of the EC's regulation on voluntary participation by organisations in a community eco-management and audit scheme (EMAS) – 761/2001/EC, this scheme will start to operate in the country in 2004 ensuring the greater reliability of verified environmental management systems. Besides, an eco-labelling scheme will also be implemented next year on the grounds of the EC regulation on the Community eco-label award scheme – 1980/2000/EC awarding the EU eco-label to products with the potential to reduce negative environmental impacts, as compared to other products in the same product group. In 2003 intensive preparation activity is taking place to implement both mechanisms. The Ministry is also working in the field of IPP (Integrated Product Policy), SCP (Sustainable Consumption and Production) and new environmental technologies. Also in preparation is the national system of emission trading.

In comparison to the EU states, Slovenia is in 4<sup>th</sup> position regarding the number of ISO 14001 certificates per capita. In the period 1997 to 2002, more than 150 certificates were issued, out of which big industrial companies obtained some 15 certificates. Within industry branches, the highest number of certified companies is from the production of metal and metal products (DJ), and production of chemicals, chemical products and synthetic fibres (DG).

In general, there is a need to upgrade implementation of environmental regulation. However, assessment of the impacts of environmental regulation on the functioning of product markets is incomplete because no adequate data is available.

## **II. A.3. UTILITIES AND OTHER NETWORK INDUSTRIES**

In recent years, Slovenia has started liberalising its network industries and this should result in a higher number of competitors as well as an offer of wider choice to consumers. Liberalisation is to force companies into business rationalisation, to improve their services and, above all, lower the prices of these services through competition. The effects of liberalisation are not yet obvious in Slovenia as the process only started two years ago.

### **Telecommunications**

The Slovenian telecommunications market has developed relatively quickly in recent years. The market was estimated to be worth around EUR 600 million in 2002, an increase of approximately 6% from 2001, mainly due to growth seen in the mobile telephony market.<sup>47</sup> The share of mobile telephony users in 2002 was 77%, while in fixed telephony there were 47 connections per 100 residents and 90 connections per 100 households. Prices in the telecommunications sector have fallen in the last two years due to the influence of increased competition in mobile telephony while, in fixed telephony, the removal of price imbalances<sup>48</sup> has meant that prices have increased<sup>49</sup>.

Competition exists in all segments of the telecommunications market, with the exception of fixed telephony for inland calls. The adoption of the Telecommunications Act in 2001

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<sup>47</sup> 3<sup>rd</sup> Report on Monitoring of EU Candidate Countries (Telecommunication Services Sector), IBM, European Commission, June 2003.

<sup>48</sup> This involves the establishment of cost-oriented prices in fixed telephony and the removal of cross-subsidies between inland and international calls.

<sup>49</sup> UMAR, Development Report 2003.

removed the statutory monopoly in the area of fixed telephony but, in practice, competition has not appeared (Telekom Slovenije has a 100% market share<sup>50</sup>). Apart from the monopoly operator, a further two operators have acquired licences to provide such services but they have not yet entered the market. The main barriers to the entry of new providers in the fixed telephony market have until now been the price imbalances inherited from the past and the high price of network interconnections. There are 12 operators in the area of international fixed-telephony calls, and 3 operators in the mobile telecommunications services market (of which 2 have the status of operators with significant market strength). In the area of narrow-band Internet access, there are 20 providers (none has a majority market share), while broadband access is possible via ADSL (Siol<sup>51</sup> with a 60% market share) and cable networks.

Liberalisation of the telecommunications market and ensuring appropriate price ratios for services are realised through an independent regulator, the Telecommunications, Broadcasting and Postal Agency of the Republic of Slovenia (ATRP), which introduced certain changes in this regard last year. On 1 January 2002, local loops were *de iure* unbundled, while in May 2003 the ATRP also issued an act on the pre-selection of operators for mobile and fixed telephony for long-distance and international calls. In addition, the ATRP also influenced the general conditions of Telekom Slovenije to ensure equal treatment for all providers of exchanges. To increase the entry of new operators into the market, the ATRP also influenced the telecommunications market last year by reducing the price of network interconnections, the price of calls from a fixed to a mobile network, and the price of national leased lines.

The universal service obligation is defined in more detail in the Telecommunications Act. Operators with a market share greater than 80% are subject to the universal service obligations without compensation.

In 2001, the Government of the RS granted one concession for the provision of third-generation mobile telephony services (UMTS) to Mobitel, which is also a mobile-telephony operator for previous generations and has the largest market share (72% at the end of 2002). To ensure competition in this area, last year the ATRP began the procedure for awarding further UMTS licences.

In addition to the network of the fixed operator (Telekom), Slovenian Railways, the Motorway Company in the Republic of Slovenia (DARS) and the Electricity Transmission Company (ELES) also have networks in Slovenia. Two companies were established in 2003 to market these networks; this will increase competition in this sector.

Slovenia has already acceded to the transfer of new European *acquis communautaire*<sup>52</sup> (taken on since adoption of the Telecommunications Act in 2001) into domestic legislation. In August 2003, a draft proposal for an Electronic Communications Act was formulated and should be adopted by the time Slovenia joins the EU.

### **Postal services**

In addition to the Post of Slovenia, which is the majority provider of postal services (the only provider of universal postal services) in Slovenia, a further 5 small providers operate in the postal-services market in the area of courier services. In terms of the area covered and the number of inhabitants per postal unit, Slovenia is one of the more developed European

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<sup>50</sup> Telekom Slovenije is 62.5% state-owned. Privatisation has still not been carried out due to unfavourable conditions in the market. At present various possible privatisation models are being studied and a draft privatisation programme is being prepared.

<sup>51</sup> Siol is a subsidiary of Telekom Slovenije.

<sup>52</sup> The Telecommunications Act adopted in 2001 was harmonised with the then current European legislation, which has since continued to change.

countries. One postal unit in Slovenia covers 3,529 inhabitants (EU average 4,943) and 36.7 km<sup>2</sup> (EU average 66.2 km<sup>2</sup>).<sup>53</sup>

With the adoption in 2002 of the Postal Services Act, Slovenia its legislation in this area with European law. The Act removes the monopoly in the area of postal services. In so doing, it takes account of the fact that certain postal services are an important social category which, under the new Act, are guaranteed at accessible prices to all users within the so-called universal postal service obligation. In accordance with the Act, the Post of Slovenia was transformed in 2002 from a public company into a 100% state-owned company. The Act also envisages the establishment of an independent regulatory body, the duties of which were taken on by the reorganised Telecommunications, Broadcasting and Postal Agency of the Republic of Slovenia.

Secondary legislation that will enable full enforcement of the adopted Act is being adopted more slowly than envisaged due to personnel constraints in the competent ministry and independent regulator, so that all secondary legislation is expected to be adopted by the end of 2003.

### **Public utilities**

The local communities, i.e. municipalities are legally in charge of providing public services for environmental protection. An average of 62 public service providers perform local public services involved in drinking water supply, collecting, discharging and treating urban wastewater and rain water, municipal waste management and disposal of the remaining municipal waste. The majority of them are organised as a public company, owned entirely by the municipalities or are service units run by the authorities (state or local), while the minority are companies in either 100% private ownership or mixed ownership (private-public capital) with different proportions. If the majority of the share is held privately, then such public service providers appear as concessionaires as a rule. Out of 62 providers of the four the most important public services for environmental protection (others include cleaning public areas, public paths, pedestrian zones and green areas, cleaning heating facilities etc.), there are 51 that perform all four main public service tasks.

Before the reform of local self-government in 1994 most Slovenian communities (60) had one company that performed all local public services for environmental protection. With the reform the situation deteriorated since the smaller new municipalities (the number of local communities grew to 192) had started establishing their own public service companies or service units. Therefore, the present organisation of public services for environmental protection is inappropriate, which is particularly evident in the inefficient level of organisation and excessive number of companies that for the most part are involved in all local public services. Besides, the weak inter-municipal and inter-regional co-operation of these public service companies also limits the achieving of economies of scale. Most public service companies in Slovenia, next to providing their basic tasks, also perform other (profitable) activities which enable a sufficient overview of the performance of public services, adequate control and a difficult assessment of the effectiveness of their economic operations.

In the 1990s the prices of public services were supervised by the state and rose more slowly than consumer prices. In 2000 setting prices of public services again fell within the competence of local authorities. This represents an important shift away from the rigid administrative fixing of prices as local communities are in charge and form prices in accordance with the cost-recovery principle (the price also includes a part for new investments). In the future an effective system of regulation has to be established for this

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<sup>53</sup> Business Report of the Post of Slovenia 2002.

field. The tasks of the regulatory body would in particular be to verify the starting reference prices of services of a single public service company with the use of benchmarking, to draw up methodology for forming the prices of public services, and to put in place the transparent monitoring of such prices. Changing of prices should be determined for a longer period (between 3 to 5 years), which would give more incentives for the private sector to invest in environmental infrastructure.

### **Electric energy**

In 2001, the final consumption share of electricity in Slovenia was 21%, which is comparable to the EU. The consumption rise in 2002 and 2003<sup>54</sup> exceeds the projections made in the scenario of the proposed National Energy Programme, where the projected annual consumption rise is around 2% up until 2010.

The Energy Act passed in 1999 has already set the grounds for liberalisation of energy markets in line with the EU's directives. The Energy Agency (energy market regulator) was set up in 2000 and is fully carrying out its tasks of issuing licences, settling use of system tariffs, and taking decisions in case of any disputes resulting from the denial of access to electricity or gas systems. The Borzen company is carrying out organisation of the electricity market. Deregulation of the electricity sector has brought about the unbundling of production, transmission, distribution, and supply activities. Energy companies that perform monopolistic services (transmission, distribution) must keep separate accounts for market activities and for the regulated activities.

With a 50% share of domestic electricity production, the largest domestic producer of electricity is Holding Slovenske elektrarne<sup>55</sup>. The second largest, with 40% of domestic electricity production is the Krško Nuclear Power Plant, the rest is produced by two thermal power plants connected to the transmission system and several dispersed (mostly qualified) producers. Qualified production, namely the production of electricity from renewable sources, waste, or power plants with an above-average efficiency ratio, accounted for 2% of all electricity production in 2002, and its development is being induced by feed-in tariffs introduced in 2002. The production of thermal power plants using domestic coal and those with CHP (ensuring the security of energy supply by using domestic energy sources in the amount of 15% of the total primary energy balance in electricity production) is also subject to feed-in tariffs.

There are 5 locally organised public distribution companies in Slovenia and one public transmission company (ELES). After partial opening up of the electricity market on 1 April 2001, a few less than 7,000 eligible customers (customers, exceeding 41 kW of connection power and the distribution companies) are able to choose their own supplier. They use approximately 66% of all electricity in Slovenia, thus we speak of a two-thirds market opening. In 2003, 6% of eligible customers connected to the distribution system have switched their supplier, compared to 2% in 2002.

In 2002, the government allowed the purchase of electricity from abroad for companies that exceed 100 GWh of annual consumption, which provided an early international opening of the market. By 1 January 2003 the right of eligible customers to chose suppliers abroad was already transparently and non-discriminatorily regulated along the lines of the Rules for cross-border transmission capacities allocation. However, the government has limited the scope of international exchange to a maximum of 20% of total (eligible and tariff customers combined) electricity consumption in Slovenia. The cross-border transmission capacities were allocated

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<sup>54</sup> The reasons for the increased electricity consumption are explained in the chapter on Energy Efficiency of the Economy.

<sup>55</sup> Since summer 2001, all hydro power plants and two thermal power plants that are all connected to the transmission system operate within Holding Slovenske elektrarne.

according to the »pro rata« system, which resulted in 16 eligible customers being able to import electricity and 5 producers being able to export electricity.

The organised electricity market in 2002 saw activity in the day-ahead market as well as in the preferential dispatch market. Electricity in the amount of 7.4% of total electricity consumption of Slovenia was traded in the organised market. Prices in the market depend on the respective market products, the average price in 2002 (average based on daily averages) reaching 5.3 SIT/kWh for base load, 6.8 SIT/kWh for peak load and 3.7 SIT/kWh for off-peak load.

The final picture of the impact that the opening of the market had on consumer prices has not yet formed since average prices for eligible customers according to the bilateral contracts are still unknown. In 2002, the prices for tariff customers regulated by the government rose by 2% (which is lower than the inflation rate). In the same year, the net price for an average household customer<sup>56</sup> in Slovenia was 18.84 SIT/kWh and a good 17% lower than the weighted average of EU prices. The electricity prices of domestic industry consumers in the first half of 2001, when they were set according to the previous tariff system (not under bilateral contracts), were less than 10% lower than the average EU prices. The liberalisation of the electricity market has so far resulted in lower prices for the largest consumers that have succeeded with import tenders, but the positive effects for the rest of industry are uncertain.

### **Natural gas**

Natural gas represents around 13% of the total primary energy supply in Slovenia, which is significantly less than over 23% seen in the EU. The share of natural gas in the final energy consumption is 16%, and in the EU 25%. The national energy programme, which is in the parliamentary procedure now, plans and forecasts a 67% increase of natural gas in total primary energy supply by 2015. Slovenia will thereby follow the intensive gas policy of the EU in the last decade. Natural gas will mostly replace the use of domestic coal for electricity production and is also going to be used as a fuel in new power capacities (e.g. combined cycled gas turbines).

Natural gas supply has been organised within the public service's obligatory scope: a transmission system operator at the state level and distribution system operators at the local level. In 2002 supply was performed based on a tariff system that was prepared and published by the transmission company and ex-ante approved by the government.

Since 1 January 2003 all electricity producers from natural gas and natural gas consumers (including distribution companies) of more than 25 million Sm<sup>3</sup> consumption per year have become eligible customers according to the Energy Act. There are formally around 20 eligible customers in Slovenia consuming around 50% of all natural gas, but in practice they cannot switch to another supplier because of their long-term contracts up to 2007 with the current supplier<sup>57</sup>. Natural gas supply, transmission and distribution are secure and profitable activities that are reflected in the large number of licences granted for these purposes. Negotiated third-party access to the network is currently in place, but the transmission system operator has to annually publish guideline terms, conditions and prices for network use approved ex-ante by the ministry responsible for energy. The data on occupancy of the natural gas transmission networks must be available to the public.

Amendments to the Energy Act in accordance with Directive 2003/55/EC on the internal gas market are under preparation. Legal and functional unbundling of natural gas transmission

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<sup>56</sup> The average household customer is defined by 2,200 kWh of annual consumption in the higher tariff and 1,300 kWh in the lower tariff.

<sup>57</sup> Transmission and supply company Geoplin supplies natural gas to 166 large industrial consumers and to 16 distribution companies that supply around 100,000 household consumers.



and other market activities (e.g. gas supply) will be legalised, methodology for networks tariffs will be set by the regulator (Energy Agency) and calculated prices also proved ex-ante. In line with the accelerated natural gas market opening vulnerable customers will be legally protected.

### **Energy efficiency and intensity**

Energy intensity in Slovenia, reaching 366 kgoe/1000 EUR<sub>95</sub> in 2000 is 89% higher than the European (EU-15) energy intensity, twice as high as the Japanese, and 10% higher than energy intensity in the USA. In between 1995 and 2000, energy intensity in Slovenia lowered but has been on the rise again in the last two years (by about 0.5% annually, according to preliminary data). However, electricity intensity has increased by 5.4 % annually in the last two years. The main reasons for the negative trend in this area are the 50% increase in the electricity-intensive production at Talum (aluminium plant), the low prices of electricity for households and insufficient support for the efficient use of energy.

The high energy intensity of the economy compared to the EU is partially the result of the difference between GDP per capita in Slovenia and in the EU, but is also the result of the economic structure with a high proportion of large energy consumers. The metal industry holds a 43% share of electricity consumption among manufacturing industries, and the paper industry accounts for 11% of electricity consumption. Moreover, large electricity consumers<sup>58</sup> have been growing faster in the last two years than so-called dirty industry and this has been growing faster than all manufacturing industries taken together.<sup>59</sup> The consumption of electricity by bigger users directly or indirectly causes 80% of all emissions into the air in Slovenia.

The proposed National Energy Programme (NEP) is an important step towards ensuring a secure, competitive, and environmentally-friendly energy supply along with considering and stimulating the efficient use of energy, but it does not solve the high-energy-intensity problem directly. According to the NEP scenario, electricity consumption will increase by 2% annually until 2010, resulting in a decrease of energy intensity by only about 30% in 2015 compared to energy intensity levels in 2000.

Between 1992 and 2001, the energy efficiency of producing final energy from primary sources increased from 61.7% to 64% (the EU-15 reached 65.3% in 2001).

In the area of energy efficiency, practically all EU legislation has been transposed into the Slovenian legislation in the last three years. In 2002, Slovenia ratified the Kyoto Protocol and thus accepted the obligation of reducing greenhouse gases (GHG) emissions by 8% compared to the base year 1986. In July 2003, the Action Programme for reducing greenhouse gases emissions using adequate instruments and operative measures was adopted by the government. GHG emissions decreased from 19.8 million tons of CO<sub>2</sub> in 1996 to 19.4 million tons of CO<sub>2</sub> in 1999.

### **Rail transport**

With the exception of combined transport, which is subsidised, rail freight transport is a free-market activity. In 2001 combined consignments constituted 11% of all freight carried by rail (measured in tons). National rail transport accounted for 11% of freight, with international rail transport (import, export, transit) accounting for the remainder (89%).<sup>60</sup>

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<sup>58</sup> One of the examples of large consumers is the electrolysis process of primary aluminium production in Talum: the production of aluminium per capita in Slovenia is 5 times higher than in Western Europe.

<sup>59</sup> IMAD, Development Report, 2003.

<sup>60</sup> Figures provided by the National Statistical Office of the RS (SORS)

National rail passenger transport is performed as a public service on the basis of contractual relations with the Directorate for Rail Transport; international rail passenger transport is performed in agreement with foreign rail administrations and on a market basis. Both freight and passenger transport by rail increased in 2002 and 2003; passenger transport also increased considerably thanks to the purchase of new suburban and inter-urban rolling stock in 2000.

Considerable interest has been shown in operating transport services across the Slovenian rail network; however, Slovenske Železnice (Slovenian Railways) remains the sole rail operator at the present time. Pursuant to the Restructuring of the Public Company Slovenske Železnice d.d. Act, Slovenske Železnice will be transformed into a commercial company, Holding Slovenske Železnice d.o.o., in 2003. In 2004 this company will establish subsidiary companies for rail infrastructure maintenance and rail traffic control, passenger transport and freight carriage; the performance of these three public services will thus be separated. When Slovenia becomes a full member of the EU on 1 May 2004, the rail market will be opened up to foreign operators; this necessitates making the rehabilitation and reorganisation of Slovenske Železnice and the provision of expert support and training to prepare the company for competition on the EU market among the principal tasks in this sector.

### **Road transport**

Freight transport by road is very much regulated by the market. In 2001 national freight transport accounted for 68% of freight carried by road, with international road transport accounting for the remainder. Slovenian operators carried 81% of road freight (68% in national and 13% in international transport). 19% of road freight was carried by foreign freight operators, all of it as part of international transport.

Regular public bus passenger transport is made up of district passenger transport (which also includes suburban passenger transport and is operated by the state) and city passenger transport, which is operated by local communities. Between 1998 and 2002 the volume of regional transport decreased by 45% and city transport by 31%. Around a third of all daily journeys are taken using public city transport; by contrast, in several large European cities this figure is over two-thirds. With almost 450 cars per 1,000 inhabitants, Slovenia already ranks among the middle third of EU countries as regards car ownership levels.

In order to promote public passenger transport, Slovenia currently uses a system of subsidies for public city passenger transport. However, from 2004 this form of transport is supposed to be performed as a public service and concessions will be awarded on a best bidder basis.

### **Air transport**

In 2004 an air traffic control services company, wholly owned by the state, will commence operation; this will separate regulatory tasks from the performance of public services.

### **Maritime transport**

The port of Koper handled 9.35 million tons of freight in 2001. Just over one-third of the total quantity of freight was handled for the Slovenian market, with the remainder of the freight transiting Slovenia en route to foreign markets in the vicinity of the country. Pursuant to the provisions of the Maritime Code, the first concession contract for the operation, management, development and regular maintenance of the Koper freight port, Slovenia's only such port, will be signed with Luka Koper d.d. (Port of Koper Ltd.). Between 1995 and 2000 an annual average of just under 40,000 passengers was carried by public maritime transport. Maritime passenger transport is currently performed by companies (shipowners) only on a seasonal basis. However, plans have been drawn up to address the interest shown in the performance of year-round maritime passenger transport.

Both freight and passenger transports have increased in recent years. In order to increase capacity, complete port infrastructure for freight and passenger transport needs to be constructed, with appropriate links to rail and road infrastructure. An appropriate information system must be set up in order to ensure high-quality and efficient maritime transport control throughout the whole of the northern Adriatic to increase navigational safety and to prevent accidents at sea and the attendant marine and environmental pollution. Pursuant to EC Directive 2002/59/EC and the SOLAS international convention, an AIS (Automatic Identification System) coastal station must be purchased for controlling navigational safety from land and for rescuing people in distress at sea. A project to link northern Adriatic ports (NAPAN) is underway with the purpose of developing transport infrastructure and improving common and cross-border economic co-operation between ports in this area.

## **II. A.4. FOSTERING A KNOWLEDGE-BASED SOCIETY**

The basic areas of a knowledge-based society, which are closely interconnected and interwoven – education and training, research and innovations, and the information society – are being given increasing importance in Slovenia. Progress is evident in all areas. Important steps have been taken in terms of normative regulation, the establishment of an institutional framework, and the introduction of new instruments and mechanisms, which will enhance the quality of operation in all areas. These steps will be followed by more efficient implementation of the adopted measures. It should be noted that they involve processes which only yield higher quality and desired benefits in the long term.

### **Research, developments and innovations**

Investments in research and development activities (R&D) in Slovenia are at a relatively high level. The quality of the research activities performed is also easily comparable to world standards. The high goals of Slovenian R&D and innovation policy demand an increase in co-operation between R&D actors in different sectors, which is for the time being not intense enough. The transfer of know-how and technological achievements to the business sector is mainly demand-driven and does not entirely meet the needs of the business community.

According to the RS Statistical Office's data, investments in R&D in 2001 equalled 1.57% of GDP (EU average 1.98% of GDP). In the financing structure, the business sector represented the largest R&D share in this particular year: 54.7%, which was also true in the period 1996-2000. The business sector carried out the major share of R&D; in the period 1996-2001 it was 54.1% on average. Concerning the employment sector, the structure of researchers<sup>61</sup> in Slovenia is unfavourable because of the insufficient share of researchers employed in the business sector (2001: 33.6%), and it is excessive in the public research sector (2001: governmental – 32.3%, academic – 30.7%). In the same year, the business sector as a holder of applied research and experimental development in the EU-15 employed one-half of all researchers, while fewer were employed in the public research sector (governmental 13%, academic 35%). Slovenia is lagging behind the European average also as regards the number of researchers per 1000 active inhabitants (SLO 2001: 4.6, EU 1999: 5.3). Otherwise, Slovenian R&D is strongly involved in the European research area; in the 5<sup>th</sup> Framework Programme for the period 1999-2002 Slovenia was the only Candidate Country whose results reached the EU average.

In 2002, a new law (LR&D) on the research and development activity was adopted. It stipulates the principles and objectives of implementing R&D policy which is financed from the state budget and other sources and oriented at reaching the goals of the social and economic development of Slovenia. In line with the law, two public agencies will be

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<sup>61</sup> The number of researchers in the entire paragraph is expressed in FTE.

established in 2004: in the field of the research activity, and in the field of technological development. The role of the agencies is to perform professional, developmental and executive tasks related to implementation of the new National Research and Development Programme (NRDP). Currently, intense preparations are underway to set up both agencies and the starting points for preparation of the new NRDP in line with the LR&D guidelines are being discussed.

In the field of R&D, measures were taken to increase investment in the applied research and innovations; creation of a more stimulative environment for R&D, also referred to as an innovation environment; linking of the public research sphere to business sector (clusters, technological networks, technological parks, incubators at universities, technological centres), and measures for speeding up the transfer of knowledge from public research organisations to the business sector. It is therefore important that representatives of the economy are included in the procedure of institutional decision-making on research-development policy, especially as regards the priority identification and steering of public funds into R&D.

The new Governmental Science and Technology Council thus guarantees the equal participation of representatives from the economic sector. More attention will be given to human resources development. In the field of legislation, intense activities are underway for the promotion of R&D, especially as regards the creation of a favourable tax environment<sup>62</sup> within the framework of the new Corporate Income Tax Act. This year, an initiative was launched in Slovenia to attain the Barcelona objective: to allocate 3% of GDP for R&D by 2010 by increasing public investments to 1% GDP, and the investments of business sector to 2% GDP.

### **The Information Society**

Slovenia is an information society at a medium level of development, where the accelerated spread of ICT represents important potential for raising competitiveness and economic growth. The widespread use of ICT is relatively high compared to EU accession countries, at the same time it lags behind the Member States. Recent estimates of Internet use show that at the end of 2002 38% of homes in Slovenia had Internet access, and 45% of Slovenian adults use the Internet in a variety of locations. The most widespread type of access remains dial up access (70%), whereas cable and especially ADSL are gradually improving their shares. Both schools and companies are relatively well-off when it comes to infrastructure equipment, although migrations to broadband solutions are necessary, the actual use of ICT enabled services is still quite low. All schools at all levels of education have Internet access, the situation is however less favourable with computer use and the computer-pupil ratio (4.8 PCs in elementary and 5.0 PCs per 100 pupils in secondary schools). In 2004-2006 the Ministry of Education, Science and Sport will assist educational institutions<sup>63</sup> by co-financing the purchase of some 6,000 computers per year. The availability of computers to pupils should grow (5.2 PCs in elementary and 6.0 PCs per 100 pupils in secondary schools). It is quite similar with companies - although two-thirds of companies claim to use e-business and almost each is connected to the Internet, only a fifth of them admits having made any revenue through e-business.

With establishment of the Ministry of the Information Society in 2000 the introduction of ICT is an increasingly a planned process. The government adopted a series of development documents in the field of the Information Society and many new projects have started to increase the spread of use of ICT among the population (e-school, public Internet access points etc.). Major projects are being launched by the government this year to improve digital literacy, to develop lifelong learning (within the Phare Economic and Social Cohesion Scheme) and to improve the e-Commerce environment (the One Stop Shop project).

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<sup>62</sup> Thus, the investment in RTD could be increased.

<sup>63</sup> Kindergartens, primary and secondary schools, institutions for children and pupils with special educational needs, halls of residence, colleges, universities, music schools, folk high schools

In addition to guidelines which are prepared by the government with the help of the Phare Economic and Social Cohesion Scheme and will be supplemented in the Single Programming Document (SPD, Goal 1) in 2004-2006, one of the priorities laid down in the SPD is to improve the innovation environment by facilitating access and promoting the use of ICT, while focusing on the formulation of integrated regional strategies and partnerships aimed at developing the information society.

### **Education and training**

Slovenia is committed to the strategic goals the European Union has set itself in education and training to be achieved by 2010. Despite the relatively high GDP percentage to be dedicated for education and training (5.5% - 5.7% of GDP) and an extensive network of education and training institutions and high educational attainment of the younger population, the comparative data show quite a low rate of adults participating in lifelong learning, the share of the active population who have completed tertiary education in Slovenia (17.9%)<sup>64</sup> is lower than the EU average (21.6%). This education deficit has been reduced by the systematic strengthening of the involvement of adults in all forms of lifelong learning, which at the moment covers about 5.1% of the population; Slovenia is following the EU benchmark to achieve, by 2010, the general coverage rate of participation in lifelong learning to 15% or at least no lower than 12.5%,

The conceptual framework in the field of education and training in Slovenia has been defined in the White Book on Education and Training adopted in 1995. The White Book has been upgraded by a number of operational documents resulting in the definition of national priorities in education and training and reflecting the strategic European policies of investment in human capital, the Lisbon Declaration, a knowledge-based society, economic competitiveness and excellence of knowledge.<sup>65</sup>

On the basis of the above strategic documents and legislative background, concrete actions and national development schemes (supported by budgetary funds) have been developed, also with a view to enable the efficient implementation of structural policies and reforms in the field of education and training: the Memorandum on future development of VET in Slovenia together with Guidelines for the modernisation of lower vocational education and training<sup>66</sup>, adaptation of the network of schools to the economic and labour market demands of regional/local policies (Regional Development Programmes), National Programme of Adult Education, National Programme on Higher Education, Law on National Vocational Qualifications, vocational baccalaureate, the process of the 9-year compulsory education has been concluded.

In accordance with the European employment policy, the activities aimed at strengthening the employability of unemployed people have been focussed on.

Within the programme of active employment policy led by the Ministry of Labour, Family and Social Affairs, adopted by the government of Slovenia and implemented by the Employment Office, education and training and lifelong learning have been promoted as a strong tool for preventing unemployment.

Within the mechanism aimed at reducing the education deficit, special attention has been given to further involvement of people in lifelong learning. With this in mind, the Ministry of

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<sup>64</sup> National Statistical Office of the RS (SORS) data

<sup>65</sup> What is of primary concern here is how to take an active part in a wider social context on the basis of the acquired knowledge. The school is thus no longer the primary provider of knowledge, while education is no longer the only sector where the needs for knowledge are recognised and defined and where investment is made in knowledge.

<sup>66</sup> Decentralisation and modularisation of the VET, opening of 20% of curricula to the needs of the local business environment and the development of 13 key competencies in VET.

Education, Science and Sport has developed different approaches and schemes aimed towards raising the educational level and excellence of knowledge and to promote of lifelong learning policy in general. Phare 2003 lifelong learning is considered as support of these policies within pre-accession financial instruments, also as complementary activities to the lifelong learning measure implemented by the Ministry of Education, Science and Sport as one of the ESF – SPD priorities. The lifelong learning activities have been aimed at the establishment of prerequisite systems and structures to further support effective implementation of the lifelong learning concept mostly targeted at teacher training, modernisation and development of education and training programmes supply, further extension of local/regional centres of lifelong learning aimed at strengthening access to education and training, including the long-term aim of reducing the education deficit and low functional and digital literacy of adults.

Further developments will be directed towards intensified transparency and flexibility of education and training, achieving the optimum balance between education and training supply and economic and labour market demand. Special emphasis will be given to the competence-based training of teachers and trainers in the school and work environments. In order to ensure the compatibility of Slovenian education and training it is of key importance to ensure an efficient yet wise integration of instruments, declarations, recommendations, conventions with individual areas of education and training: higher education – the Bologna Declaration, VET – Copenhagen Declaration, lifelong learning - ten concrete future objectives of the EC.

## **II. A.5. ENVIRONMENTAL POLICIES**

Adopted by the Slovenian National Assembly, the National Environmental Action Programme (*NEAP*) is the main strategic document in the field of the environment, setting out the measures and tasks necessary for achieving the fundamental objectives of improving the environment, i.e. the aquatic environment (reduction of emissions from point and dispersed sources) and air quality (establishing air protection programmes reducing concentrations of troposphere ozone and other harmful substances, reducing greenhouse gas emissions etc.), establishing up-to-date forms of waste management, conserving and protecting biological diversity, protecting the soil, and consolidating environmental protection institutions at all levels.

An analysis of the implementation of each measure of the NEAP individually has shown that in most fields<sup>67</sup> the measures undertaken are already demonstrating the success of policy implementation and ensuring the achieving of the set targets. Given that the NEAP defined concrete measures only for the period up until 2003, the new NEAP and other special action programmes are under preparation as envisaged in the EU's new Sixth Environment Action Programme. In February 2003, the Slovenian Government adopted the "State of Environment Report 2002" which also defines 30 environmental indicators for assessing environmental objectives.

Implementation of the NEAP shows that spending by both the public and private sectors for the purpose of implementing the NEAP is growing from year to year. The largest portion of funds have been invested in the areas of water protection and water management, waste management and air protection, which have been identified in the NEAP as being more costly. Public sector funds are also growing as a result of the influx of EU donation schemes that Slovenia has succeeded in obtaining, for the most part precisely in the area of environmental protection (PHARE, ISPA, SAPARD, LIFE). Another key instrument is concessions on tax payments for wastewater, which those public sector organisations liable to pay have channelled entirely into the construction of wastewater collecting systems and

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<sup>67</sup> Wastewater treatment and river water quality, SO<sub>2</sub> emissions, greenhouse gas emissions, measures in the field of efficient energy use and renewable energy sources, agro-environmental measures, environmental taxes and so forth.

treatment plants. The volume of loans taken out by private commercial companies from the Environmental Development Fund indicates a positive growth trend.

The majority of spending has been in the public sector. Private sector funds have been evident primarily in the area of investments in reducing emissions into water, reducing air pollution and in measures to modernise production and reduce waste, as well as in the rehabilitation of waste disposal sites.

Implementation of the "polluter pays principle" has been one of the most important sources of financing environmental policy in recent years. Earmarked funds of the wastewater tax (legislation adopted in 1996) have financed a substantial share of building wastewater collection and treatment facilities. Good experiences gained with wastewater tax exemptions have been used as well when adopting landfill tax regulation as well as the tax on CO<sub>2</sub> emissions. Earmarked funds of landfill tax exemptions (from 2002 on) have been used to finance waste management facilities and source to fulfil the main waste management policy objectives: minimisation of waste quantity at source, minimisation of quantity of waste dumped at landfill sites, minimisation of share of biodegradable waste, promotion of separation of household waste, and increase of recycled and re-used waste.

The tax on CO<sub>2</sub> emissions was adopted back in 1996 but was revised in 2002. Thereafter, it represents one of the major instruments for cutting CO<sub>2</sub> emissions and fulfilling the obligations set out in the Kyoto Protocol, which Slovenia ratified in June 2002. In January 2002 the Slovenian Government adopted legislation on taxing the use of lubricant oil and liquids, and in January 2003 legislation on taxing end-of-life vehicles. Revenues gained from the tax on end-of-life vehicles are partly earmarked to finance governmental public service of dismantling end-of-life vehicles.

The amendment to the law on excise duties that the Slovenian government adopted in June 2003 exempted bio fuels from paying excise duties. The new Environmental Protection Act that is due to be adopted by the end of 2003 also introduces trading with emission rights, and in particular defines the green house gas emission allowance trading scheme.

## **II. B. CAPITAL MARKETS AND FINANCIAL SERVICES**

In terms of basic indicators of the financial system's development<sup>68</sup>, Slovenia is a more developed accession country, but still lags behind the developed Member States. Slovenia's financial system is dominated by banks as the key financial mediators and this is the result of the chosen type of privatisation. In terms of development, the capital market lags behind the most because trading mainly involves already existing securities and almost no new ones (except government bonds). The slow development of the non-banking financial sector is influenced by the ownership transformation (privatisation) of the insurance companies, the transformation of authorised investment funds into normal financial institutions, that is into mutual funds, and the relatively late introduction of private pension schemes. Reforms are being successfully implemented in the fields of regulation, control and approximation of the legislation to the EU's directives, while further reforms are aimed at increasing the financial system's competitiveness and efficiency. After accession to the EU, Slovenia will join the process of creating an integrated financial market in the EU in accordance with the guidelines of the Lisbon strategy and the Financial Services Action Plan.

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<sup>68</sup> In 2002 the share of total assets in GDP 86.4%, that of insurance premiums in GDP 5.1%, and the share of market capitalisation 23.4%

## **Market and regulation development for financial markets and financial institutions**

The basic laws regulating financial markets, financial institutions and supervision upon them are the Banking Act, the Insurance Act, the Securities Market Act and the Investment Funds and Management Companies Act. They were aligned with the *acquis* on financial services, applicable in the European union at the time of preparation of these acts. Stipulations concerning the free provision of financial services and the home-country-control principle will become effective on the date of accession of the Republic of Slovenia to the European Union. The Payment Transaction Act and the Money Laundering Prevention Act are also important for financial institutions' operating environment.

Thus legal framework also presents the key legal instruments for implementation of the EU Financial Services Action Plan. Slovenia has not yet implemented the EU's directives, which have been adopted as part of the Financial Services Action Plan more recently. Therefore, new amendments to Slovenian legislation are planned for 2003 and 2004.

In the banking field the third amendment to the Banking Act is being drafted, which is necessary for implementation of Directive 2001/24/EC on the reorganisation and winding up of credit institutions. In the insurance field, the Act amending the Insurance Act is being prepared, which will implement directives concerning solvency margin requirements for life (2002/12/EC) and non-life (2002/13/EC) insurance undertakings, Directive 2001/17/EC on the reorganisation and winding-up of insurance undertakings and Directive 2002/92/EC on insurance mediation.

The draft Act amending the Securities Market Act will implement the market abuse directive (the directive on insider-dealing and market manipulation) and also include some of the expected changes of the new investment services directive. Draft proposals of these acts also contain provisions necessary for implementation of the 'financial conglomerate' directive, yet part of this directive is planned to be implemented by a special law by August 2004.

The UCITS directive with all its amendments has been transposed by the Investment Funds and Management Companies Act, which entered into force in January 2003, and by implementing regulation issued on that basis. The Payment Transactions Act, adopted in March 2002, to a large extent implemented the directive on cross border payments and the directive on settlement finality in payment and securities settlement systems. Full harmonisation will be achieved by amendment of this act, which is expected to pass into the governmental procedure by the end of 2003. The directive on distance marketing of consumer financial services will be implemented by the amendment of the Consumer Protection Act. The directive on financial collateral arrangements will also be transposed into a special act within the time frame provided for the EU Member States.

The Bank of Slovenia, the Insurance Supervision Agency and the Security Market Agency perform supervision of financial market and financial institutions. These institutions are obliged by law to co-operate, whereas a more detailed content and method of co-operation and exchange of information are subject to Co-operation Agreements that these institutions have concluded among themselves. At least quarterly the Commission for mutual co-operation of supervisory authority meets. It is composed of the heads of supervisory authorities. This Commission monitors the implementation of agreements, plans and coordinates joint examinations (on-site and off-site) and consults on other individual matters related to the work of two or all supervisory authorities, as well as other common activities. Strategic questions of supervision of the financial sector and its development are discussed by the "Co-ordination", composed of the Minister of Finance, Governor of the Bank Slovenia, President of the council of experts of the Insurance Supervision Agency and President of the



council of experts of the Securities Market Agency. Supervisory authorities have signed a number of co-operation agreements (Memoranda of Understanding) with foreign supervisory authorities and actively participate in the work of international organisations and working parties of European institutions (European Commission and ECB). In summer 2003 a special working group was set up, composed of representatives of all three supervision authorities and of the Ministry of Finance, which has a mandate to prepare a proposal for the integration of the institutionally separated financial services' supervisory authorities into a single supervisory authority in order to enhance the efficiency and effectiveness of financial institutions' supervision.

### **Financial Sector Restructuring**

In the past the Slovenian financial system was strongly affected by the indexation of financial contracts, which resulted in higher interest rate levels. During the last two years de-indexation measures have been taken which have contributed to higher transparency of the financial market, increased its competitiveness and helped to lower interest rates towards the EU level.

The most important financial intermediaries are banks, which have created on average more than 70% of the financial sector's value-added in past years marked by high interest rate levels. At the end of 2002 the share of banks' assets represented 80% (EUR 19.8 billion) in total assets of all financial institutions operating in the Slovenian financial market (besides the banking sector, also including insurance and reinsurance companies, stock-broking companies, mutual funds, investment companies, authorised investment companies, mutual pension funds and pension companies).

At the end of 1997 there were 28 banks operating in Slovenia, yet in the middle of 2003 there were only 20. The consolidation process in the banking sector has evolved gradually, most intensely in 2001, when several mergers of smaller banks to the bigger banks took place. The share of the biggest bank in the banking sector's total balance sheet increased from 27.2% in 1997 to 35.5% at the end of 2002. Similar dynamics characterise market share of the biggest 10 banks, which increased from 80% (at the end of 1997) to 88.4% of total assets of the banking sector at the end of 2002.

The share of foreign ownership in banks' capital is also rising. At the end of 1998 it was at the level of 11.2% and increased to 32.5% by the end of 2002, following several takeovers and the beginning of the privatisation process of the biggest bank<sup>69</sup>. After the sale of a 39.3 % share in Nova LB d.d., the state's share in the total capital of banks fell to 20.3% so at the end of 2002 the state was a majority owner of only two banks. The privatisation process of the second biggest bank, Nova KBM d.d., was terminated by the government in April 2002 since none of the offers received complied with the privatisation objectives. Despite that, the government still maintains an objective to privatise this bank. On the basis of the development strategy of the Nova KBM d.d., which was prepared by the Management Board of Nova KBM, discussions are going on to merge this bank with Poštna banka Slovenije, in which the Republic of Slovenia is directly a 55% and indirectly a 100% owner. After the merger of the two banks the privatisation process of this bank will continue.

In the insurance sector the biggest insurance company Triglav dominated the insurance market with a 42.7% market share in 2002. The Ownership Transformation of Insurance Companies Act is fundamental for the restructuring of the Slovenian insurance sector. Its main purpose is to determine the share of non-nominated (social) capital, which remained in some insurance companies after their transformation into joint-stock companies and to determine their present ownership structure. This act concerns the Triglav insurance company

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<sup>69</sup> The increase is a consequence of: the selling off of 34% of the share capital of the biggest bank (NLB, d.d.) to the strategic investor KBC bank and 5% of capital to the European Bank for Reconstruction and Development; increase of foreign-owned capital in Banka Koper d.d.; and takeover of Krekova banka d.d. by Reiffeisen Bank in 2002.

and the Sava reinsurance company. The ownership transformation of Sava reinsurance companies is already finished, where the share of non-nominated capital was set at 99.87%, whereas the procedure is still going on in the Triglav insurance company. With the completion of the ownership transformation of insurance companies, the ownership structure of the insurance sector is expected to be established which should be able to assure sufficient capital in order to fulfil the prescribed capital requirements.

The Slovenian capital market is relatively small. Its development has been marked by the chosen privatisation method. Market capitalisation of shares (without investment funds) reached SIT 1 233.1 billion (23.4% of GDP) at the end of 2002. Small economies of scale and subsequently relatively higher costs per unit affect the efficiency of this market and locality of the capital market in Slovenia. With the Investment Funds and Management Companies Act adopted in 2002, the range of investments of investment funds has widened and investment funds are allowed to operate in the EU area. This act also enabled the transformation of authorised investment companies into normal financial institutions, i.e. investment funds, which is an important novelty. That was necessary due to authorised investment funds' ownership structure in which small investors prevailed. The amendments to the Securities Market Act shall prescribe greater transparency in transactions of securities issuers whose securities are traded in the regulated market (enhanced reporting requirements, increased transparency of securities transactions in the OTC market). This will enable the prevention of illicit behaviour of capital market participants and help increase the market's integrity.

In accordance with the European strategy to promote out-of-court settlements of consumer disputes, amendments to Slovenian acts regulating financial services were prepared whereby actors in this market (banks, insurance companies, stock-broking companies) are obliged to set up an out-of-court redress scheme to cope with disputes between financial services' suppliers and their consumers. The out-of-court redress scheme has already been enacted by the latest amendment to the Banking Act and to the Investment Funds and Management Companies Act. Provisions are included in draft proposals of the Securities Market Act and the Insurance Act.

## **II. C. OTHER REFORMS AFFECTING PRODUCT AND CAPITAL MARKETS**

### **Labour market**

In 2002, employment growth<sup>70</sup> was moderate (0.6%) and unemployment was on a downward trend, reflecting the efforts of labour market development policy and active employment policy measures. The employment rate of 63.4% was slightly behind the EU average (64.3%); the female employment rate was above the EU average, while the male employment rate was below the EU average. The gender employment rate gap was close to 10 percentage points. The reason for this gap was a relatively low employment of women aged 55-64; in this age group, only 35.4% of men and 14.1% of women were employed. The employment rate in this age group was 24.4% and lagged the most behind the EU average (40.1%). The goal is to achieve 50% employment in this age group before 2010.

The unemployment rate in 2002, measured by ILO standards (6.4%) was lower than the EU average. The female and male unemployment rates were 6.8% and 5.9%, respectively. Slovenia's unemployment rate was relatively low; however, the main problem was structural unemployment. As much as 61.6% of the unemployed had primary and lower education, while 58% were long-term unemployed.

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<sup>70</sup> Growth in the number of persons in employment (employed and self-employed), the National Statistical Office of the RS (SORS) figure.

Slovenia's main document is the National Labour Market Development and Employment Programme until 2006. The main strategic goals for this period are: (i) raise the education level and skills of the labour force; (ii) reduce structural imbalances, leading to a lower share of long-term unemployed (to about 40%) and unskilled unemployed (to about 25%); (iii) ensure that all young unemployed who fail to find a job in 6 months and other unemployed who remain jobless after 12 months take part in active employment programmes; (iv) reduce regional disparities in the labour market; (v) achieve over 1% average annual employment growth in 2000-2006 against the background of robust economic growth, which should bring the survey unemployment rate (ILO criteria) down to around 5% and the registered unemployment rate down to around 8% before the end of 2006; (vi) further develop social partnership in the areas of reducing unemployment and raising employment.

National Programme and active Employment Policy Guidelines support annual programmes of active employment policy. The special attention in employment policy programmes inclusion has been given to unemployed women. Funds allocated to active employment policy programmes are primarily given to regions with above-average unemployment rates.

Employment is stimulated through subsidies and job creation. The Employment Service of Slovenia carries out active employment policy programmes, establishes close contacts with employers, launches new employment programmes, and helps create jobs at a local level.

Joint assessment of Slovenia's employment and labour market policy priorities (JAP) represents the basic document oriented towards the implementation of European employment policy. In agreement with the European Commission it has defined the priorities of employment policy in Slovenia. The main priorities of labour market policy are: employment encouragement, wages policy, tax reform, investment in human resources, promotion of lifelong learning, equal opportunities, and promotion of active employment policy.

The balance between flexibility and security of employment is ensured by the new Labour Relations Act, which introduces flexible forms of employment.

### **Pension reform**

Pension reform was enacted in 1999 by passing the Pensions and Disability Insurance Act. The main changes in the public pay-as-you-go pension system are: (i) increase gradually the exit age from the labour market to 63 for men and 61 for women; (ii) increase the reference period for calculating the pension base from 10 to 18 years and reduce the annual accrual rate from 2% to 1.5%; (iii) offer the possibility of accumulating annual accrual rates after the full pension qualifying period has been attained; (iv) introduce a new system of indexing pensions and bring old pensions into line with the new lower pensions; (v) introduce additional rises and cuts in pensions for early or late retirement; and (vi) introduce new entitlements which aim to integrate into the pension system categories of the population who did not pay contributions previously.

Some of the results of the pension reform seen after three years are as follows. The average old-age pension relative to the average wage dropped from 76.1% in 2001 to 73.3% in 2002. The average exit age from the labour market is rising and was 59 years and 11 months for men and 55 years and 6 months for women in 2002. Expenditure on pensions (including health insurance contributions for pensioners) relative to GDP decreased slightly and totalled 13.36% in 2002.

The other part of the reform involved systemic changes. The reform introduced the possibility of a capital-funded voluntary pension insurance which is financed by premiums of employees, employers or both. Pension insurance schemes may be collective or individual.

Pursuant to the Pension and Disability Insurance Act, pension funds began to operate in the Slovenian financial market; they can provide voluntary pension insurance schemes along with insurance companies. The number of clients and volume of premiums collected in these funds are on the increase,<sup>71</sup> while further growth is expected after the act regulating collective pension insurance for civil servants is passed.

### **III. CONCLUSION**

The Slovenian government regularly reviews implementation of the strategic objectives. The *2003 Development Report* thus establishes that the sustainable development objective laid down in the Strategy for Economic Development of Slovenia is being gradually implemented. In the economy, relatively fast catching up with the EU continues and results are also improving in the social and environmental area as measured by the human development index and the genuine savings index. In all three areas of sustainable development, structural weaknesses are however apparent and may have a considerable negative impact on maintaining these favourable trends in the coming years. As far as economic development is concerned, the weaknesses are mainly in the unfinished structural reforms and knowledge-based society. The slow restructuring of the Slovenian economy weakens its export competitiveness and, consequently, its capability to maintain high economic growth (convergence in real terms); at the same time it is an important factor which keeps inflation at a relatively high level (the issue of nominal convergence).

Based on the report's findings, the government adopted a "Programme for effective integration into the EU" in July 2003. The programme's objective is to make use of the new development opportunities offered by membership and to simultaneously avoid risks that will develop at the time of accession. The programme defines a range of measures to accelerate structural reforms, as this is one of the priorities of the country's economic policy. This means that the lag in the reform of the non-tradable sector (public services and other network industries, capital market development and financial services markets) must be reduced by means of a well-considered industrial policy, accelerated the restructuring of tradable sectors (opening markets up to competition, public policies having an impact on product markets, fostering a knowledge-based society), and eliminating the structural causes of inflation.

The first set of measures in the programme is aimed at increasing flexibility of the economy and economic policy. The basic structural goal is to reduce the "fixed portion" of budget expenditures and thus create more opportunities to stimulate competitiveness and employment. The measures to increase the structural flexibility of public finance expenditures include: (i) restraining wage increases in the public sector by means of a corresponding agreement on wage adjustments (an agreement was reached that wages will be adjusted based on a combination of the following elements: expected inflation in Slovenia, expected inflation in the Euro zone, expected depreciation of the tolar compared to the euro. Further, this year's planned wage increase will be converted into additional pension insurance premiums for public servants); (ii) implementation of the Public Sector Wage System Act in a way that will not increase total public finance expenditure on wages; (iii) increase the cost efficiency of public administration and rationalise the expenditures on material expenses; (iv) reduce employment in the public sector (the employment plan for the next two years envisages an average reduction in the number of employees of 1% annually); (v) rationalisation of the system of social transfers (increase incentives for employing recipients of welfare allowances, prevent unjustified combined allowances, changes to the indexation of transfers). In addition, the government expects the social partners in the private sector to negotiate a similar

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<sup>71</sup> By the end of 2002, 173,440 people took out voluntary pension insurance, 23% of those affiliated to compulsory pension insurance schemes (around 80,000 at the end of 2001). Premiums totaled SIT 6.4 billion in 2001 and SIT 23.8 billion in 2002, recording a surge of 270.5%.

agreement on wage adjustment as in the public sector because this will increase the flexibility of corporations at the time of accession to the common European market.

In order to reduce inflation, and to restrictive macroeconomic policies and their co-ordination with the Bank of Slovenia, the programme plans the following measures to eliminate the structural causes of inflation: (i) administered prices will not rise faster on average than expected inflation; (ii) the fiscal burden caused by inflation will not rise faster than the euro's exchange rate (an exception is the increase of excises on tobacco products due to the obligation to adjust their level to that of the EU); (iii) most custom duties and levies on agricultural products from Members States and the accession countries will be abolished by the end of 2003; (v) the government will stimulate independent sector regulators to observe the inflation rate targeted by the government when they increase prices which fall within their competence; (vi) through its representatives on their boards of directors the government will assert efficient control of the cost efficiency of public companies; (vii) the government will prepare the legal basis for municipalities to use compulsory invitations for public tenders to enter fixed duration contracts with public companies in the area of public utilities and public transportation in order to increase competition between the providers; and (viii) for services where competition is impossible (e.g. water works), the government will improve regulation through cost norms and efficient control by the municipalities or the government itself.

The third set in the programme consists of measures to stimulate economic growth and employment. The core measures are aimed at increasing the economy's competitiveness and the creation of a knowledge-based society. Within this framework, the government envisages higher incentives for technological development (to increase the share of applied research, establish technological networks, centres of excellence, and a Science Agency), to enhance corporate competitiveness (by co-financing strategic investments in the development of activities and supporting corporate internationalisation), and for the development of the information society (reduce the digital gap through special programmes in education and for the unemployed, increase competitiveness of the telecommunications sector). The government will also eliminate the administrative obstacles to the establishment and operation of companies. In public finance, the government's budget for 2004 and 2005 considerably increases the funds allocated to research and development, competitiveness of the economy and education; further, a tax reform is in preparation which is, among others, set to reduce the tax burden of labour as one of the production factors and to provide incentives to companies for investment in technological development. In employment, the government will introduce additional assistance for employing long-term unemployed people, older unemployed and for the unemployed with a high education.

The "Programme for effective integration into the EU" constituted the basis for the elaboration of the Budget Memorandum for 2004 and 2005 and completion of the Pre-Accession Economic Programme in 2003. The latter defines in detail the objectives concerning the continuation of structural reforms in individual areas. Action in accordance with the adopted documents will make it possible to create a competitive and knowledge-based economy capable of offering quality new jobs and, thereby, bringing Slovenia closer to achieving the Lisbon strategy's objectives.