



Slovak Republic Country Strategy

2017-2022

as approved by the Board of Directors on 29 November 2017

European Bank
for Reconstruction and Development

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Glossary of Key Terms

ABI	Annual Business Investment
ATC	Advanced Transition Country
BEEPS	Business Environment and Enterprise Performance Survey
CEB	Council of Europe Development Bank
COOs	Countries of Operation
COP21	2015 United Nations Climate Change Conference
E&S	Environmental and Social
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EIF	European Investment Fund
ESIF	European Structural and Investment Funds
ETI	Expected Transition Impact
ETS	Emissions Trading Scheme
EC	European Commission
EU	European Union
E&S	Environmental and Social
FDI	Foreign Direct Investment
FI	Financial Institution
GEFF	Green Economy Financing Facility
GET	Green Economy Transition
GHG	Greenhouse Gas
IFI	International Financial Institution
IPO	Initial Public Offering
MSME	Micro, Small and Medium Enterprise
MunSEFF	Municipal Sustainable Energy Financing Facility
MCCF	Multilateral Carbon Credit Fund
NPL	Non Performing Loan
ODA	Official Development Assistance
SME	Small and Medium Enterprises
PPP	Private-Public Partnership
PTI	Portfolio Transition Impact
R&D	Research and Development
SlovSEFF	Slovak Sustainable Energy Financing Facility
TC	Technical Cooperation
VCIP	Venture Capital Investment Platform

Executive Summary

The Slovak Republic is committed to and applying the principles of multiparty democracy, pluralism and market economics in accordance with the conditions specified in Article 1 of the Agreement Establishing the European Bank for Reconstruction and Development ("the Bank"). The country has consolidated its democratic system in the process of acquiring EU membership in 2004 and has made further progress since then.

With GDP per capita reaching 77 per cent of the EU-average, the Slovak Republic is the second wealthiest economy in the Central Europe and Baltics region. Growth has remained stable, at 3.3 per cent in 2016, supported by strong private consumption and net exports. Since the early 1990s, the country has made spectacular progress on moving from a planned system, showing great progress along all six qualities of a sustainable market economy identified by the Bank, namely competitive, well-governed, green, inclusive, resilient and integrated. Overall, the country has only a small gap in terms of developing a sustainable market economy.

The above performance is consistent with an advanced transition country with narrowing transition gaps. Moreover, the substantial financial support from the EU (€15.3 billion of ESIF for 2014-2020) and EIB (€2.47 billion invested during 2014-2016), in conjunction with a highly liquid commercial banking sector, has significantly curtailed the additionality of the Bank (€300 million across 12 operations over the same period). In 2017 the Bank's activities have been largely limited to covered bonds and energy efficiency credit lines, the latter of which will require financial support from the Government to continue. This limited additionality is unlikely to change.

Against this background, the scope for the Bank's potential range of activities is becoming narrower. Taking into account the country's reform priorities, the Bank's comparative advantages relative to other international financial institutions and where it remains additional, the new strategy is therefore more selective and realistic, focusing on remaining gaps in the country's competitiveness and Green Economy Transition. Although the largest remaining gaps according to the EBRD's Assessment of Transition Qualities are in governance and inclusion, the EBRD has limited means to address these issues and ESIF-backed government programmes address a good number of these and related issues. The Bank will nonetheless be alert to opportunities to implement the core priorities of the country strategy in underserved regions or in a manner that boosts economic inclusion.

With that in mind, the Bank is set to pursue the following strategic priorities in the Slovak Republic:

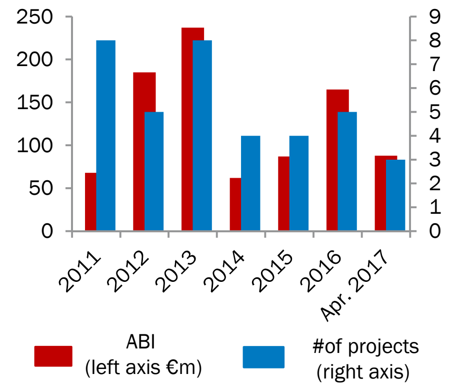
- Enhancing competitiveness through cutting-edge financial instruments and structures; and
- Supporting Green Economy Transition through dedicated financing facilities.

The Slovak Republic – EBRD Snapshot

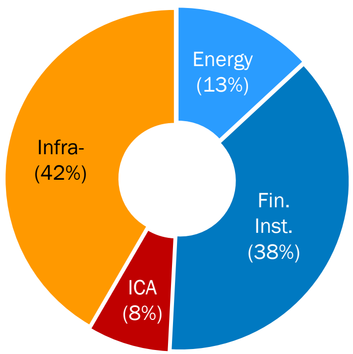
EBRD Investment Activities in the Slovak Republic

Portfolio	€435m	# of active projects	31
Equity share	13%	Operating assets	€250m
Private share[1]	100%	Net cum. investment	€2,353m

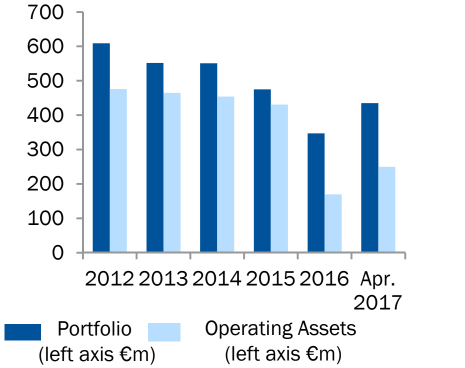
ABI and Operations



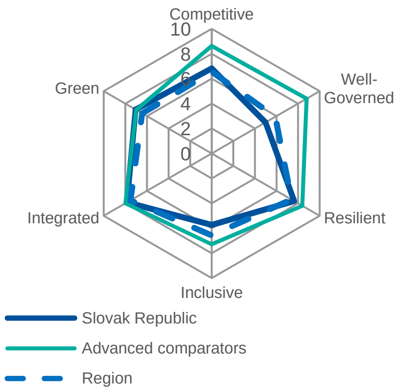
Portfolio Composition[2]



Portfolio Dynamics



Transition Gaps[3]



Slovak Republic Context Figures

Population (m)[4]	5.4	2015
GDP per capita (PPP, USD)[4]	28,254	2015
Global Competitiveness Index (WEF)	65th *Out of 138*	2016
EBRD World Bank BEEPS indicators		
% firms that consider A2F to be the main obstacle	12.4%	2013
% of management's time spent on dealing with regulations	8.2%	2013
% of firms that consider informal sector to be the main obstacle	13.2%	2013
Youth unemployment (%)[4]	22.9%	2016
Female labour participation (%)[4]	51.4%	2016
Energy intensity toe/thousand 2005 USD (TPES/GDP)[5]	0.16	2014
Emission intensity/GDP (kgCO2/05'$)[5]	0.2	2014

[1] *Cumulative Bank Investment: 5 year rolling basis on portfolio.* [2] *As of April 2017.* [3] *For methodological details refer to the Country Diagnostic.* [4] *World Bank's WDI* [5] *IEA's Energy Atlas*

1. Implementation of Previous Strategy – 2012-2016

1.1. Key Transition Results Achieved during Previous Strategy Period

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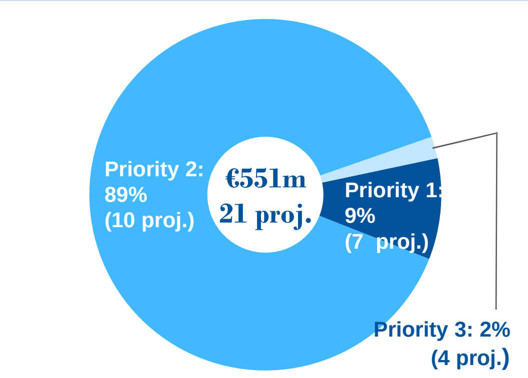
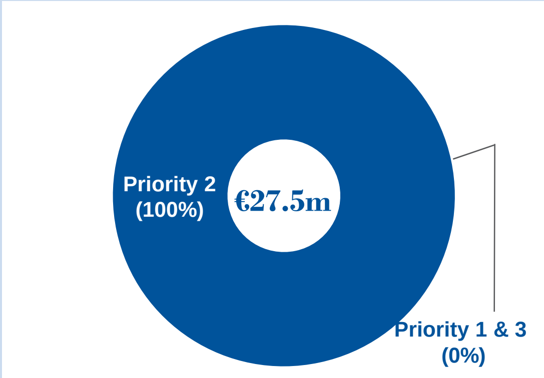
Strategic Fit 2012-2016 [1]

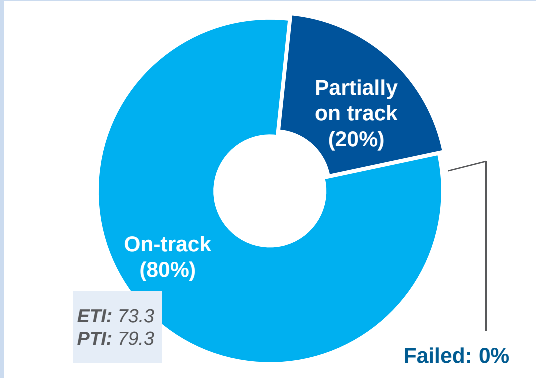
Annual Business Investment (ABI)



Technical Assistance & Investment Grants



Transition Impact Performance [2]



Priority 1: Deepening financial intermediation and support for SMEs

Key Transition Results

- Overall, there has been **no demand by commercial banks for external funding dedicated to SMEs**, due to available liquidity.
- The exception are **energy efficiency lines** benefitting from technical assistance and grant incentives for energy savings, with more than **500 small sub-loans** extended through SlovSEFF and MunSEFF facilities across the country.
- EBRD has also supported **six new private equity funds** with a nominal Slovak Republic allocation of €20.9m[3] actively seeking opportunities in the Slovak Republic and operating regionally.
- EBRD is actively involved in expanding/deepening financial markets, including by **supporting the first infrastructure bond** in the EBRD region by a private concessionaire (€200m).
- The Bank also launched a policy dialogue with the Central Bank, Ministry of Finance and local financial institutions to **improve local covered bond legislation.** Discussions formed the basis for a €200m framework approved in December 2016, under which €80m has subsequently been signed/disbursed.

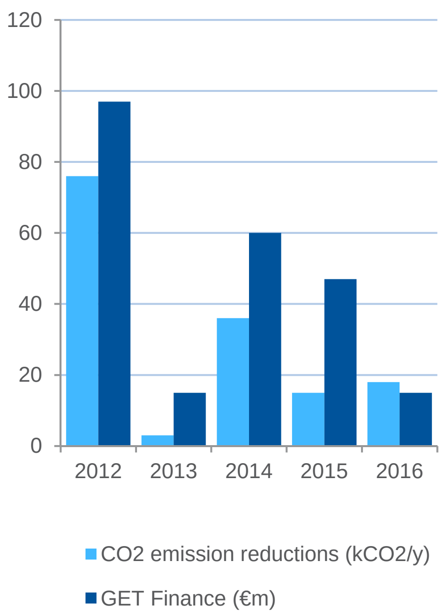
1. *Strategic priorities 2012-2016: 1) Deepening financial intermediation and support for SMEs; 2) Supporting investments in infrastructure, energy security and energy efficiency; 3) Supporting cross-border co-operation and investments.*
2. *Transition impact performance reflects how likely projects are to achieve the transition impact that was expected of them at signing.*
3. *For the period of November 2012 – December 2016.*

1. Implementation of Previous Strategy – 2012-2016

1.1. Key Transition Results Achieved during Previous Strategy Period

Priority 2: Supporting investments in infrastructure, energy security and energy efficiency

Green Economy Transition (GET)



Key Transition Results

- Although large projects are rare, EBRD has continued to support **infrastructure development.** In addition to a €200m bond refinancing of R1 Motorway, provided a €148m senior debt facility (alongside EU, EIB and commercial banks) as part of **€1bn PPP financing for D4/R7 Bratislava bypass.**
- Invested more than €230m in GET financing over the strategy period. **SlovSEFF and MunSEFF have been very active**, with:
  - 129 sub loans provided under SlovSEFF and 387 under MunSEFF
  - 606,646 of energy savings achieved (GJ/year) combined
  - More than 4.12MW of renewable energy installed.
- **SlovSEFF III (up to €100m framework) launched** - supported by an innovative carbon credit transaction between Spain and the Slovak Republic, facilitated by the MCCF, a joint EBRD-EIB climate change mitigation initiative.
- EBRD also allocated €90m to two banks under MunSEFF, focusing on renewable energy, municipal and residential buildings, and municipal infrastructure.
- GET commitments have however fluctuated. Volume fell in 2016 due to completion of MunSEFF and somewhat slower portfolio/pipeline development under SlovSEFF III.
- EBRD has engaged with Ministry of Environment to source grants for incentive payments and finance technical assistance in support of a **new GEFF facility.**

Priority 3: Supporting cross-border co-operation and investments

Key Transition Results

- EBRD had **limited success** under this Priority. Considerable liquidity in banking sector, availability of significant EU funding and narrowing transition gaps have all limited the Bank's additionality and capacity to deliver.
- The majority of larger corporates involved in cross-border investments are very well banked. However EBRD signed a **€4.5m loan in July 2016** with Slovak sponsors to construct a series of biogas plants in Serbia. First €3.1m tranche has been fully drawn and invested, with a second €1.4m tranche in the process of being committed.

1. Implementation of Previous Strategy – 2012-2016

1.2. Challenges to Implementation and Key Lessons

Context for implementation: Although EBRD has invested over €647m in the Slovak Republic since the previous strategy was approved in November 2012, 54% of this total is attributable to two large infrastructure projects. The Bank has been able to source and close, on average, only 4-5 projects per year since. This performance reflects the Bank's reduced additionality in an advanced transition country amid narrowing transition gaps, abundant ESIF inflows and EIB loans, and a banking sector that is highly liquid, with ample resources for traditional debt financing in the corporate sector. Indeed, in 2017 the Bank's activities have been largely limited to covered bonds and energy efficiency credit lines, the latter of which will require financial support from the Government to continue. All of these factors require EBRD to sharpen its strategic focus and engage in targeted areas, where its additionality remains. Given this narrowed focus, the Bank may well be able to deliver its operational impact in less than five years.

Implementation Challenges

- On the supply side, Slovak commercial **banks are highly liquid and EU and EIB financing is abundant.** On the demand side, large multinationals present in the country often have access to other sources of financing, while viable SMEs are well-served by local banks. These circumstances leave limited opportunities for the Bank to engage with the private sector.
- **Narrowing transition gaps** have also resulted in a declining need for the Bank's support. The largest overall gaps are in inclusion and governance, where EBRD's toolkit is limited and ESIF-backed government programmes address a good number of these and related issues.

Key Lessons

- Sharpen strategic focus to employ a flexible and innovative approach in delivering **niche financing products** (e.g., covered bonds, infrastructure bonds, private equity/venture capital, GEFF), where EBRD's additionality is greatest.
- Focus on **narrow sub-areas of competitiveness and Green Economy** with remaining transition gaps and where the EBRD is still additional (e.g., structured debt and equity for innovative and growth-oriented companies (including VCIP), as well as energy efficiency loans through financial intermediaries, leveraging ESIF whenever possible).

2. Economic Context

2.1 . Macroeconomic Context and Outlook for Strategy Period

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The Slovak Republic has a strong export-oriented economy and is well integrated in the Central Europe and Baltics region, although certain transition gaps remain.

Slovak Republic Main macroeconomic indicators

	2014	2015	2016	2017 proj.
GDP growth (% y-o-y)	2.6	3.8	3.3	3.2
CPI inflation (% avg.)	-0.1	-0.3	-0.5	1.3
Government balance (% of GDP)	-2.7	-2.7	-1.7	-1.2
Current account balance (% of GDP)	1.2	0.2	-0.7	-0.2
Net FDI (% of GDP)	-0.6	0.0	0.6	-0.3
External debt (% of GDP)	89.2	85.4	91.1	89.0
Total investment to GDP (%)	20.4	23.0	20.2	22.0
General government gross debt (% of GDP)	53.6	52.5	51.9	51.0
Private sector credit (% of GDP)	51.0	54.0	57.4	60.0
Unemployment (%)	13.2	11.5	9.6	7.5
Nominal GDP (€bn)	**75.9**	**78.7**	**81.0**	**84.6**

- The Slovak Republic is the **second wealthiest economy** in the Central Europe and Baltics region, with GDP quadrupling since 1991, reaching 77% of the EU-average in 2016.
- **Growth remains stable**, at 3.8% in 2015 and 3.3% in 2016, supported by strong private consumption and net exports.
- **Exports represent almost 100% of GDP**, largely concentrated in the automotive sector. GDP is exposed to fluctuations in the EU, and the world economy as a whole. The country is a key participant in global value chains, but its export **value-added contribution remains low.**
- Industrial activity and employment are concentrated around Bratislava. Although both the EU and EIB devote resources to rural development, **significant regional disparities persist.**
- **Long-term unemployment** (12 months and greater) accounts for 60.2% of total unemployment – the second highest in the EU and mostly concentrated in the eastern regions.
- Public investment is closely tied to **EU funds absorption**, which has **remained sluggish.** The country was allocated €15.3 billion of ESIF for 2014-2020, the highest per capita of EU grant funds after Estonia.

Source: CEIC, EU Commission and EBRD estimates

2. Economic Context

2.2 . Key Transition Challenges[1]

Competitiveness (6.82)

- **General business environment** is favourable and the economy benefits from **large FDI inflows.**
- Although there is significant liquidity in the banking sector, **access to finance** remains an issue for SMEs and innovative firms. Seed and venture capital and equity are limited.
- **Limited R&D spending** constrains ability of firms to innovate and generate value added, hampering **productivity.**
- **Workforce skills remain a concern:** educational/vocational programmes do not match market needs.
- **Limited infrastructure** in the east further constrains competitiveness.
- **Informal sector negatively** affects over 40% of firms (BEEPS V).

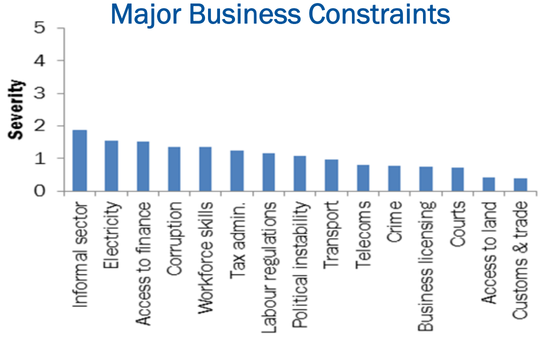
Governance (4.98)

- **Private sector activity is hindered by persistent barriers** such as changing regulations, complex bureaucracy and weak insolvency regulation, although an amended insolvency act, adopted in March 2017, may improve the latter.
- **Combating corruption** remains a serious challenge. The Government recently signed an MoU with the OECD to bolster cooperation in this area.
- **Public procurement** is subject to significant non-competitive tendering.
- Public trust in the **independence of the judiciary** is low. However a new **Civil Service Act** may help reduce political influence in public administration.
- The Government is running a **Value for Money project** as part of the general budget to improve spending efficiency.

Resilience (7.64)

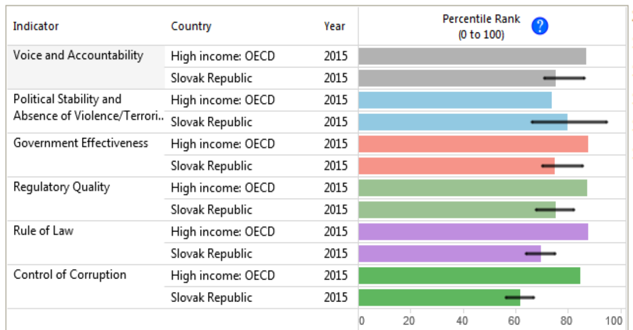
- **Banking sector is** highly liquid and remains the primary source of financing. **NPLs** are low (4.4% as of end-2016).
- However **non-bank access to finance** is still limited. Alternative sources of finance (e.g., private equity and capital markets) are lacking.
- **Energy dependence** is above EU-average, with 58.7% of energy needs being imported (2015).
- The economy and exports are **dependent on a single dominant industry: automotives.** Related FDI inflows have benefitted the country, but leave it vulnerable to external shocks.

Major Business Constraints



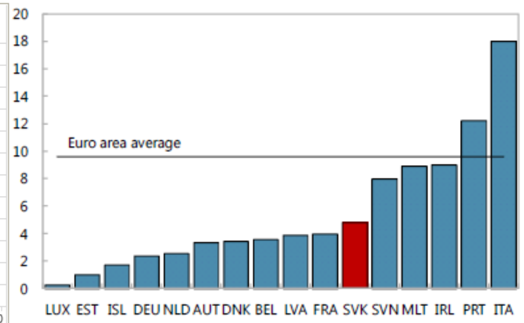
Source: EBRD BEEPS V

Worldwide Governance Indicators



Source: The World Bank's Worldwide Governance Indicators database

NPLs, Per Cent of Total Loans



Source: IMF Financial Soundness Indicators

1. See EBRD Country Diagnostic for more details. Provisional transition scores measured on a 1-10 scale, where 10 represents the frontier – subject to change as methodology is finalised.

2. Economic Context

2.2 . Key Transition Challenges

Integration (7.85)

- The country's dynamic, export-oriented economy is **well integrated in the region.** Inward FDI and trade integration are among the highest in the region.
- However, **significant disparities persist** between its western and eastern parts.
- **Lack of suitable transport, especially road, infrastructure** in the east hinders investment, and prevents integration into global value chains.
- **Further diversification of energy sources**, including development of alternative renewable energy, is required.

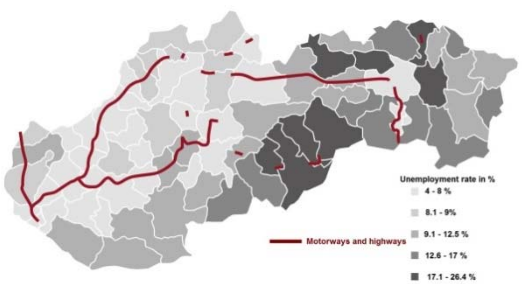
Green Transition (7.05)

- Despite reducing energy consumption by almost 40% since EU accession, **energy and carbon intensity** remain among the highest in the EU.
- Institutional framework for **sustainable energy** is not yet fully adequate.
- Only 12.9% of energy was from **renewables** in 2015. Only 5.3% of energy used in transport came from green sources.
- Residential sector has large **energy efficiency** needs, especially heating.
- **Improvement of transmission and distribution grids**, and increased energy efficiency are needed.
- **Municipal waste recycling** rate was only 15% in 2015, third lowest in EU.
- Almost 20% of urban population exposed to excessive **air pollution.**

Inclusion (5.73)

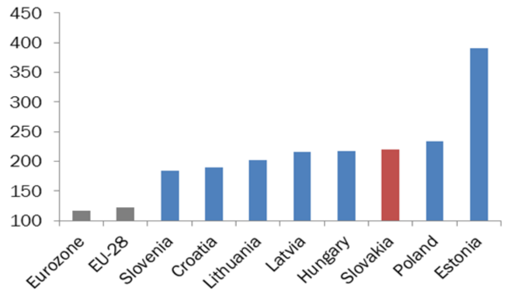
- **Substantial regional disparities persist.** Per capita income in the east (PPP-adjusted) only 53% of the EU average in 2015. Uneven access to finance a major constraint to growth in remote regions.
- **Employment** in urban areas reaches 75%; **in rural regions, remains roughly 60%** (2016). Mobility is hampered by limited transport infrastructure and underdeveloped rental market.
- Over **13% of youths in the east are neither in employment or education** (8.6% in Bratislava, 2016). Educational quality is poor and public expenditure below the EU average.
- **Female employment rate (62.7%, 2016) lags** that of males (76.9%). Roma communities, particularly youths, face additional barriers.

Road network coverage and unemployment



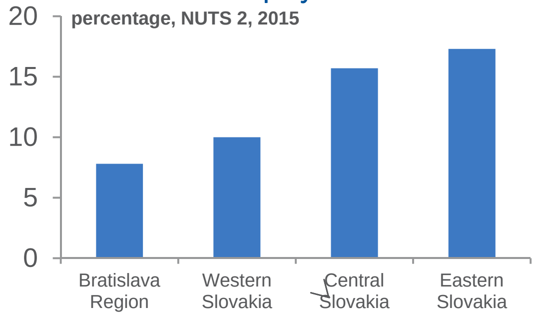
Source: EC 2016

Gross consumption of energy divided by GDP



Source: Eurostat

Youth neither in employment nor education



Source: Eurostat

3. Government Priorities and Stakeholder Engagement

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3.1. Government Reform Priorities

The Government developed the **National Reform Programme of the Slovak Republic for 2017-2019** with the following priorities:

- **Tackling unemployment:** Continued reform of employment services, changes in the provision of social benefits, tools for integration of low-skilled and long-term unemployed, measures to support investment in R&D and foster entrepreneurship (including the SME Action Plan).
- **Addressing regional disparities:** The Law on the Least Developed Regions (2015) is under implementation – a broad approach that includes labour relocation subsidies, exemptions for employers' social payments and unemployment insurance, inclusive education and child care, and transport and municipal infrastructure investments.
- **Combating corruption and improving the rule of law:** Reforms of the judiciary, an Action Plan on Fighting Corruption, business environment reforms, administrative streamlining, introduction of e-government and increasing the efficiency of tax collection.
- **Promoting a well-functioning state:** Reforms in education and healthcare systems, guidelines on political nominations, efforts in building institutions and enhancing professionalism of state administration.
- **Ensuring environmental sustainability:** The Low-Carbon Strategy prescribes effective decision-making on GHG reduction, support for the use of renewable energy sources, increasing energy efficiency and building energy connections with other countries.

3.2. EBRD Reform Areas Broadly Agreed with Authorities

- Need for further capital market development through investments and advisory support, including covered bonds
- Desirability of developing innovative financial instruments, including, where possible, to leverage ESIF
- Market need for additional instruments and mechanisms to leverage "green" financing but recognition that many will require Government support

3.3. Key Messages from Civil Society to EBRD

- There is a substantial need for enhanced energy efficiency in the corporate and municipal sectors.
- Innovation is lagging and needs more systematic support.
- Public administration, including allocation of EU Funds, needs to be more efficient and better coordinated, although initiatives such as the Value for Money project show promise.
- Corruption is perceived as a serious challenge.
- The country needs to build greater sustainability in preparation for a reduced EU Funds allocation after 2020.

4. Defining EBRD Slovak Republic Country Strategy Priorities

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What needs to change? *(Section 2)*	Can it be changed? *(Section 3)*	What can the Bank do? *(Section 4)*	Strategic Priorities (2017-2022)	What we want to see in 2022
• Although the banking sector is highly liquid, access to medium and long-term finance is limited • "Shallow" local capital market limits opportunities for equity finance • Innovation and start-up finance lacking • High dependence on automotive industry • Significant regional disparities, including poor transport infrastructure in the east, limits investment and labour mobility	• Strong Government drive to upgrade growth through innovation and diversification into higher value added production • High liquidity from commercial banks continues to limit EBRD additionality • Addressing regional imbalances a Government priority. However, EBRD has limited means to address this gap given few corporate deals with a capacity to absorb an inclusion component, as well as a lack of donor funded TC	• EBRD can provide niche, cutting-edge financial instruments (e.g., covered bonds, infrastructure bonds) and selective risk capital (private equity/venture capital), and deploy specialised expertise to facilitate capital markets development • EBRD can provide funding in conjunction with IFI partners and potentially Slovak Investment Holding, for selective private-sector led infrastructure projects employing innovative structures such as PPPs, although opportunities will be rare	Enhancing competitiveness through cutting-edge financial instruments and structures	• Expanded and diversified range of innovative financial products • Sustainable funding and management of select infrastructure through innovative, private-led solutions
• High energy and carbon intensity, low resource efficiency and environmental challenges posed by pollution and climate vulnerability • Low recycling rate of municipal waste • Excessive air pollution • Institutional framework for sustainable energy not yet fully adequate	• Government's Low-Carbon Strategy focused on cost-efficient forms of decreasing emissions • EU emissions and renewable energy directives and COP21 commitments reinforce reform momentum • Government committed to improve regulatory framework for and invest in waste recycling	• Subject to the necessary government support, EBRD can help design specialised facilities to prepare, finance and implement green economy projects via financial intermediaries (using, e.g., GEFF, Green Innovation products), where feasible with ESIF financial instruments	Supporting Green Economy Transition through dedicated financing facilities	• Improved energy and resource efficiency via financial intermediaries • Increased role of commercial financing for green economy investments, where applicable with Government/ESIF support
• Corruption is perceived as a serious challenge and governance needs to be strengthened at the regional and municipal level	• EBRD has limited means to address many of these issues. Although there could be scope to help with, e.g., project preparation and public procurement, limited traction with municipalities to date and a lack of donor funds has restricted opportunities.			

5. Activities and Results Framework

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Priority 1: Enhancing competitiveness through cutting-edge financial instruments and structures

Objectives (Outcomes)	Activities (Outputs)	Tracking Indicators
Expanded and diversified range of innovative financial products Sustainable funding and management of select infrastructure through innovative, private-led solutions	• Enhance capital markets including through covered bonds and other capital instruments. • Continue working with authorities to amend existing covered bonds legislation. • Support development of long-term and innovation financing through new or cutting-edge financial instruments such as selective equity (both through regional private equity or venture capital funds, and potentially through direct VCIP investments) and mezzanine instruments, including via access to capital markets. • Support innovative financing structures for transport and municipal infrastructure, including infrastructure bonds and selective PPPs, where possible to address regional imbalances.	• New or innovative capital market instruments introduced with the Bank's assistance (including covered bonds) *(Baseline – N/A)* • # of companies financed targeting innovation and/or expansion through equity funds *(Baseline – 0)* • PPP/concessions and/or related infrastructure services outsourced to the private sector *(qualitative account, Baseline – N/A)*

Impact Indicators: Total outstanding private sector bonds to GDP (Baseline 2016: 12.17%, Source: BIS),
Global Innovation Index (Baseline 2017: 43.4 out of 100 / Rank 34 out of 127, Source: GII)

5. Activities and Results Framework

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Priority 2: Supporting Green Economy Transition through dedicated financing facilities

Objectives (Outcomes)	Activities (Outputs)	Tracking Indicators
Improved energy and resource efficiency via financial intermediaries Increased role of commercial financing for green economy investments, where applicable with Government/ESIF support	• Support through financial intermediaries energy and resource efficiency investments and innovative green economy technologies in the private and public sectors. • Subject to the engagement and financial support of relevant Government authorities, help design and implement financial investments for green economy projects (including, *inter alia*, using and adapting EBRD GEFF and Green Innovation products for the Slovak Republic), where possible leveraging ESIF for investments and advisory services.	• Energy saved associated with the Bank's operations in GJ/y *(Baseline - 0)* • Installed renewable energy capacity with Bank support (in MW) *(Baseline – 0)*

Impact Indicators: Energy intensity TPES/GDP (Baseline 2014: 0.16, Source: IEA),
% energy generated from renewable resources (Baseline 2015: 7.3%, Source: World Bank Dev. Indicators)

6. Mapping of International Partners' Complementarity in EBRD Business Areas

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EBRD BUSINESS AREAS																						
		Sectors															Other					
		Corporate				Energy		Infrastructure				Financial					Green Transition			Inclusion		
Indicative annual investment/ grants (2013-2015 average unless otherwise specified, excluding budget support)		Agribusiness	General industry	Real estate	ICT	Natural resources	Electric power	Water and wastewater	Urban transport	Roads	Railways	Banking	Insurance	MSME finance	Private equity	Capital markets	Water efficiency	Materials efficiency	Sustainable energy	Gender	Youth	Region
EU	€2,186m*	€P			€P	€P			€P	€P	€P			€P			€P		€P	€P	€P	€P
EIB	€730m	€P	€P			€P		€	€	€P	€P			€				€P	€P		€P	€P
CEB	€232m								€	€				€					€		€	€
EIF	€101m													€	€						€	
EBRD	€129m														€	€P	€	€	€			

€ Area of significant investments	Focus mostly on private sector
P Area of significant policy dialogue	Focus mostly on public sector

Areas for Future Cooperation

Competitiveness:
Explore opportunities to support the corporate sector by leveraging EU funds and co-financing with EIB

Green Transition:
Leverage ESIF and other EU funds available for intermediated financing for improved energy and resource efficiency

Note: IFI activity mapping based on publicly available information. Significant IFI investment defined as projects exceeding 5% of annual investment and signed from 2013.
* 2014-20 allocation

7. Implementation Risks, Environmental and Social Implications

Risks to the Strategy Implementation	Probability	Effect
▪ **Additionality constraints:** the Bank's ability to identify investment opportunities for EBRD financing that are complementary to existing available financing sources in the country.		
▪ **A close partnership with the Government** will be essential, both to identify financing/framework opportunities (potentially alongside ESIF) and to access necessary TC funding.		

High Medium Low

Environmental and Social Implications

- **Assessment and Management of E&S Impacts, Stakeholder Engagement:** Ensure that direct, indirect and cumulative E&S impacts of projects are appropriately assessed and mitigated, and meaningful stakeholder engagement carried out, especially for *inter alia* large infrastructure and energy sector projects.
- **Labour and Working Conditions:** Ensure that clients' HR policies and labour practices comply with EBRD requirements, address potential discrimination in the work place, and promote equal opportunities.
- **Resource Efficiency and Pollution Prevention and Control:** Ensure compliance with EU directives and that appropriate alternatives are considered to identify investments that support the Slovak Republic's transition to a more competitive, low carbon and resource efficient economy and strengthen its resilience to climate change.
- **Health and Safety:** Assist in improvement of occupational and community health and safety in *inter alia* infrastructure and energy projects. TC funds may be required to improve road safety.
- **Land Acquisition, Involuntary Resettlement and Economic Displacement:** Linear infrastructure projects may require acquisition of land and properties; clients may need to help with the registration of land titles. Clients will need to ensure compensation and livelihood restoration are provided in accordance with the Bank's requirements. Special attention may be needed involving resettlement or displacement of informal land users and Roma communities.
- **Biodiversity Conservation and Sustainable Management of Living Natural Resources:** Renewable energy and infrastructure projects may have impacts through encroaching or fragmenting sensitive habitats, Natura 2000 sites and other valuable habitats and biodiversity. Ensure robust biodiversity assessments of projects to avoid or minimise impacts.
- **Cultural Heritage:** Ensure appropriate assessment processes to identify and consult with key stakeholders to protect cultural heritage.
- **Financial Intermediaries:** Ensure that FI partners have adequate E&S capacity and risk management procedures in place.

8. Donor Co-Financing Assessment

European Bank
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8.1. Grant Needs Assessment for the New Country Strategy Period

- Financing of Green Economy Transition and selective, innovative infrastructure projects may require donor-funded technical cooperation to prepare and assist with implementation of such investments. ***Grant needs expected to be in line with historical levels.***

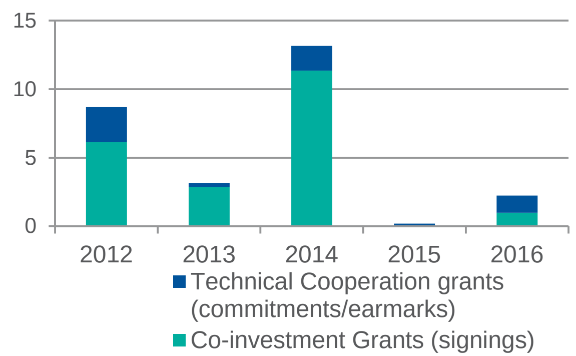
8.2. Potential Sources for Grant Funds

- **Bilateral funds from the Slovak Republic:** the country maintains a bilateral Slovak Republic – EBRD Technical Cooperation Fund. In addition, there is a Slovak – EBRD Green Technical Account to provide financing for eligible sustainable energy projects through local banks (the "SlovSEFF Greening Programme"). Its uses include technical assistance, investment grants and incentive payments.
- **Bilateral donors:** given the advanced transition status of the Slovak Republic, very limited funds from other bilateral donors are likely to be available.
- **EU:** EBRD will explore opportunities to access ESIF allocated to the Slovak Republic in support of selected transactions. Access to such funds will be necessary to continue the Bank's GET work.

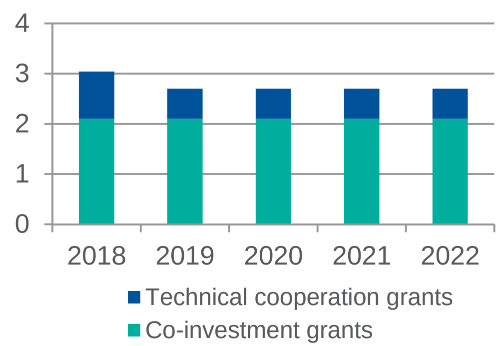
Selected Affordability Indicators

		EBRD regional percentile rank[1]
GDP per capita (PPP, USD)	29,105	9th
ODA Recipient	No	N/A

Donor finance during last strategy (€m)[2]



Grant Needs Projection (€m)[3]



1.Reported as the share of EBRD countries (ODA CoOs in case of ODA indicators) that score below the Slovak Republic.
2.The 2012-2015 TC data is based on commitments as of the end of March 2016 (the latest available date before data migration in a new Donor Funds System). 2016 TC data is based on 2016 earmarks at the project level.
3. Based on current pipeline as of 29 August 2017.

ANNEX

Annex – Political Assessment in the Context of Article 1

European Bank
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The Slovak Republic is committed to and applying the principles of multiparty democracy, pluralism and market economics in accordance with Article 1 of the Agreement Establishing the Bank.

The country has consolidated its democratic system in the process of acquiring EU membership in 2004 and has made further progress since then. The Constitution of the Slovak Republic guarantees the existence of democratic institutions, the change of government through periodic competitive elections and respect for fundamental rights and freedoms. Democratic checks and balances are further strengthened by the existence of a dynamic civil society and independent media. The persistent challenge of low public trust in the judiciary is being addressed through reforms, although further sustained efforts will be needed to enhance public confidence.

Free Elections and Representative Government

The Slovak Republic is a multiparty parliamentary republic with a separation of powers and a functioning and stable system of democratic checks and balances enshrined in the Constitution and upheld in practice. The president is the head of state with mostly ceremonial powers, although he has a right to appoint judges to the Constitutional Court and veto legislation. The president is elected for up to two consecutive terms by direct popular vote. Most executive power lies with the prime minister who represents a majority party or a majority coalition in the 150-seat unicameral parliament. The parliament is elected every four years under a national proportional system. Democratic procedures of legislative oversight are in place. The government is appointed by the president on recommendation of the prime minister and endorsed by the parliament. All recent parliamentary and presidential elections in the Slovak Republic have been held in accordance with international standards, have been competitive and have offered a free and fair choice to voters. At the same time, during the last election cycle, the Organisation for Security and Cooperation in Europe (OSCE) expressed concern over the low degree of transparency in campaign financing. Elected officials have full power to govern unconstrained by non-democratic veto powers, although perceived close links between political and business interests have weakened public trust in the political process.

Civil Society, Media and Participation

The Slovak Republic has a dynamic and independent civil society with watchdog organisations playing an important role in providing public oversight over government activities, including in the area of public procurement and corruption. Freedom of association and assembly is unrestricted and citizens can freely join political and civic groups, as well as unions, professional and religious associations. The total number of civil society entities registered by the Ministry of Interior is over 35,000. Civil society organisations participate in the policy-making process through regular consultations with officials on policy concepts and draft legislation. However, CSOs have expressed concern over limited sources of non-state funding and weak incentives for private philanthropy, which threaten the sustainability of some organisations.

The Slovak Republic has a well-developed multi-party system with over 50 officially registered political parties. Since Slovak independence, both centre-right and centre-left parties have had a chance to form governments. In recent years, public support for mainstream parties has declined, with independent candidates winning an increasing number of national and local elections, including the latest presidential election.

The Slovak Republic has a vibrant, diverse and independent media, which enjoys the freedom to scrutinise government policy and to investigate corruption allegations. Internet use is not restricted.

Rule of Law and Access to Justice

Legislative and institutional safeguards for the supremacy of the law and independence of the judiciary are in place. The Constitution guarantees everyone the right to a fair trial and citizens are free from arbitrary arrest or detention. The government and citizens are equally subject to the law. The judiciary is independent, but suffers from the uneven overall effectiveness of the justice system, particularly the length of judicial proceedings, and low public trust in the integrity of judges. The President and Prime Minister have both identified judicial reform as a key priority and several important steps have been taken, including the appointment of a new Head of the Judicial Council and reforming the procedure for selecting judges. However, the screening of judges on the basis of information supplied by the Slovak National Security Authority has raised concerns about the independence of the judiciary.[1] Furthermore, the President's refusal to appoint certain candidates proposed for Constitutional Court vacancies has impacted the court's functioning.[2]

Transparency International's 2016 Corruption Perceptions Index ranks the Slovak Republic 54th out of 176 countries assessed. Though its score remains the same as in 2015 (51), corruption remains a challenge. In the past, both centre-right and centre-left political parties were embroiled in a number of high level corruption scandals, prompting the resignations of several Ministers and the Speaker of the Parliament. The European Commission 2017 Country Report on Slovakia indicates that while the government has taken several measures to tackle corruption, their impact so far has been limited.[3] There is no independent body charged with fighting corruption.

The new coalition government manifesto identifies fighting corruption as one of its key priorities, including improving the transparency of the public procurement process. A Memorandum of Understanding was signed with the OECD in January 2017. It will help strengthen cooperation in increasing transparency and fighting against corruption in the public sector. The assessment of key anti-corruption related legislation in the Slovak republic was the first output under this initiative.[4] The Act on Registering Public Sector Partners (the so-called Anti-Letter box act) was adopted in February 2017. It will disclose ownership backgrounds of companies dealing with public finances.

Civil and Political Rights

The fundamental freedoms of speech, information, religion, conscience, movement, association, assembly and private property are fully guaranteed in the Constitution and largely upheld in practice. The Slovak Republic has established institutions to supervise the observance of civil rights, which correspond to European best practices. Women are under-represented in parliament (30 seats out of 150) although well-represented in the Supreme Court (45 out of 84 members). However, women's representation in government overall remains low, with only two female ministers in the 15-member cabinet.

A strategy for the integration of the Roma population until 2020 is in place and the authorities have made efforts to tackle the inclusion of Roma communities. However the rights of the Roma community are a concern. While political rights of other minorities are generally respected, Roma are underrepresented in national and local elected bodies, although the first Roma MP was elected to the parliament in the last elections. In April 2015 the European Commission initiated infringement proceedings against the Slovak Republic for breaching EU anti-discrimination legislation in its treatment of Roma schoolchildren. The EC's Roma inclusion index notes the placement of more than half of Roma children in special and segregated schools or classes.[5] As part of its 2014 Universal Periodic Review, the UN also requested that the Slovak Republic address the issue of discrimination of Roma in schools.

1. European Commission (2017): Country Report Slovakia 2017, p.36; available at: https://ec.europa.eu/info/sites/info/files/2017-european-semester-country-report-slovakia-en_0.pdf
2. European Commission (2017): Country Report Slovakia 2017, p.36; available at: https://ec.europa.eu/info/sites/info/files/2017-european-semester-country-report-slovakia-en_0.pdf
3. European Commission (2017): Country Report Slovakia 2017, p.36; available at: https://ec.europa.eu/info/sites/info/files/2017-european-semester-country-report-slovakia-en_0.pdf
4. http://www.oecd.org/gov/ethics/Assessment-anti-corruption-legislation-Slovak-Republic.pdf
5. European Commission (2016): Country Report Slovakia 2016, p.26; available at: http://ec.europa.eu/europe2020/pdf/csr2016/cr2016_slovakia_en.pdf

The Council of Europe's Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment visited the Slovak Republic in 2013 and noted that although the majority of persons that had been recently detained by police did not file complaints, there were a few reported cases of alleged police ill-treatment that had not been effectively investigated.[6]

6. Council of Europe; Report to the Government of the Slovak Republic on the visit to the Slovak Republic carried out by the European Committee on the Prevention of Torture and Inhumane or Degrading Treatment or Punishment, http://www.cpt.coe.int/documents/svk/2014-20-inf-eng.pdf