



Slovenia Country Strategy

2019-2024

as approved by the Board of Directors on 13 February 2019



European Bank
for Reconstruction and Development

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Glossary of Key Terms

| | | | |
|----------------|---|----------------|--|
| ABI | Annual Business Investment | MFF | EU Multiannual Financial Framework |
| BAMC | Bank Assets Management Company | MPs | Members of Parliament |
| CEB | Council of Europe Development Bank | MSME | Micro, Small and Medium Enterprise |
| CEE-4 | Czech Republic, Hungary, Poland & Slovak Republic | NPL | Non-Performing Loan |
| COOs | Countries of Operation | ODA | Official Development Assistance |
| CSR | Corporate and Social Responsibility | OECD | Organisation for Economic Co-operation and Development |
| CSO | Civil Society Organisation | OHS | Occupational Safety and Health |
| EA | Euro Area | OSCE | Organization for Security and Co-operation in Europe |
| E&S | Environmental and Social | PE/VC | Private Equity / Venture Capital |
| EBRD | European Bank for Reconstruction and Development | PEF | Private Equity Funds |
| EC | European Commission | RES | EU Renewable Energy Sources Directive |
| EIA | Environmental Impact Assessment | PPP | Private-Public Partnership; or Purchasing Power Parity |
| EIB | European Investment Bank | PTI | Portfolio Transition Impact |
| EIF | European Investment Fund | REIT | Real Estate Investment Trust |
| ESIA | Environmental and Social Impact Assessment | R&D | Research and Development |
| ESIF | European Structural and Investment Funds | SSH | Slovenian Sovereign Holding |
| ETI | Expected Transition Impact | SME | Small and Medium Enterprise |
| EU | European Union | SOE | State Owned Enterprise |
| FDI | Foreign Direct Investment | SRSS | EU Structural Reform Support Service |
| GDP | Gross Domestic Product | TA | Technical Assistance |
| GET | Green Economy Transition | TC | Technical Cooperation |
| GHG | Greenhouse Gas | TPES | Total primary energy supply |
| ICT | Information and Communications Technology | VCIP | Venture Capital Investment Programme |
| IEA | International Energy Agency | WB | World Bank |
| IFI | International Financial Institution | WEF | World Economic Forum |
| ILO | International Labour Organization | Y-o-y | Year-on-year |
| M&S | Manufacturing & Services | | |

Slovenia's commitment to and application of principles set out in Article 1 continued over the period since the previous Country Strategy. The country has made further progress in areas of democratic reform.

An EU member since 2004, Slovenia ranks among the top performers in the Bank's Assessment of Transition Qualities. The economy has recorded a steady recovery since the 2012-2013 crisis, and continues to expand on the back of growing investment, private consumption and exports. Despite the relatively advanced state of Slovenia's economic development, structural weaknesses persist. Weak corporate governance, relatively high level of state involvement, insufficiently flexible labour market, skills mismatches and strong corporate reliance on bank financing hamper Slovenia's global competitiveness and convergence with the economically-advanced EU comparators.

Notwithstanding substantial EU and EIB inflows, as well as the high liquidity of the domestic financial sector, the Bank's targeted products and services continue to bring value-added in select areas. These include **Competitiveness**, where the Bank is poised to support authorities in increasing the productivity of the economy through privatisation and restructuring of SOEs, while continuing to finance private companies in order to increase sophistication and global competitiveness of their businesses, **Good Governance**, where the Bank will focus on fostering corporate governance improvements, and **Green Economy Transition**, where closer enforcement and implementation of energy and resource efficiency measures are needed. Although gaps in public governance persist, the EBRD is not well positioned to add to the EU-sponsored government programmes focused on such issues, unless opportunities of direct participation in privatisations arise. The Bank will nonetheless engage in niche areas of public companies' governance through policy dialogue.

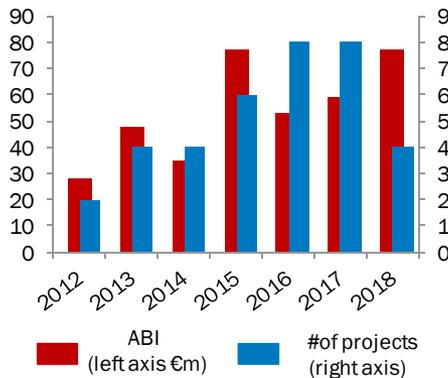
Overall, the steady development of the Slovenian market requires EBRD to further sharpen its focus and engage in areas where it remains additional, such as equity financing, capital market instruments, cross-border investments and green economy technologies. With this in mind, the Bank is set to pursue the following strategic priorities in Slovenia in 2019 - 2024:

- Boost **Competitiveness** and **Good Governance** by championing privatisations, while deploying cutting-edge instruments to support private companies; and
- Support **Green Economy Transition** by promoting new green technologies.

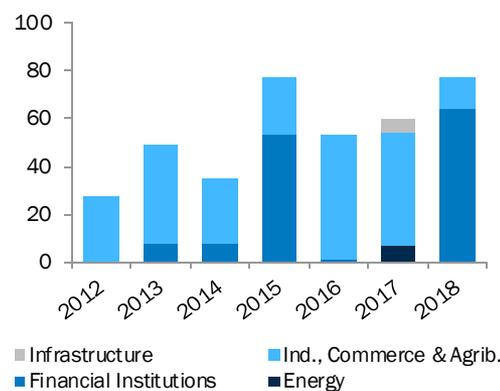
EBRD Investment Activities in Slovenia

| | | | |
|----------------------------|-------|----------------------|---------|
| Portfolio | €328m | # of active projects | 33 |
| Portfolio equity share | 48% | Operating assets | €294m |
| Private share ¹ | 100% | Net cum. investment | €1.1bln |
| GET operating assets | €9.9m | NPLs | 2.5% |

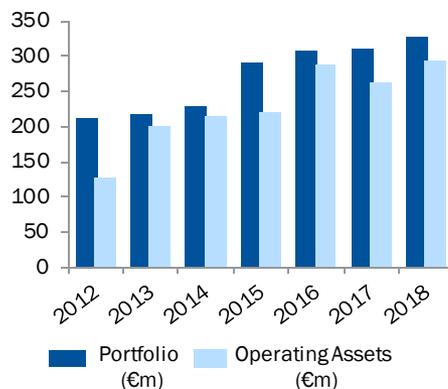
ABI and Operations



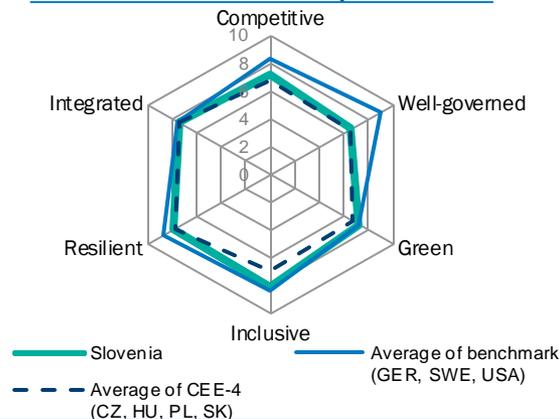
ABI Sectoral Composition



Portfolio Dynamics



Transition Gaps²



Slovenia Context Figures

| | | |
|--|--------|------|
| Population (m) ³ | 2.1 | 2017 |
| GDP per capita (constant 2010\$) ³ | 25,662 | 2017 |
| Global Competitiveness Index (WEF) | 48th | 2017 |
| <i>For comparison: Poland (39th), Slovak Republic (59th), Hungary (60th)</i> | | |
| Corruption Perception Index (Transparency International) | 34th | 2017 |
| <i>For comparison: Poland (36th), Slovak Republic (54th), Hungary (66th)</i> | | |
| Youth unemployment (% of total labour force, modelled ILO estimate) ³ | 13.3% | 2017 |
| <i>For comparison: Poland (14.6%), Slovak Republic (18.2%), Hungary (11.3%)</i> | | |
| Female unemployment (% of female labour force, modelled ILO estimate) ³ | 7.4% | 2017 |
| <i>For comparison: Poland (5.0%), Slovak Republic (8.8%), Hungary (4.3%)</i> | | |
| Energy intensity toe/thousand 2005\$ (TPES/GDP) ⁴ | 0.13 | 2016 |
| <i>For comparison: Poland (0.17), Slovak Republic (0.16), Hungary (0.17)</i> | | |
| Emission intensity/GDP (kgCO ₂ /2010\$) ⁴ | 0.3 | 2016 |
| <i>For comparison: Poland (0.5), Slovak Republic (0.3), Hungary (0.3)</i> | | |

¹ 5-year rolling portfolio ratio. ² For methodological details refer to the 2018-19 Transition Report ³ World Bank's World Development Indicators

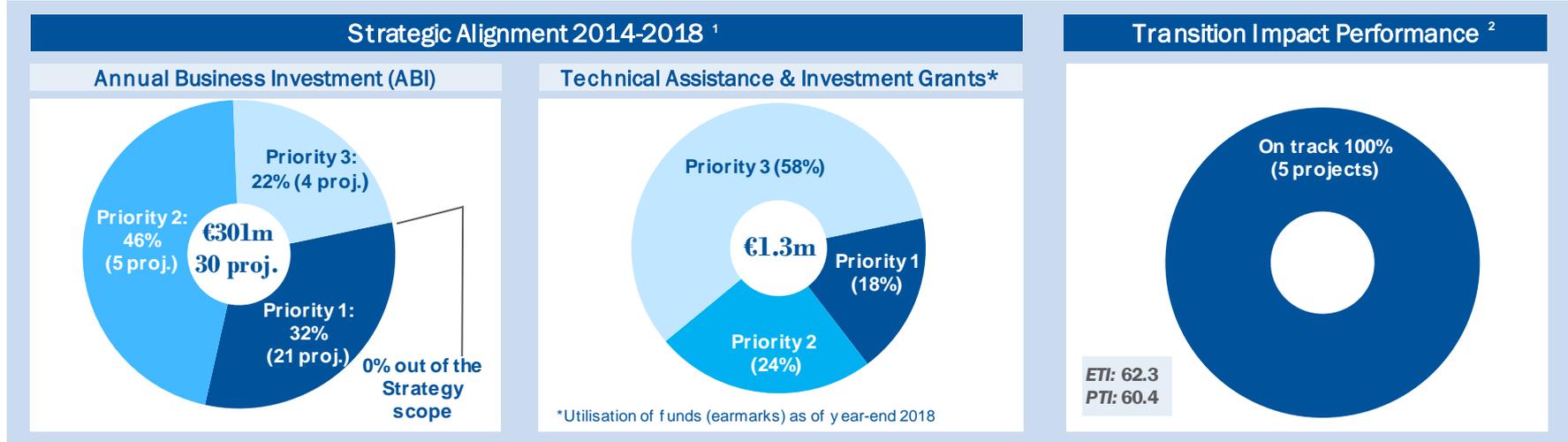
⁴ IEA's Energy Atlas

1. Implementation of Previous Strategy – 2014-2018



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1.1. Key Transition Results Achieved during Previous Strategy Period



Priority 1: Corporate sector restructuring, expanding the role of the private sector and promoting good corporate governance

| Equity Funds 2014 – H1 2018 | Key Transition Results | | | | | | | | | | | | | | | | | | |
|--|-------------------------|------|-------|--|--------------------------------|---|-------|--|--------------------------------|------|-------|--|---|-----|-------|--|---|------|--|
| <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 15%;">Gross fair value</td> <td style="width: 10%;">€57m</td> </tr> <tr> <td colspan="2"><hr/></td> </tr> <tr> <td>No. of investments made</td> <td>4</td> </tr> <tr> <td colspan="2"><hr/></td> </tr> <tr> <td>PEFs' investment volume</td> <td>€35m</td> </tr> <tr> <td colspan="2"><hr/></td> </tr> <tr> <td>EBRD's pro rata share in investment volume</td> <td>€9m</td> </tr> <tr> <td colspan="2"><hr/></td> </tr> <tr> <td>PEFs' proceeds during the period</td> <td>€11m</td> </tr> </table> | Gross fair value | €57m | <hr/> | | No. of investments made | 4 | <hr/> | | PEFs' investment volume | €35m | <hr/> | | EBRD's pro rata share in investment volume | €9m | <hr/> | | PEFs' proceeds during the period | €11m | <p>Despite limited scope of bankable restructurings and slower than expected pace of the privatisation process, the Bank made progress in expanding the role and sophistication of the private sector.</p> <ul style="list-style-type: none"> Participated in successful privatisation of Paloma paper producer. Supported operational improvement, financial restructuring and governance of regionally important companies: €240m syndicated facility to Slovenian Steel Group (€40m EBRD share); balance sheet restructuring & support in accessing international financial markets to Saloniit (cement producer). Supported export-oriented & innovative companies: in agribusiness, provided acquisition and capex investment to Frutarom (acquired EtoI and Vitiva, both specialty food ingredient producers), Nectar (acquired Fructal, juice producer) and Spar (retailer); in M&S, provided capex financing to Calcit (Slovenian producer of calcium carbonate pigments and granulates); in ICT, contributed to development of networks via Telekom Slovenije bond subscription and regional equity investment in the SBB/Telemach telecom provider. Contributed to the guidelines for out-of-court restructuring and started TA on SOE governance under the EU SRSS. <p>Supported smaller innovative companies through equity funds and VCIP, as well as deepened policy engagement on SME listings on the stock exchange.</p> <ul style="list-style-type: none"> Invested €3m in a VCIP project supporting expansion of an innovative GoOpti mobile sales platform for travellers. Launched SME Pre-Listing Support Programme with the Ljubljana Stock Exchange funded by the EU SRSS. Equity fund portfolio invested €35m in 4 companies in 2014 – H1 2018 (more results on the left); among investments, support to Intersport's cross-border expansion of a new e-commerce model. |
| Gross fair value | €57m | | | | | | | | | | | | | | | | | | |
| <hr/> | | | | | | | | | | | | | | | | | | | |
| No. of investments made | 4 | | | | | | | | | | | | | | | | | | |
| <hr/> | | | | | | | | | | | | | | | | | | | |
| PEFs' investment volume | €35m | | | | | | | | | | | | | | | | | | |
| <hr/> | | | | | | | | | | | | | | | | | | | |
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| <hr/> | | | | | | | | | | | | | | | | | | | |
| PEFs' proceeds during the period | €11m | | | | | | | | | | | | | | | | | | |

1. Strategic priorities 2014-2018: 1) Corporate sector restructuring, expanding the role of the private sector and promoting good corporate governance; 2) Stabilizing the financial sector; 3) Supporting sustainable energy.
2. Transition impact performance reflects how likely projects are to achieve the transition impact that was expected of them at signing. Calculated based on active mature portfolio (older than two years).

1. Implementation of Previous Strategy – 2014-2018



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1.1. Key Transition Results Achieved during Previous Strategy Period

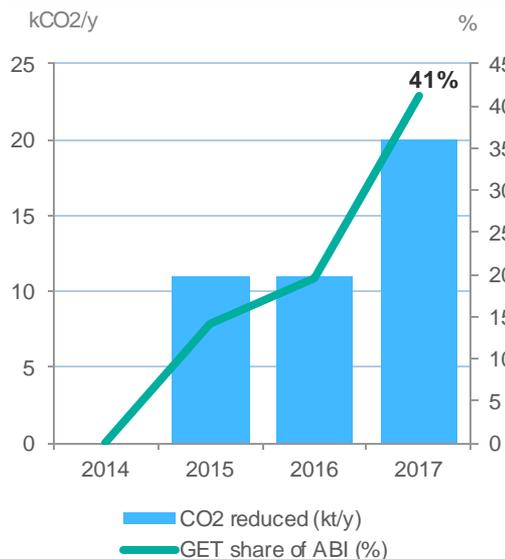
Priority 2: Stabilizing the financial sector

Key Transition Results

- Contributed to the successful conclusion of the **NKBM privatisation**, which since became a key consolidator of the banking sector, and most recently (November 2018) – **NLB privatisation**. Also, participated in the capital increase of insurer Sava RE. At the same time, the challenging privatisation environment impaired the Bank's ability to deliver fully under this priority.
- Faced limited funding demand from banks due to over-liquidity amid the low interest rate environment. Instead focused on improvement of banks' **corporate governance and risk management** frameworks and practices, together with the Bank of Slovenia:
 - ✓ Completed the review of corporate governance legislation and practices of select banks with recommendations on prudential supervision and onsite methodologies on internal controls accepted by the Bank of Slovenia.
 - ✓ Delivered a report and workshops on the banks' risk appetite frameworks under the EU SRSS. This will become a basis for future activities on developing Guidelines for Risk Appetite Frameworks.
- Finally, supported the Ljubljana Stock Exchange joining the **SEE Link** (a regional platform), with a potential to create improved access to the Slovenian equity market in the future.

Priority 3: Supporting sustainable energy

Green Economy Transition



Key Transition Results

- Focused on supporting “**green**” technologies in the corporate sector with more than 495,000 GJ/y in energy savings and more than 40 kt/y in GHG reduced; for example:
 - ✓ Through the transaction with Salonit demonstrated success of investments in **alternative fuel technology**, contributing to the reduction of Slovenia's CO2 footprint by more than 10,000 t/p.a., and positioning the company in the top 1% within the EU cement industry in production efficiency and low carbon intensity.
 - ✓ After some delays, completed implementation of the Šoštanj thermal power plant project with improved efficiency and **upgraded environmental standards** of the Slovenia's largest power generator.
 - ✓ Supported Spar (food retailer) in deploying **energy efficiency technologies** across its logistics and retail operations; similarly, assisted Intersport (sport garment retailer) in implementing high performance design of stores, best practices in packaging and managing waste in e-commerce.
 - ✓ Under the **Street Lighting Framework**, provided funding to Javna Razsvetljava for re-financing of short-term loans incurred by municipalities for capital expenditures on long-term Energy Performance Contracts.
- Had limited space to invest in **renewable energy** projects. Due to environmental concerns, wind power development has been slow. In addition, further expansion of solar power generation capacity is unlikely as the phasing out of subsidies reduced attractiveness of those projects. Slovenia is considering a sizeable HPP project on the middle-Sava river and EBRD may participate, subject to bankability and environmental compliance.

1. Implementation of Previous Strategy – 2014-2018

1.2. Challenges to Implementation and Key Lessons



Context for implementation: EBRD has delivered on its private sector development objectives through participation in privatisations, structuring complex financial deals, providing longer-term financing, and investing in equity (including through funds and VCIP). However, the dearth of bankable corporate restructurings and uneven pace of privatisations constrained the space for the Bank's engagement. Slovenia's banking sector is highly liquid, and EU/EIB inflows have been abundant to date, which will continue to leave the EBRD out of demand for traditional debt financing, except larger and more sophisticated acquisitions and cross-border restructurings. If the new Government focuses on reenergising privatisations and private sector development, the Bank may be able to tap into additional opportunities for engagements, including in supporting privatisations and local capital markets development. The Bank is also well-positioned to assist authorities in designing and implementing EU Financial Instruments under the new MFF. Overall, the steady development of the Slovenian market requires EBRD to further sharpen its focus and engage in areas where it remains additional, such as equity financing, cross-border investments and green economy technologies.

Implementation Challenges

- **Slower than expected pace of privatisations** has limited the Bank's engagement in the economy. EBRD does not have the ability to progress privatisations beyond the Government's political will.
- Low funding demand from banks due to **over-liquidity, shallow capital markets** with limited number of stocks and institutional investors, as well as **small PE/VC market** narrow the scope of the Bank's financing channels.
- Constraints in **renewable energy investment** due to currently low bankability (hydro), environmental considerations (wind) and phasing out of subsidies (solar).
- Lack of scalable **PPP projects**, availability of concessional financing for public sector projects from other sources and small scale of most municipalities.

Key Lessons & Way Forward

- The Bank will continue to advocate for **privatisation**, support improvements in corporate productivity, while also working with the authorities on SOEs' corporate governance.
- The Bank has engaged with the authorities and Ljubljana Stock Exchange to enhance access to capital markets for corporates of all sizes (incl. SME listing support under SRSS). The innovative corporates will be supported through direct **equity instruments, funds and VCIP** in addition to traditional debt, as appropriate.
- The EBRD will continue concentrating on supporting deployment of **energy and resource efficient technologies** in private and public sectors, and will offer its support to authorities to develop commercially viable projects in hydro, wind and solar.
- EBRD will work closely with the Government to help understand and explore opportunities in structuring tailored infrastructure financing, including PPPs. The Bank is also leveraging the recently launched **Street Lighting Framework & Green City Action Plan** in supporting private operators in circular economy.

2. Economic Context



2.1 . Macroeconomic Context and Outlook for Strategy Period

| Slovenia main macroeconomic indicators | | | | |
|---|-------|-------|-------|-------|
| | 2014 | 2015 | 2016 | 2017 |
| GDP growth (% y-o-y) | 3.0 | 2.3 | 3.1 | 4.9 |
| CPI inflation (% avg.) | 0.2 | -0.5 | -0.1 | 1.4 |
| Government balance* (% of GDP) | -5.5 | -2.8 | -1.9 | 0.1 |
| Current account balance* (% of GDP) | 5.8 | 4.5 | 5.5 | 7.2 |
| Net FDI (% of GDP) [neg. sign = inflows] | -1.6 | -3.3 | -2.1 | -1.0 |
| External debt (% of GDP) | 125.8 | 120.0 | 111.0 | 101.9 |
| Gross reserves (% of GDP) | 2.2 | 2.0 | 1.7 | 1.7 |
| Total investment to GDP (% of GDP) | 19.6 | 19.3 | 18.7 | 20.2 |
| General government gross debt (% of GDP) | 80.4 | 82.6 | 78.7 | 74.1 |
| Private sector credit (% of GDP) | 54.5 | 49.9 | 46.7 | 44.8 |
| Unemployment (%) | 9.8 | 9.0 | 8.0 | 6.6 |
| Nominal GDP (€bn) | 37.6 | 38.9 | 40.4 | 43.0 |

* Positive sign indicates surplus while negative indicates deficit

Source: National statistical office, EUROSTAT, Bank of Slovenia, World Bank

- **After the crises in 2008-2009 and 2012-2013, Slovenia has recorded a steady recovery in the last four years.** Since 2014, both domestic demand and net exports have contributed significantly to GDP growth, although rising imports have been cancelling out most of the positive contribution of exports. The economy expanded strongly in 2017, by 4.9 per cent, on the back of growing investment and private consumption, as well as exports. The growth is likely to slow down in the near term but will remain relatively strong (projected at 4.2 per cent in 2018 and 3.3 per cent in 2019).
- **The medium-term growth outlook will depend on the speed of structural reforms, which have progressed but have not been completed yet.** Although fiscal consolidation resulted in the budget deficit falling from 5.5 per cent of GDP in 2014 to a slight surplus of 0.1 per cent in 2017, public debt remains high at 71 per cent of GDP (end-September 2018), and there is a need for structural reforms in areas such as a sustainable public wage system motivating employees, and also in others linked to the ageing of the society, including pensions, health care, long-term care and education. In addition, the slow pace of business environment reforms and privatisation could act as a drag on growth.
- **Reviving private sector productivity growth is key to further convergence of the Slovenian economy.** As the working-age population is forecast to drop in the future, further catch-up in income levels will require faster productivity growth, which could be facilitated by improvements in Competitive and Well-governed qualities.

2. Economic Context



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2.2. Key Transition Challenges¹

Competitive (7.2 out of 10)

- One of the most competitive EBRD countries of operation
- But lagging behind in privatisations
- Public administration inefficiencies, still rigid labour and product markets
- Relatively good overall standing in the WB Doing Business, but variations in rankings across different dimensions
- Access to finance for SMEs could be improved further
- Limited innovation despite high R&D expenditure

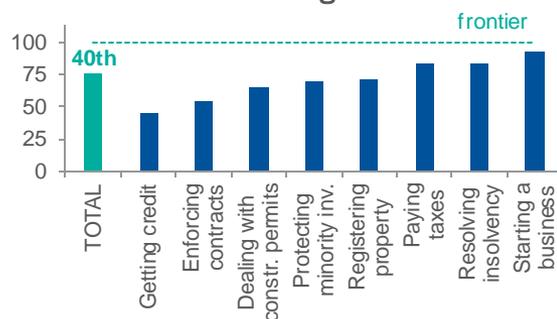
Well-governed (6.6 out of 10)

- Lagging behind the Euro area countries on most aspects of public governance
- Potential pressure on public finances in absence of more ambitious steps towards privatisation
- Relatively advanced SOE corporate governance framework but needs strengthening
- Complex ownership structures contributing to less effective control of SOEs
- Government perceived as not decisive in fighting corruption (especially in public procurement)
- Public administration undergoing a reform

Resilient (7.8 out of 10)

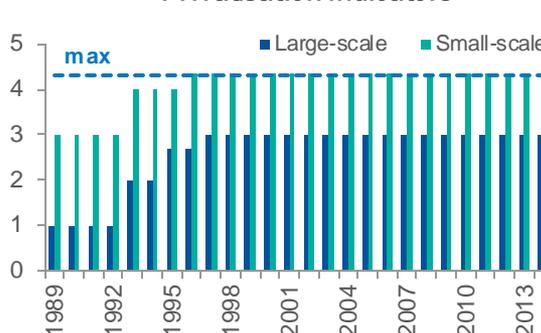
- Financial stability improved in the aftermath of 2012-2013 banking crisis
- Relatively high share of bank assets in state hands
- Well-capitalised and very liquid banking sector, but notable differences in capital adequacy between banks
- SME NPLs remain high
- High reliance of SMEs on bank financing due to underdeveloped capital markets
- Among the top performers on energy security
- Some vulnerability to climate change (extreme weather conditions, modified precipitation regime, potential decrease in water availability)

Ease of doing business



Source: World Bank Doing Business 2019

Privatisation indicators



Source: EBRD transition reports

Stock market (% of GDP)



* 2016 except for Slovakia (2013), and EA and Czech Republic stocks traded (2014).

Source: WB, ECB, IMF and EBRD's calculations.

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 of methodology.

2. Economic Context



2.2. Key Transition Challenges

Integrated (7.4 out of 10)

- High trade openness, though somewhat below the CEE-4 level
- Low FDI stock (reluctance to sell assets to foreigners, high labour costs and taxes, payment indiscipline and still inflexible labour market regulations)
- Good quality of transport infrastructure, but deterioration perceived in the last 5 years
- Energy network (gas and electricity) well integrated with regional markets

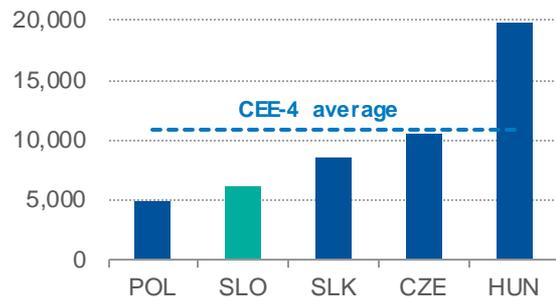
Inclusive (8.0 out of 10)

- Insufficiently flexible and inclusive labour market
- Most vulnerable groups: older and low-skilled workers
- Older workers: doubt over skills and capabilities, perceived as less flexible and more expensive
- Rapid population ageing calls for lifelong learning and (re)training programmes
- High tertiary education attainment rate, but the 2nd widest gender gap in the EU (to the detriment of men)

Green (7.3 out of 10)

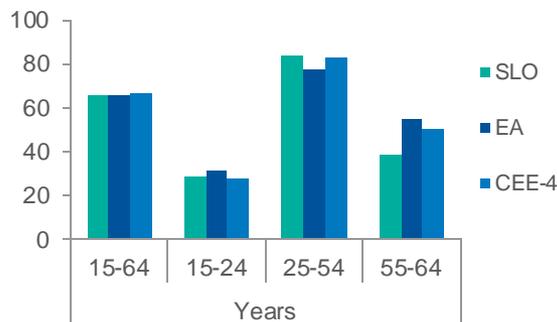
- One of Slovenia's strategic objectives
- Decreasing but still high energy intensity (almost 50 per cent higher than the EU average)
- Renewable energy target on track (the country's most important renewable energy sources being wood and hydro)
- Municipal waste recycling target met but lagging behind implementation of the Urban Waste Water Treatment Directive
- 22 per cent of primary energy supply comes from the country's sole nuclear plant
- Illegal landfills and air pollution are also an issue, with the largest PM2.5 emission sources being residential wood combustion and road transport

Inward direct investment per capita (USD)



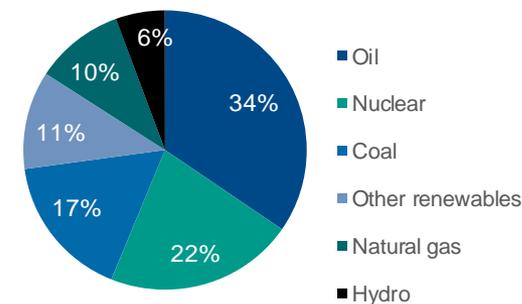
Source: IMF CDIS, World Bank and EBRD calculations

Employment by age group (%)



Source: EUROSTAT

Total Primary Energy Supply by source



Source: International Energy Agency

3. Government Priorities and Stakeholder Engagement

3.1. Government Reform Priorities

As per the recently adopted **Coalition Agreement** setting out priorities for 2018-2022 and in support of the **Slovenian Development Strategy 2030**, the Government will focus on such areas as:

- **Sustainable public finance:** lower public debt; robust tax framework; increased fiscal compliance and discipline, availability of the EU financing under the new MFF.
- **Ageing :** health and long-term care reforms; strengthened financial sustainability and effectiveness of the pension system; alleviated poverty among pensioners and other vulnerable groups.
- **Productivity and structural transformation:** entrepreneurship; internationalisation of businesses; digitalisation; greater R&D and use of technology; increased share of high-value added activities; improved infrastructure.
- **Access to finance:** decreased over-reliance on bank credit; improved access to capital markets; widened scope of financing options for innovative firms & start-ups; developed framework conditions for PE/VC investments.
- **Labour market:** improved education system in alignment with employers' needs; shift to knowledge economy with opportunities for life-long learning; reduced unemployment; economic migration addressing labour shortages.
- **Efficient SOEs:** timely privatisations (incl. Abanka); better SOE management; gradually reduced involvement of state; business environment & anti-corruption reforms.
- **Environmental sustainability:** decreased energy & carbon intensity; advancement towards circular economy, greater use of renewable energy; “green” mobility.

3.2. EBRD Reform Areas Broadly Agreed with Authorities

- **Privatizations and corporate governance:** participate in privatisations; support corporate governance improvements of select companies; facilitate implementation of the Corporate Governance Code.
- **Capital market development:** provide pre-listing assistance to corporates of smaller sizes; seek to introduce and mainstream structured financial instruments, such as REIT and covered bonds.
- **Green Economy Transition:** support an enabling environment for sustainable energy and municipal infrastructure.
- **Innovation and entrepreneurship:** leverage opportunities for industry-driven R&D collaboration; support innovative enterprises in accessing riskier capital.

3.3. Key Messages from Civil Society to EBRD

- **Competitiveness:** Privatization is seen as challenging in view of limited political willingness and appetite.
- **Good governance:** Information disclosure and stakeholder engagement in large infrastructure projects are considered key to accountability. The EBRD is expected to tackle the issue of tax avoidance and money laundering, including by adhering to its strict integrity policies with transparency of ultimate beneficial ownership.
- **Green Economy:** Criteria of green technology and sustainability would help the general public to better understand the scope of the EBRD investments aimed at promoting green economy.

4. Defining EBRD Slovenia Country Strategy Priorities

| What needs to change? <i>(Section 2)</i> | Can it be changed? <i>(Section 3)</i> | What can the Bank do? <i>(Section 4)</i> | Strategic Priorities (2018-2023) | What we want to see in 2023 |
|---|--|--|--|--|
| <ul style="list-style-type: none"> • One of the most competitive countries in the EBRD region, but lagging behind leading western economies in innovation • Private sector is vibrant, with high number of “hidden champions”, but smaller than in other advanced countries; prominent role of state in the economy • Productivity convergence has stalled due to shrinking labour force & underinvestment • Strong corporate reliance on bank financing calls for capital market financing (equity in particular), as well as governance improvements • Capital markets and private equity financing are underdeveloped | <ul style="list-style-type: none"> • Government has made some progress with privatisations, but more needs to be done • Improvements in private sector productivity possible through investments in new technologies and further access to foreign markets • Abundant liquidity in the market constrains EBRD additionality in lending • Strong interest in developing equity markets and ramping up riskier financial instruments; resilience of domestic capital markets is important for overall competitiveness • EBRD has limited means to directly address labour issues, but can help channel investments to more productive companies and sectors | <ul style="list-style-type: none"> • EBRD is well positioned to help growth- & outward- oriented corporates (incl. “hidden champions”) to secure alternative, as well as longer-term financing. Where feasible, Bank can deploy riskier equity finance • EBRD is eager to support viable privatisations; solid track record in improving SOE and public company governance • Bank has extensive expertise in capital market development, as well as supporting private risk capital directly and indirectly | <p>Boost Competitiveness and Good Governance by championing privatisations, while deploying cutting-edge instruments to support private companies</p> | <ul style="list-style-type: none"> • Expansion of competitive & well-governed companies • Deepened capital markets & strengthened financial system |
| <ul style="list-style-type: none"> • High energy intensity (above EU average) • Transport, industry and residential sectors are among most energy intensive • Energy consumption in residential sector is high, possibly due to currently low electricity prices • Municipal waste recycling targets largely met, although energy & resource efficiency is still an issue • Lack of energy resources with reliance on nuclear, coal & hydro; hydro was prioritised for meeting EU RES targets • Room to switch from coal to less carbon intensive energy sources, incl. gas | <ul style="list-style-type: none"> • GET is one of the strategic priorities; the Roadmap towards the Circular Economy adopted • Stricter enforcement in the areas of energy efficiency, air quality and urban waste water needed to fulfil the Accession Treaty obligations • Limited space for Bank to get involved in renewable energy projects, unless bankability is increased • Small municipal GET-related investments can be supported by commercial banks • Additional investments in sustainable energy sources, energy interconnectors and improved penetration of gas networks are required | <ul style="list-style-type: none"> • Proven ability to promote innovative green technologies through best practices and private sector investments • EBRD can help design specialised facilities to prepare, finance and implement green economy projects via financial intermediaries leveraging ESIF, if requested by authorities • In case of demand, the Bank can support select investments in more environmentally friendly energy sources | <p>Support Green Economy Transition by promoting new green technologies</p> | <ul style="list-style-type: none"> • Improved energy and resource efficiency • Reduced CO2 emissions |
| <ul style="list-style-type: none"> • Lagging behind other advanced countries on most aspects of public governance • Corruption risks are high in public procurement (EC’s Country Report 2017) • Complex and pervasive SOE ownership contributes to weaker governance of companies | <ul style="list-style-type: none"> • EBRD has limited means to address these issues in a cross-cutting manner and interventions will be focused on niche areas of additionality such as SSH support under SRSS • Bank will however engage with SOEs and private clients on improvement of corporate governance (Priority 1) | <ul style="list-style-type: none"> • Bank’s engagement limited to select policy engagement under Priority 1 | | |

5. Activities and Results Framework

Priority 1: Boost Competitiveness and Good Governance by championing privatisations, while deploying cutting-edge instruments to support private companies

| Objectives (Outcomes) | Activities (Outputs) | Tracking Indicators |
|--|---|--|
| <p>Improved business standards and strengthened corporate governance</p> <p>Expansion of competitive companies</p> | <ul style="list-style-type: none"> Engage with authorities (including SSH) on privatisations and conduct policy dialogue on corporate governance, including strengthening public procurement practices and capacities in project implementation (supported by SRSS funding) Participate in financial and operational restructuring of companies with inherently viable business models, including select privatisations, in close cooperation with BAMC Support private companies for growth, innovation and transparency across sectors, including manufacturing, agribusiness, property and tourism, through both equity (directly and through regional funds) and cutting-edge debt instruments Promote cross-border investments, including regional and global expansion of Slovenian companies | <ul style="list-style-type: none"> Total number of clients reporting increase in profitability Legal, institutional or regulatory improvements in target areas related to good governance |
| <p>Increased variety of financial products and services to improve access to finance</p> | <ul style="list-style-type: none"> Facilitate development of debt and equity capital markets as an alternative to bank financing through (i) investments in structured financial instruments (e.g. covered bonds, REIT) and (ii) policy dialogue with a goal to improve access for corporates of all sizes Participate in select privatisations and consolidations, and support banks' sustainable corporate governance and risk management practices Where additional, support banks with long-term funding and provide policy advice on banking regulation and supervision Explore opportunities to develop and participate in sophisticated infrastructure financing structures, including project bonds and selective PPPs and concessions | <ul style="list-style-type: none"> Legal, institutional or regulatory improvements in the area of capital market development Total number of new financing products/services introduced, expanded or followed on |

5. Activities and Results Framework

Priority 2: Support Green Economy Transition by promoting new green technologies

| Objectives (Outcomes) | Activities (Outputs) | Tracking Indicators |
|--|--|--|
| <p>Increased energy efficiency</p> <p>Improved resource efficiency</p> | <ul style="list-style-type: none"> Promote increased penetration of innovative green economy technologies across sectors and invest in implementation of energy and resource efficiency measures If requested by relevant authorities, help design and implement intermediated financial solutions for green economy projects (including rehabilitation of housing stock), where possible leveraging ESIF for investments and advisory services Provide policy and delivery support in advancing the Green Economy Transition, including through implementation of Green City Action Plans in larger cities Pursue circular economy financing structures at the municipal/regional level Support green logistics and other environmentally sustainable transport solutions Provided an enabling regulatory framework is in place, finance bankable renewable energy projects | <ul style="list-style-type: none"> Total energy saved (GJ/y) Total CO2 emissions reduced or avoided (tonnes/y) |



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



European Bank
for Reconstruction and Development

| EBRD BUSINESS AREAS | | Sectors | | | | | | | | | | | | | Other | | | | | | | | |
|--|--------|--------------|------------------|-------------|-----|-------------------|----------------|----------------------|-----------------|-------|-----------|---------|-----------|--------------|------------------|-----------------|------------------|----------------------|--------------------|--------|-------|--------|----|
| | | Corporate | | | | Energy | Infrastructure | | | | Financial | | | | Green Transition | Inclusion | | | | | | | |
| Indicative annual investment/grants (2015-2017 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 | €62m* | €P | | | €P | | €P | €P | €P | €P | €P | | | €P | | | €P | €P | €P | €P | | | €P |
| EB | €30m | | € | | | | € | | | € | | | | € | | | | | € | | | € | |
| EF | €9m** | | € | | | | | | | | | | | € | € | | | | | | | | |
| CEB | €2m*** | | | | | | | | | | | | | | | | | | | | | | €P |
| EBRD | €63m | € | € | € | € | | | | | | €P | € | | | € | €P | | €P | €P | | | | |

| | | | |
|---|---------------------------------------|---|--------------------------------|
| € | Area of significant investments | ● | Focus mostly on private sector |
| P | Area of significant policy engagement | ○ | Focus mostly on public sector |

Areas of Potential Cooperation



Competitive:

Explore opportunities to co-finance large projects in the corporate and infrastructure sectors with the EIB & EIF



Green:

Leverage ESIF and other EU funds for implementation of energy and resource efficiency projects

*Based on the EU contributions to the Slovenia Country Budget for 2014 - 2020. **Includes guarantees and cross-country average of allocation under the Central Europe Fund of Funds.

*** Based only on the Migrant and Refugee Fund grants extended in 2016.

Note: IFI activity mapping based on publicly available information. Significant IFI investment defined as projects exceeding 5% of annual investment and signed since 2015.

7. Implementation Risks,

Environmental and Social Implications



| Risks to the Strategy Implementation | Probability | Effect | Environmental and Social Implications |
|---|-------------|--------|---|
| <ul style="list-style-type: none"> ▪ Slow pace of privatisation and increased role of the state across sectors and in managing SOEs will negatively affect the Bank's investment volume and efforts in SOE restructurings and corporate governance improvement. | | | <ul style="list-style-type: none"> • Assessment and Management of Environmental and Social Impacts, Stakeholder Engagement: EBRD will ensure that direct, indirect and cumulative impacts of projects are appropriately assessed in accordance with the EU EIA Directive and supplementary social impact assessments are carried out where needed. The Bank will support its clients to strengthen their E&S management capacity and implement CSR programmes and disclose E&S reports. |
| <ul style="list-style-type: none"> ▪ Additionality limits the Bank's ability to identify investment opportunities that are complementary and competitive as compared to existing financing sources. | | | <ul style="list-style-type: none"> • Labour and Working Conditions: EBRD will ensure that its clients' HR policies and labour practices comply with EBRD and EU requirements, and address freedom of association, seasonal workers, potential discrimination towards minority groups and women, and promote equal opportunities. Large scale retrenchment may be associated with the privatisation of SOEs and will require appropriate planning, consultation and management. |
| <ul style="list-style-type: none"> ▪ Economic downturn would result in a significantly altered financing landscape that is currently projected. Under such circumstances the Bank's investment volume is expected to increase but equity holdings will be adversely affected. | | | <ul style="list-style-type: none"> • Resource Efficiency and Pollution Prevention and Control: EBRD will support its clients' to comply with relevant EU Directives and improve the efficiency of industry-specific processes in line with Best Available Techniques. EBRD will promote projects that support GET with the focus on industrial emissions prevention, sustainable transport, wastewater treatment, solid waste management and circular economy. |
| <ul style="list-style-type: none"> ▪ Political volatility may undermine partnership with the Government necessary to leverage available financing resources (including EU funds) and deliver on policy engagements. | | | <ul style="list-style-type: none"> • Health and Safety: EBRD will support its clients' to improve occupational and community health & safety culture and practice. Specifically, certified OHS management systems, universal access and road safety will be promoted and supported through TC funds. |
| <ul style="list-style-type: none"> ▪ Bankability restraints in the renewable energy sector may continue to exclude opportunities for EBRD's involvement in this area. | | | <ul style="list-style-type: none"> • Land Acquisition, Involuntary Resettlement and Economic Displacement: EBRD will ensure effective and meaningful consultation with and information provision to affected people, especially in terms of economic displacement and livelihood restoration of people and businesses. Where occupiers have no legal titles clients will need to ensure compensation and livelihood restoration are provided in accordance with EBRD requirements. |
| | | | <ul style="list-style-type: none"> • Biodiversity Conservation and Sustainable Management of Living Natural Resources: Renewable energy (including hydropower and wind Project) as well as linear infrastructure projects may encroach or fragment sensitive habitats, protected areas or proposed or existing Natura 2000 sites. To avoid or minimise such impacts, EBRD will ensure that robust biodiversity assessments (inclusive of Appropriate Assessments) of projects in sensitive locations are carried out and mitigated in accordance with EU Habitats Directive and Natura 2000 legislation. Biomass energy projects will require careful assessment and management to ensure sustainable fuel supply. • Cultural Heritage: EBRD will ensure appropriate assessment processes are carried out to identify and consult with key stakeholders to protect cultural heritage. • Financial Intermediaries (FI): EBRD will support its FI partners to strengthen their E&S risk management capacity and systems, and to diligently apply relevant E&S requirements to projects financed under EBRD FI instruments and credit lines. • Stakeholder Engagement: EBRD will ensure transparent and participatory consultation processes are carried out as part of local permitting and ESIA's and will support its clients in developing and implementing stakeholder engagement plans. • Monitoring and supervision: EBRD will work with clients to monitor E&S performance and address legacy issues associated with the Bank's portfolio. |

8. Donor Co-Financing Assessment

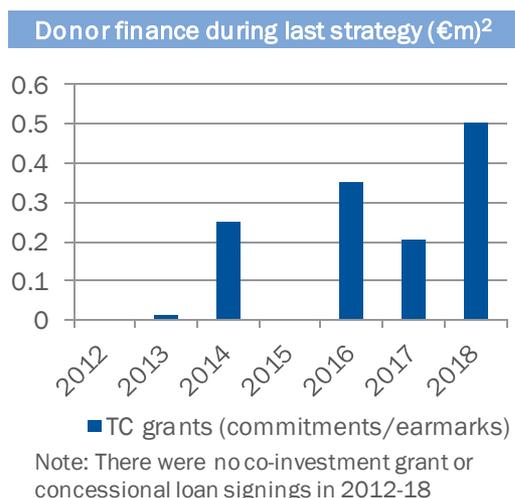
8.1. Grant Needs Assessment

Limited grant funding will be required to achieve some of the policy engagement related objectives under Priority 1. Such activities will be mainly focused on developing state-owned enterprise governance, capital markets, and improving business and investment climate.

Under Priority 2, the Green Economy Transition may require donor funds to enable the implementation of the Green Economy Financing Facility and other green products.

| Selected Affordability Indicators | | |
|---------------------------------------|--|------------------|
| | EBRD regional percentile rank ¹ | |
| GDP per capita (PPP, current int. \$) | 34,407 | 94 th |
| ODA Country | No | N/A |

Sources: IMF (2017)



8.2. Potential Sources for Grant Funds

- **Bilateral funds from Slovenia:** Advanced transition countries, including Slovenia, are expected to contribute to the cost of technical cooperation in these countries. To date Slovenia contributed €1.5 million to the European Western Balkans Joint Fund for connectivity projects in the Western Balkans.
- **EU:** The next MFF may offer new funding opportunities from 2021 onwards. Funds for policy dialogue and public sector capacity building may be provided through the EU Structural Reform Support Service. Funding opportunities from other programmes and funds, such as Horizon Europe and European Structural and Investment Funds, may also be explored depending on the EU support and market opportunities.
- **The EBRD Shareholder Special Fund (SSF):** Slovenia is eligible for limited SSF funding from the allocation for non-ODA eligible countries of operations, which can serve as a complement to donor resources in select areas.

¹Simple percentile rank reported as the share of EBRD countries (ODA CoOs in the case of ODA indicators) that are represented below Slovenia.

² 2012-2015 TC data is based on Commitments as of the end of March 2016 (the latest available date before data migration to a new Donor Funds System). 2016-2017 TC data is based on earmarks at the project level.



ANNEX

Slovenia's commitment to and application of principles set out in Article 1 continued over the period since the previous Country Strategy. The country has made further progress in areas of democratic reform.

Slovenia is an advanced parliamentary democracy. The constitutional and legislative framework for pluralistic democracy is in place. The separation of powers and checks and balances in the political system, guarantees for fundamental rights and the protection of minorities, and for a meaningful role of civil society are largely in line with international and European standards, as assessed by the Council of Europe. Elections are conducted in a manner deemed by the OSCE and the Council of Europe to be free and in line with international standards. The challenge of widely perceived corruption is being addressed by the authorities, but further efforts will be needed in the implementation of the anti-corruption strategy in order to enhance public confidence.

Representative government and free elections

Slovenia is a multiparty parliamentary republic with separation of powers and a functioning checks and balances enshrined in the Constitution and upheld in practice. The President, who is elected directly, is the Head of State with largely ceremonial functions. Most executive power lies with the prime minister who represents a majority party or a majority coalition in the bicameral parliament (composed of the National Assembly and the National Council). The members of the National Assembly are elected for a four-year term by two methods: 88 MPs are elected by an open list proportional system and two MPs are elected by representatives of the Italian and Hungarian minorities through a first-past-the-post system. Representatives of the opposition head a number of parliamentary committees. Democratic procedures of legislative oversight are in place.

Previous elections in Slovenia have been assessed as free and fair by observers from the OSCE Office for Democratic Institutions and Human Rights (ODIHR), as well as by other competent international observers. A number of ODIHR recommendations have been considered and amendments have enhanced the electoral framework. The latest Parliamentary elections report published by ODIHR on 3 June 2018 noted that the partially revised legal framework constitutes a solid basis for the conduct of democratic elections. Strengthening campaign finance and introducing an effective mechanism to counter instances of intolerant rhetoric were listed among priority recommendations.¹

Civil society, Participation and Media

Slovenia has an extensive and dynamic civil society with relatively high levels of volunteering. The procedures for the registration of CSOs are straightforward, which explains the large number (over 25,000), given the size of the country. Legislative procedures are in place securing public access to information and public consultations (compulsory for all primary and secondary legislation). A dedicated online tool has been set up for the public to propose new measures to the government.² The rules are generally well observed in practice though some consultation deadlines were not observed with respect to sensitive texts or large investment projects. The work of CSOs has been hampered by the lack of private funding for their work. A new Law on CSOs was adopted in March 2018 emphasizing state's duty to create an enabling environment for the sector through open dialogue and financial support.³

1. <https://www.osce.org/odihr/elections/slovenia/394106?download=true>

2. <http://predlagam.vladi.si/>

3. *Official Gazette of the Republic of Slovenia No 003-02-3/2018-4*

The right to join trade unions is enshrined in the law and respected in practice. The Association of Free Trade Unions of Slovenia has around 300,000 members.

The Constitution upholds the freedom of expression, including the right to obtain public information.⁴ Slovenia has a diverse media environment, which includes public and private broadcasters and which offers citizens a wide range of political views. The media landscape, operating freely and without censorship, is pluralistic. Television remains the predominant source of public information. The public broadcaster, RTV Slovenia, includes three national television channels and three radio channels. There are also regional channels, and special programmes for the Italian, Hungarian and Roma communities. The role of Internet and social media as source of public information is increasing.

Rule of Law and Access to Justice

Legislative and institutional safeguards for the supremacy of the law and the independence of judiciary are in place. The Constitution guarantees everyone the right to fair trial and citizens are free from arbitrary arrest and detention. The government and the citizens are equally subject to the law. The court backlog decreased by 13% compared to 2016, however the length of proceedings undermines overall effectiveness of the judicial system.⁵ Computerization of the judicial system has introduced new technologies in the courts to implement the rules on case assignment and on publicity. Court registers are entirely computerized and publicly available.⁶

A well-developed legal framework for preventing and fighting corruption is in place. However there is a gap between the framework and implementation in practice. Perceptions of corruption are improving, but further efforts are required to tackle problematic areas.⁷ The 2017 Eurobarometer on corruption shows increased public intolerance to corruption (higher than EU average; 89% in 2017 versus 68% on average for the EU).⁸ Council of Europe's Group of States against corruption (GRECO) in 2018 recommended to the government to be more proactive in developing awareness to specific integrity challenges and in improving the management of conflict of interests.⁹ Further recommendations included increase in staffing of the Commission for the Prevention of Corruption, adopting standards of conduct for members of the National Assembly and the National Council, including implementation of rules on contact with lobbyists and revisiting the procedure of appointments of judges to the Supreme Court by the National Assembly, in order to minimize the possibilities of political influence.

Civil and political rights

Slovenia is a signatory to all major international human rights instruments. The Constitution guarantees the basic freedoms and rights of citizens. Freedom of speech, information, religion and conscience, movement, association and assembly and private property are fully guaranteed. Overall civil and political rights continue to be well respected in Slovenia.

4. *Official Gazette of the Republic of Slovenia, No. 51/06 – official consolidated text, 117/06 – ZdavP-2, 23/14, 50-14, 19/15 – Constitutional Court decision and 102/15.*

5. *European Commission (2018): Country report for Slovenia 2018, page 45.*

6. *GRECO; the 18th General Activity Report 2017, adopted on 19-23 March 2018.*

7. *GRECO; Fourth evaluation round, 2nd Compliance Report issued on 5 July 2018 and OECD's Government at Glance 2017.*

8. <http://ec.europa.eu/commfrontoffice/publicopinion/index.cfm/Survey/getSurveyDetail/instruments/SPECIAL/surveyKy/2176>

9. *GRECO; Fifth evaluation round, Evaluation report, adopted on 8 December 2017.*

The report by the Commissioner of Human Rights of the Council of Europe, following his visit to Slovenia in March 2017, focused on three key issues: ensuring that human rights of migrants, asylum seekers and refugees are fully respected; enhancing integration of Roma population and adopting clearly defined targets for poverty reduction.¹⁰

Slovenia has closed 80% of its overall gender gap, making it one of the fastest-improving countries globally. In 2017 it has achieved gender parity in Cabinet posts. In 2018 it retained the highest rank in the region according to the WEF's Global Gender Gap Report, despite a decrease in the number of female MPS in parliament (with the current share of women parliamentarians at 23 % compared to OECD average of 28%). Women remain well represented in judiciary, where the share of female professional judges is the highest among all OECD countries (78% compared to OECD average of 53%).¹¹

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

10. <https://rm.coe.int/report-on-the-visit-to-slovenia-from-20-to-23-march-2017-by-nils-muizn/1680730405>

11. <https://www.weforum.org/reports/the-global-gender-gap-report-2018>