



REPUBLIC OF SLOVENIA

***REFORM PROGRAMME FOR
ACHIEVING THE LISBON
STRATEGY GOALS***

IMPLEMENTATION REPORT
2006

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INTRODUCTION

In Slovenia, reforms aimed at delivering the Lisbon Strategy's goals are firmly integrated within a comprehensive strategic development framework. Adopted in 2005, Slovenia's Development Strategy sets out the main developmental goals based on the Lisbon Strategy's objectives and defined the priority measures for their realisation. Further, use of the EU's structural and cohesion funds has been planned in such a way as to support the delivery of these priorities. Concrete measures designed to achieve the Strategy's goals are presented in the Framework of Economic and Social Reforms for Increasing Welfare in Slovenia. Specific measures are subject to negotiations with the social partners as part of the bargaining process for the new social agreement and also subject to political harmonisation within the Partnership for Development, which includes most opposition parties. While it is clear that a consensus cannot be reached on all issues and the Government must assume responsibility for delivery after the negotiations close, the across-the-board approach supported by an appropriate information campaign should add significantly to the public's general awareness that structural reforms are vital to speed up the country's development. We emphasise that development is not meant solely as a vehicle for economic prosperity but for an overall improvement in the population's welfare and quality of living based on the principles of sustainability.

The first year after launching the reform saw the introduction of several important changes to the tax system and the labour market that will stimulate people to accept work and enterprises to raise employment and invest in development. At the end of 2005, a law was adopted to phase out the payroll tax, which has a strong distortionary effect and particularly restricts the hiring of highly skilled professionals. The introduction of schedular taxation in 2005, i.e. the taxing of dividends, interest and capital gains by a final 20% tax, a system which is also used in some Scandinavian countries, was aimed at reducing the taxation of capital and preventing capital to flow abroad. In autumn 2006, the Slovenian government adopted a proposal to make changes in the area of corporate income taxation that will reduce the tax rate from 25% to 20% and keep the extensive tax relief for research and development, which should stimulate firms' investment in development. At the same time, the Government proposed a substantial reduction of the progressivity in personal income tax which should enhance incentives for the activity of highly qualified labour. These measures are projected to result in 0.3 of a percentage point higher GDP growth in 2007, while their long-term effect will depend on the quality of private investment and the actual increase in employment.

The effects of the tax reform on employment will be backed by the legislative changes adopted this year that make eligibility for unemployment benefits and financial social assistance more conditional on a claimant's readiness to accept employment that has been offered. Combined with the effects of the draft law proposed by the Government, whereby all social transfers would only be adjusted to consumer price rises in future and no longer to pay rises, this will create new incentives for less skilled people to enter activity. The regulatory changes also provide for lower growth of the minimum pay, which will reduce firms' costs of hiring these people. Further efforts in this area planned for 2007 will focus on increasing the transparency and simplicity of the social transfers system, improving the active labour market policy measures and continuing the negotiations with the social partners on the Draft Employment Relationship Act that contains the Government's proposed changes regarding flexicurity.

Relevant new measures were also introduced in the research and development field. In line with the adopted national programme, measures in progress include raising the number of researchers in the business sector and their mobility between the public and business sectors, increasing the share of expenditure on applied and developmental research, promoting the operation of knowledge mediators between research institutions and firms, and supporting the establishment of new higher education institutions. The public expenditure earmarked in the



national budget for research and development is growing, however additional funds will have to be provided in the forthcoming years to achieve the set goals. Another important measure is the corporate income tax relief for R&D, which provides for indirect budgetary financing of private expenditure on research and development. In the area of education, businesses and industry have benefited particularly from the reform of vocational colleges and secondary technical and vocational education.

In the first year of implementing the reform the Government also made efforts to create a more supportive business environment for enterprises. It adopted a programme for reducing the administrative burden and laid down the methodology for preparing the declaration on the removal of administrative obstacles and the participation of interested stakeholders that must be appended to any draft regulation. This is the first step towards making a comprehensive regulatory impact assessment of these regulations. Further, progress was made in reducing court backlogs. In network industries, competition increased particularly in telecommunications. During the next year, preparations must be made for a successful operation of the electricity market after the liberalisation of energy sales to households. Given Slovenia's development level, a boost in economic growth will also entail substantial investment in transport infrastructure, particularly railways, as well as investment in education and information infrastructure. Also in these areas Slovenia relies on backing from EU funds and a bigger role of public-private partnerships. Continuing the privatisation process and attracting more foreign direct investment remain the challenges for the oncoming year.

Structural reforms are in progress against a stable macroeconomic environment. The EU's decision to admit Slovenia to the euro area in 2007 confirmed that Slovenia's macroeconomic policies were sound. In the area of public finances, the Government's proposed budgets for 2007 and 2008 project a 1.6 p.p. decrease in the share of general government expenditure in GDP relative to the estimated realisation for 2006 and a progressive narrowing of the general government deficit. The adopted wage agreements for 2007 in the private and public sectors ensure that wage growth will continue to lag behind productivity growth in the next two years, which will support Slovenia's competitiveness within the euro area. Measures aimed at increasing the employment of older people (the active ageing strategy) and promoting them staying in activity, at least partly, for as long as possible, are being prepared along with additional incentives for individual pension insurance schemes. These measures will also contribute to an improved outlook for the long-term sustainability of public finances.

We are convinced that the planned and implemented measures that are described in detail in this report are paving the way for Slovenia to deliver the Lisbon Strategy goals and are an appropriate response to the European Commission's recommendations regarding Slovenia's reform programme and priority action areas, adopted by the spring European Council.



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I. EXECUTIVE SUMMARY

The Report on the Realisation of the Reform Programme for Achieving the Lisbon Strategy Goals in Slovenia is the first annual monitoring overview of the realisation of the priority tasks, measures and objectives of the reform programme adopted in October 2005. The report is structured in line with the priority measures identified in Slovenia's Development Strategy and elaborated in the Reform Programme for Achieving the Lisbon Strategy Goals. The measures set out in the reform programme cover all Integrated Guidelines for growth and employment and provide feedback on the EU's recommendations, the European Commission's assessment of the reform programme and the conclusions of the March European Council.

The first development priority: a competitive economy and faster economic growth

The well co-ordinated economic policies that Slovenia has applied since joining the EU and the ERM II have paved the way for Slovenia to fulfil the conditions for timely adoption of the euro, which has also been the main short-term objective of macroeconomic policies. The entry to ERM II resulted directly in the exchange rate's stabilisation and its favourable impact on inflation, whereas for policy-makers it primarily meant a commitment to harmonised policy operation and ensuring the conditions for Slovenia's entry to the EMU. In the area of fiscal policy, a tax reform was launched in 2005, starting with the phasing out of payroll tax (to be completed by 2009) and introduction of schedular taxation on passive income. In September 2006, the Government adopted a proposed package of seven new tax laws which, in addition to streamlining the tax system, provide for fewer personal income tax rates, the retention of schedular taxation on passive income at a single 20% rate and the gradual reduction of the corporate income tax rate to 20%.

The supportive macroeconomic environment also provided a sound basis for decision-making in the microeconomic area. The adopted measures, e.g. introduction of the 'one-stop-shop' system, the programme for reducing the administrative burden, the founding of the Public Agency for Entrepreneurship and Foreign Investment and several others are designed to speed up the development of entrepreneurship, create a more friendly business environment and strengthen development-promoting domestic and foreign investment. The latter goal will primarily require increased investment in the supply of industrial zones and the systematic removal of administrative obstacles to investment and doing business.

The Slovenian competition protection regime has largely been brought into line with the EU legislation. The national Competition Protection Office is a functionally independent body with powers that enable it to effectively exercise control over restrictive agreements, the abuse of a dominant position and company concentrations. Legislation regulating the operation of network industries has been harmonised with EU directives over the last few years which means that access to the market is free (with some exceptions). Competition is being established in most network industries, however progress has been slow and the share of the dominant operator is still relatively high. The Government has also drafted amendments to the energy law that will simplify the access of foreign suppliers to the Slovenian energy market and particularly the Slovenian power exchange.

In 2005 the Government also began the process of withdrawing from the economy. A programme for the withdrawal of parastatal funds from commercial companies was prepared. In addition, strategic proposals for the privatisation of Telekom Slovenia and the NKBM bank were approved.

The second development priority: effective creation, two-way flow and application of the knowledge needed for economic development and quality jobs

Slovenia is continuing its efforts to build a knowledge-based society. A framework developmental document for the area of research and development was adopted at the end of 2005. The planned public expenditure on research and development will be raised to more than 0.7% of GDP by 2008. However, in order to achieve this goal more funds will have to be earmarked in future budgets.

In 2005 and 2006, the Government also raised the funds allocated to the Young Researchers for Business and Industry programme and set up a new instrument aimed at stimulating the mobility of science and technical researchers between public research institutions and the business sector. Measures for better co-operation between universities and the business sector have also been provided for in the new resolution on the National Higher Education Programme 2006-2010, which is currently being drafted.

Slovenia's gap with the EU in terms of the education structure of the population (the share of employees with a tertiary education) is slowly narrowing. Total expenditure on education is high but Slovenia lags behind in expenditure per student in tertiary education. The reform of the university and higher education system has continued in 2005 and 2006, and seven new autonomous higher education institutions have been established so far.

A new lifelong learning strategy is being prepared. Further, a number of activities were carried out in 2005 to increase employment opportunities by evaluating and acknowledging non-formal education and informal learning and ensuring the transparency of the relevant procedures.

The third development priority: an efficient and less costly state

A number of measures aimed at increasing the state's efficiency were carried out in the past year. The Government Office for Growth was established to perform the government's developmental function. The Removal of Administrative Obstacles Programme was adopted to improve the quality of regulations and simplify legislation. The Government continued to carry out activities in preparation for introducing mandatory regulatory impact assessment. A portal for e-government services, which offers all public administration e-forms at one place, was set up. Further activities were performed in preparation for establishing a real estate register and a single central database of social benefits. The efficiency of the judicial system is increasing, which is mostly reflected in the reduction of court backlogs. These measures have reduced the costs of both the government and citizens.

The Government has worked to restructure public finances with the aim of reducing general government expenditure and deficit. The share of general government expenditure relative to GDP will be reduced by 1.6 p.p. in 2007 and 2008 together, while the general government deficit will be reduced by 0.3 p.p. to 0.8% of GDP. A comprehensive tax reform will create the conditions needed to boost Slovenia's competitiveness.

The fourth development priority: a modern welfare state and higher employment

The labour market has recorded positive trends. The employment rate is rising and approaching 66%, while the unemployment rate remains relatively low. Labour market flexibility is improving thanks to the continuing activities aimed at stimulating the unemployed and social benefit claimants to actively seek work and develop their potential, particularly by accepting occasional or temporary employment.

Structural unemployment remains a problem, especially among the elderly. Other areas that need to be worked on are the relatively inflexible employment protection legislation and other regulations and the low level of lifelong learning. A step forward in the area of employment

of the disabled was the introduction of the quota system, which stimulated the hiring of the disabled, while the number of disabled people who found work in the first half of 2006 consequently rose by 38% over the same period of 2005.

The social protection systems largely correspond to current needs. They protect the citizens fairly well while still not presenting an excessive burden on general government expenditure. Instruments have been adopted to allow the inclusion of private funds and providers in addition to the public ones, and the shares of public funds and providers are rising. Adopted in September 2006, the Social Security Act has significantly reformed the system of financial social assistance. In order to enhance the quality, speed and transparency of deciding on the eligibility for social benefits and improving the tracking of changes in these procedures, solutions to link up the registers are being prepared. This new system will allow claimants to file for various benefits at one place.

The fifth development priority: integration of measures to achieve sustainable development

This aim of this priority is to make sure that measures under various policies do not solely serve the realisation of specific sectoral goals but also guarantee Slovenia's overall sustainable development.

In the area of spatial management there are several indications that positive changes are under way. The state has made active efforts in the area of spatial planning while there is still a lack of building land equipped with utilities.

Relatively slow progress has been made in the adjustment of companies and settlements to the anticipated climate changes, sustainable use of natural resources and reduction of waste generation. Environmental policy is also still not sufficiently integrated into all developmental policies. Nevertheless, Slovenia has achieved a relatively high level of environmental development. Within this framework, a resolution on the national environment protection programme has been adopted.

II. OVERVIEW OF STRATEGIC APPROACH

When Slovenia became an EU member it found itself at a developmental crossroads and facing new challenges. On the one hand, Slovenia is part of the developed world and shares forward-looking values with the EU. On the other hand, within the EU Slovenia belongs among the less developed members and wants to catch up with the more advanced ones. To achieve this goal, Slovenia is applying a modern development strategy to become involved in European currents. The European Commission approved the Slovenian reform programme and the selection of priorities in its evaluation.

Slovenia's Development Strategy was adopted in June 2005 and is the overarching developmental document that sets out the vision and objectives of Slovenia's development and presents the key guidelines for Slovenia's development in the coming decade. Slovenia builds its reform policy on four main development goals: (i) the economic development objective is to exceed the average level of economic development in the EU (measured as GDP per capita in PPP) and increase employment in line with the Lisbon Strategy's targets in the next ten years; (ii) the social development objective is to improve the quality of living and the welfare of each individual, measured by the indicators of human development, health, social risks and social cohesion; (iii) the cross-generational and sustainable objective is to enforce the sustainability principle as the fundamental quality criterion in all areas of development, including sustained population growth; and (iv) Slovenia's development objective in international development is to develop into a globally recognisable and established country through a characteristic development pattern, cultural identity and active engagement in the international community.



After the adoption of Slovenia's Development Strategy the Government appointed the Reform Committee, a working group of approximately 150 experts from universities, companies and the civil service and assigned it the preparation of a proposal of concrete measures to deliver the Strategy's objectives in the areas of competitiveness, higher GDP growth and employment. In November 2005, the Government adopted a framework of economic and social reforms based on the outline proposal of specific measures intended to increase the competitiveness of the Slovenian economy. In January 2006 the Government Office for Growth was established to co-ordinate and draw up legislative changes and other reform measures and monitor their implementation.

The Government also adopted its position paper on the social agreement that includes all the main elements of the planned reforms. The details of the agreed reforms will be known after the closing of negotiations on the social agreement and consultations with interested stakeholders in the process of drafting relevant legislation. The social partners and other stakeholders are involved in the preparation of legal amendments for the implementation of the planned reforms through social dialogue and negotiations on the new social agreement, as well as other channels of public participation. The social partners (employers and employees) may also adopt and implement their own operational programmes for implementing the Reform Programme as they deem appropriate and necessary. The Chamber of Commerce and Industry of Slovenia, for example, prepared its activity plan for 2006 in line with the Reform Programme. The Government is also holding talks with student organisations representatives to discuss the planned reforms in the area of higher education.

In order to secure a political consensus on the reform package, most parliamentary parties joined the Partnership for Development agreement adopted in April 2006. By signing the agreement, the parties committed themselves to seeking solutions and measures acceptable to all within the adopted development strategy and the planned social and economic reforms. The agreement does not obligate the signatories to give their prior consent to individual reform measures. The main aim of the agreement is to strengthen the awareness of the urgency of reforms and to arrive at a broader consensus in the society.

The Government also adopted an appropriate communication strategy to support the delivery of reforms. The aim of the campaign is to inform the Slovenian public about the reforms and their anticipated effects on the lives of each individual and Slovenian business and industry. Thereby, the Government wants to open up room for dialogue and win people's trust in the proposed measures. The core activities of the communication strategy include public debates, the web portal '*Slovenija jutri*' (Slovenia Tomorrow), publications and other events at the national, regional and local levels.

The *Reform Programme for Achieving the Lisbon Strategy Goals* was based on the approved Slovenia's Development Strategy and adopted by the Government on 28 October 2005. The Programme elaborates on the five development priorities set out in Slovenia's Development Strategy: (i) a competitive economy and faster economic growth; (ii) effective generation, two-way flow and use of knowledge for economic development and high-quality jobs; (iii) an efficient and less costly state; (iv) a modern welfare state and higher employment; and (v) integration of measures to achieve sustainable development.

The Programme responds to the challenges of the Lisbon Strategy through measures aimed at restructuring the economy, further liberalising markets and increasing competitiveness, improving government efficiency and boosting the growth of the economy and employment. Many measures in the area of sustainable development that are not included in the Reform Programme are of a purely national character and not directly linked to the implementation of the Lisbon Strategy. They are being carried out in line with Slovenia's Development Strategy.



These activities include e.g. measures to achieve sustainable population growth, improve the population's health and develop the national identity and culture.

In January 2006 the European Commission prepared an assessment of the Slovenian Reform Programme for Achieving the Lisbon Strategy Goals and endorsed the national priorities chosen by Slovenia. At the same time, it cautioned against possible pitfalls on the way to achieving these goals. Slovenia generally agrees with the identified challenges and findings set out by the Commission. Further steps have been taken in response to the Commission's recommendations.

III. MEASURES FOR IMPLEMENTING THE LISBON STRATEGY IN SLOVENIA

III.A THE FIRST DEVELOPMENT PRIORITY: A COMPETITIVE ECONOMY AND FASTER ECONOMIC GROWTH

III.A.1. POLICIES AND MEASURES IN THE MACROECONOMIC AREA

Priority measures (Guidelines no. 1-6):

- 1/ Ensure continued harmonised operation of macroeconomic policies supporting the fulfilment of the Maastricht convergence criteria and adoption of the euro in 2007.
- 2/ Phase out payroll tax and simplify the tax system.
- 3/ Increase the flexibility of public finances and gradually eliminate the deficit.
- 4/ Adopt a new social agreement.
- 5/ Encourage people to stay active longer and to promote individual pension insurance.

1/ Ensuring continued harmonised operation of macroeconomic policies supporting the fulfilment of the Maastricht convergence criteria and adoption of the euro in 2007

Slovenia was the first and only new EU Member State to receive a positive assessment from the European Commission and the European Central Bank regarding its readiness to adopt the common European currency and its admission to the EMU on 1 January 2007. Based on the assessments given in convergence reports, the political decision on Slovenia's admission to the euro area was taken at the European Council's meeting on 15 and 16 June, while the formal decision was adopted at the ECOFIN Council summit on 11 July 2006, when the tolar/euro exchange rate was also irrevocably fixed at 239.64 tolar for 1 euro¹.

Slovenia has complied with the fiscal criterion regarding the level of the general government deficit since 2002, while the level of public debt has been much lower than the Maastricht reference value throughout the period. Supported by the favourable macroeconomic environment, the general government's fiscal position improved in 2005: the deficit totalled 1.4% of GDP (2.3% in 2004) while debt amounted to 28.0% of GDP (28.7% in 2004). Slovenia has fulfilled the criterion regarding the long-term interest rate since February 2004. The Maastricht criterion on the interest rate stood at 5.9% in March this year, while the twelve-month average of the ten-year government bonds' yield-to-maturity in Slovenia was 1.9 p.p. lower. Slovenia first fulfilled the Maastricht criterion on price stability in November 2005 when average (HICP) inflation decreased to 2.5% and converged with the Maastricht reference value for that month. In the subsequent months, Slovenia gradually increased its gap with the Maastricht convergence criterion on price stability (the HICP). The gap totalled 0.3 p.p. in March and this figure was also used in the assessment of the fulfilment of the Maastricht criteria submitted in the convergence report. According to data for August 2006, average inflation in Slovenia totalled 2.7% and was still 0.1 p.p. below the Maastricht criterion. After participating in the ERM II for two years, on 28 July 2006 Slovenia also fulfilled the fifth convergence criterion on exchange rate stability.

¹ The NRP report applies the central parity rate in all calculations of tolar to euros regarding the projected expenditure and savings.

The fulfilment of the Maastricht convergence criteria has been underpinned by the co-ordinated enforcement of economic policy measures by the Government and the Bank of Slovenia, set out in the Programme for Entering the ERM II and Introducing the Euro (November 2003), which was of particular importance for a sustained disinflationary process. From the first quarter of 2003 onwards, while preparing to join the ERM II, the Bank of Slovenia gradually cut its interest rates. After entering the ERM II the Bank has kept the tolar exchange rate stable, which has significantly contributed to sustainable disinflation. The Government supported the monetary policy measures with a restrictive plan of administered price rises, the mitigation of oil price swings and the adopted incomes policy defined in the social agreement. The fulfilment of the conditions required to adopt the euro, which was achieved against a backdrop of stable economic growth without any major macroeconomic imbalances, was Slovenia's main short-term economic policy goal that justified its decision on an early entry to the exchange rate mechanism ERM II in June 2004.

The role of the national economic policy will change permanently upon entry to the EMU. Fiscal and incomes policies will become increasingly important in ensuring and maintaining sustainable macroeconomic balances. Macroeconomic policies will also play a greater role in creating the conditions for a more competitive economy. Against the backdrop of strong economic growth and the reduction of general government expenditure, the estimated structural deficit will also narrow by a total of 0.3 p.p. in 2007 and 2008 together, which will increase the flexibility of public finances in accordance with Stability and Growth Pact. The rationalisation of public spending will go hand in hand with the already launched tax reform aimed at reducing the tax burden on employment, increasing employment rates and boosting economic growth. The Government will remain committed to counter-inflationary macroeconomic policies in order to reduce the risk of a decline in the competitiveness of Slovenia's tradable sector and to avoid otherwise potentially higher price rises relative to Slovenia's main trading partners.

2/ Phased abolition of payroll tax and simplification of the tax system

In line with the objectives to increase the economy's competitiveness, boost GDP growth and promote entrepreneurship, the phasing out of payroll tax is the core fiscal policy measure. Payroll tax is planned to be cut by 20% in 2006 and by a further 40% and 70% in 2007 and 2008, respectively, to be completely abolished in 2009.

A significant novelty in personal income tax regulations introduced in 2005 was the differentiation in the taxation of individual incomes according to their character. In principle, active income is still taxed on the basis of the annual tax base, synthetically by progressive tax rates. Passive income, on the other hand, is taxed by a proportionate tax rate of 20%. The income taxed by proportionate tax rates includes income from interest and dividends and capital gains. If capital is held for five years or longer, the capital gains tax is reduced progressively every five years of the holding period to total 0% after 20 years.

In September 2006 the Government adopted seven new draft tax laws. Apart from simplification, these laws particularly provide for: (i) a reduction of the personal income tax brackets from five to three and the marginal tax rate from 50% to 41%; (ii) retention of the schedular taxation of passive income (income from property) introduced in 2006 at a single final rate of 20%; and (iii) a gradual reduction of corporate income tax from 25% to 20% and abolition of the general investment tax credit by retaining tax relief for regional investment in research and development.

In the area of labour market measures, particularly the promotion of activity, the tax reform will stimulate entrepreneurial investment (notably in R&D) and employment. The shortfall of tax sources will be offset by higher excise duties on selected goods, the effects of faster GDP

growth and the reduction of general government expenditure as a share of GDP. (Also see III.C.3 Developmental restructuring of public finances, Measure 3, p. 43).

3/ Increasing the flexibility of public finances and gradual elimination of the deficit

The Government is pursuing a fiscal policy aimed at reducing general government expenditure and the deficit.

General government expenditure is projected to total 44.9% of GDP in 2006, 0.5 p.p. more than in 2005, but it will decrease by 1.6 p.p. in the next two years to 44.1% of GDP in 2007 and 43.3% of GDP in 2008. General government revenue is estimated to come in at 43.7% of GDP in 2006 and drop to 43.2% of GDP in 2007 and further to 42.5% of GDP in 2008. The general government deficit, estimated to total 1.1% of GDP in 2006, will therefore narrow to 0.9% in 2007 and 0.8% of GDP in 2008.

Reducing the integrated budget expenditure as a share of GDP was largely underpinned by the lowering of transfers to individuals and households and the restrictive wage policy in the public sector. The decrease in the share of transfers to individuals and households was the result of: (i) a decrease in unemployment; (ii) changes in legislation that tightened the eligibility criteria for receiving cash unemployment benefits and financial social assistance; and (iii) lower numbers of eligible casualties of war. The Agreement on the Wage Policy in the Public Sector lays down that wages will rise by less than the projected inflation in 2007, and the difference between the wage rise and inflation will be used to eliminate the wage disparities in the public sector. The Government will continue to apply a restrictive employment policy in the public sector.

4/ Adopting a new social agreement

Negotiations of the social partners on the contents of the Social Agreement for 2006-2009 started in January 2006. Together with the proposed framework of reforms adopted in October 2006, the Government also decided that those measures from the economic and social reforms package that are subject to social dialogue among the social partners be regarded as government proposals or positions in negotiations on the social agreement. The proposed guidelines in the area of incomes policy, which are crucial to maintain macroeconomic stability and boost competitiveness in the period after the euro has been adopted, project that real wage growth should continue to lag behind productivity growth but the gap should be reduced progressively and should remain within limits that would not exert any upward pressure on unit labour costs or have a negative effect on competitiveness. In the medium run, wage policy must ensure macroeconomic stability and an equilibrium by balancing the growth of the average nominal wage per employee with the growth of prices and labour productivity, taking into account the structural changes in employment according to professional qualifications and other conditions of employment. This definition is consistent with the Integrated Guidelines for growth and employment (IG 4 and IG 22).

The adopted agreements on wage policy in the public and private sector are consistent with the proposed guidelines. For the first time, the wage indexation mechanism for the private sector agreed upon by the social partners was adopted without the participation of the Government. Instead of the tripartite Wage Policy Agreements previously bargained, the social partners concluded a Collective Agreement on the Wage Adjustment Mechanism, the Reimbursement of Work-related Costs and Holiday Allowances, which defines the wage adjustment percentage in line with price rises for 2006 and 2007. Wages should rise by 2% in both years. The adjustment of starting-level wages in the private sector for 2006 is laid down in the Act Amending the Salary System in the Public Sector Act (June 2006). Starting-level wages will rise by 1.3%, while 1.05% of the net wage bill will be earmarked for the elimination of wage disparities in the public sector. This law also specifies in more detail pay rises based on performance and an increased scope of work. The social partners in the public sector also specified in the adopted Agreement on the Base Wage Adjustment Mechanism and

the Level of Expenditure Earmarked for the Elimination of Wage Disparities for 2007-2009 that part of the adjustment percentage which depends on the projected inflation will be set aside for eliminating wage disparities in the public sector. These funds can begin to be used when the new law regulating the wage system in the public sector enters into force.

At the end of July 2006 the Government adopted a Draft Act Regulating the Minimum Wage that specified the amount of the minimum wage for 2006 and 2007. The minimum wage will be adjusted by the expected inflation (so far it has also been adjusted by 50% of real GDP growth), which will significantly reduce companies' costs in employing the lowest-income workers. On 1 August 2006, the prevailing minimum wage was accordingly raised by the expected price rise (2.0%), while it will rise by 2.1% in August 2007.

5/ Encouraging people to stay active longer and promoting individual pension insurance schemes

According to the European Commission's assessment, Slovenia is one of those countries with a high risk to its long-term fiscal sustainability primarily on the grounds of a substantial deterioration in the fiscal perspective that began in 2005 after approximately ten years. Measures created to reduce these risks should therefore focus on ensuring the conditions for longer working lives and promoting individuals to remain active longer and to enter the labour market as soon as possible, to take better care of their health and ease the burden on public health expenditure by changing their lifestyles.

The reform of the pension system, which was enforced in 1999 and took effect in 2000, has delivered positive outcomes. The current and future fiscal situations would be much worse without these effects. The changes brought about by the 1999 pension reform that are critical to the achievement of fiscal sustainability and are partly being implemented progressively include: (i) the progressive rising of the full retirement age (to 61 years for women and 63 years for men). Retirement prior to this age will result in a lower pension while retirement later than this age will increase the pension. For women with a sufficiently long qualifying period, the age at which pensions will not be reduced even if someone has not reached their full retirement age will be raised progressively in the 2000-2013 transition period from 53 years (1999) to 58 years (2014), whereby the criteria for women will become equal to the criteria for men. At the same time, the sufficient qualifying period for women will be raised from 35 to 38 years. Other eligibility criteria for retirement before full retirement age have been abolished and have practically eliminated the possibilities of early retirement; (ii) a progressive lowering of the total level of accrual rates resulting from their reduction from 2.0% to 1.5% annually from 2000 onwards; (iii) a gradual lengthening of the reference period for the accrual of pensions from 10 to 18 of the best consecutive qualifying years; and (iv) reducing the annual valorisation of pensions for old pensioners to ensure equal pension incomes with new pensioners who are retiring on less favourable terms.

From 2006 onwards the minimum pension base is being adjusted by the total wage growth rate in the preceding period², which is a similar indexation rate to that applied before the 2000 reform. In the long run, this will increase expenditure on pensions whereas in the medium run the funds disbursed by the Pension and Disability Insurance Institute (PDII) will settle down at 13.2% of GDP³ while the level of pensions will remain unchanged at 11.2% of GDP in the 2005-2010 period.

² Up until 2005, the minimum pension base was adjusted by a rate lower than the wage growth rate in the preceding period, however not by less than the consumer price rise in the preceding period.

³ This percentage includes total expenditure of the PDII (pensions, benefits and allowances) regardless of their character (income-based and non-income-based). Expenditure on income-based benefits currently amounts to 11.2% of GDP.



III.A.2. OPEN INTERNAL MARKET AND COMPETITIVENESS OF THE ECONOMY

III.A.2.1. Extending and deepening the internal market

Priority measures (Guideline no. 12):

- 1/ Strengthen the national infrastructure for technical standardisation.
- 2/ Transpose the EU's internal market regulations into Slovenian law and establish a monitoring system for the implementation of these regulations.
- 3/ Expand the institutional consumer protection network and integrate it with the existing network in the EU.
- 4/ Disseminate information about the internal market to businesses, industry and the general public.

1/ Strengthening the national infrastructure for technical standardisation

The infrastructure that ensures technical quality standards is vital to ensure smooth free movement of goods. The Slovenian technical standardisation institutions⁴ currently ensure a relatively effective system of technical quality standards comparable to advanced practices in the EU⁵. The Ministry of the Economy and Slovenian Accreditation (SA, a public institute) are working to establish a commercial company (with the SA as the exclusive founder) designed to strengthen the implementing competence of the national accreditation system. The company should help expand accreditation activities and increase the number of accreditation procedures by providing a sufficient number of qualified assessors.

2/ Transposing the EU's internal market regulations into the Slovenian legislation and establishing a system to monitor its implementation

Slovenia has made efforts to transpose the EU's directives into the national legislation accurately and in good time. By June 2006, 20 out of the total of 1,620 directives had still not been implemented. Slovenia's transposition deficit totalled 1.2%, ranking the country 4th in the EU together with Lithuania and after Denmark, Cyprus and Hungary.⁶

Slovenia has already introduced several best practices⁷ that contribute to the timely and correct transposition of directives into national law. The Government Office for Legislation is responsible for the notification procedure and monitors the process from the preparation of declarations concerning compliance with Community law to the notification of adopted legislation and ensures that the directives are implemented timely and correctly⁸. A special database⁹ was set up to record all infringement proceedings brought by the European Commission against Slovenia for the delayed transposition of EU directives into national law. The database is accessible to the government and competent bodies to keep them updated. This also ensures that the implementing regulations subject to infringement procedures for non-compliance with EU legislation are re-examined immediately and that any mistakes or non-conformities are corrected in the shortest possible time.

⁴ Slovenian Standardisation Institute, Slovenian Accreditation, Metrology Institute, conformity assessment testing laboratories.

⁵ Documents of the European Commission indicate that the revised 'New Approach' will further strengthen the role of standards bodies. The accreditation system in particular will gain in importance and become more binding on the member states. The aim is to achieve greater uniformity of accreditation in Europe.

⁶ Internal Market Scoreboard, No. 15, 18, July 2006.

⁷ Following the Recommendation from the Commission of 12 July 2004 on the transposition into national law of directives affecting the internal market.

⁸ Since 1 July 2005, the Government Office for Legislation has been keeping track of the newly adopted laws and regulations published in the Official Journal of the EU. All relevant information on these documents are entered in the central national database of regulations (Register of Regulations of the Republic of Slovenia).

⁹ The database is organised as part of the national Register of Regulations. The Government Office for Legislation is also responsible for monitoring infringements of the *acquis* for the non-notification of national implementing legislation.



3/ *Expanding the institutional consumer protection network and integrating it with the existing consumer protection networks in the EU; ensuring equal standards of product safety and protection of consumers against hazardous products across the EU's internal market*

This year a public tender has been launched to co-finance the establishment of a non-governmental European Consumer Centre in Slovenia with a planned budget of SIT 5 m (EUR 20,864) for 2006. Slovenia has thereby provided national funds for the operation of the European Consumer Centre, which is the necessary condition for receiving EU funds. Similar centres already exist in most old and new EU countries. They provide information about buying goods and services in the internal market to make the market more accessible to consumers.

To ensure equal standards of product safety and consumer protection across the EU internal market, Slovenia has launched the ICSMS¹⁰ system for efficient exchange of product information¹¹. The closed part of the system enables exchanges of information about hazard evaluations, unsafe products, test methods and results between market surveillance authorities, customs authorities and other governmental organisations in Slovenia and other member states using the ICSMS. The public part of the system provides information to consumers and producers about hazardous products, voluntary call-backs issued by producers, warnings on pirated products and other important product information.

4/ *Disseminating information about the internal market to businesses, industry and the general public*

The Ministry of the Economy is planning to organise a series of 'Internal Market Days' in co-operation with regional chambers of commerce and industry. These meetings will provide information to enterprises about their opportunities in the EU's internal market and will focus on productive discussions between representatives of business and industry and the Ministry of the Economy.

III.A.2.2. Increasing the inflow of development-boosting domestic and foreign investment

Priority measures (Guideline no. 13):

- 1/ Improve the supply of building land and industrial zones.
- 2/ Systematically remove administrative barriers to business and investment (spatial planning, building and operating permits, employment contracts).
- 3/ Reduce initial costs of a start-up investment to enable businesses to advance to high/medium-high technology and the creation of high-quality jobs.
- 4/ Launch an assertive marketing campaign demonstrating Slovenia as a suitable FDI location.

The share of inward FDI stock in GDP increased from 15.1% to 21.2% in 2000-2004 while the share of outward FDI in GDP rose from 4.0% to 8.5%. At the end of 2004, total inward FDI was composed of 66.4% (1,970) new investments¹² and 29.8% (833) investments in existing firms. In 2004 the number of new investments rose by 63 while the number of number of investments in existing firms increased by 15. The value of investment is higher in existing companies, which accounted for 63.3% of non-residents' equity capital at the end of 2004.

¹⁰ ICSMS – Information Communication System for Market Surveillance. The total cost of introducing the ICSMS amounted to SIT 30.63 m (EUR 127,835). Slovenia contributed SIT 4.79 m (EUR 20,000) while the rest was financed by the EU (Phare project). From 2007 Slovenia will be paying an annual fee of approximately SIT 2.39 m (EUR 10,000) out of the national budget to use the system.

¹¹ Currently the system is used by ten EU member states and Switzerland. In the long run, it is planned to be launched in all EU countries.

¹² New investments relate to the founding or co-founding of new firms.

According to the Bank of Slovenia, the number of employees in foreign-owned enterprises¹³ grew from 49,960 in 2000 to 61,853 in 2003 and 63,080 in 2004. Accordingly, the proportion of employees in foreign-owned companies in the total number of employees in the Slovenian business sector rose from 10.7% to 13.4% in the 2000 to 2004 period. The government programme for attracting foreign direct investment provided SIT 1,961.1 m of state aid in 2000-2004 and helped create 2,700 new jobs in foreign-owned enterprises (908 jobs opened in 2004 alone).

After the substantial increase in inward FDI inflows seen in 2002 (SIT 386.6 bn/EUR 1,700.2 m) which resulted from several major foreign takeovers, inflows returned to their level from before 2002 to total SIT 102.23 bn (EUR 426.6 m) in 2005. In the first five months of 2006, inward FDI inflows amounted to a modest SIT 15.95 bn (EUR 66.5 m), which was nevertheless still much more than the year before (SIT -3.74 bn/EUR -14.5 m). Outward FDI is increasing steadily; in 2003 and 2005 Slovenia was a net direct outward investor.

In August 2005 the government adopted the Programme for Stimulating the Internationalisation of Companies for the 2005-2009 period, which has already been launched. Activities to boost FDI are designed to achieve the following annual target objectives: (i) increasing FDI inflows by 1%-1.5% of GDP on average (excluding takeovers and privatisation); (ii) creating 1,000-1,500 new jobs; and (iii) attracting at least one high-tech FDI and at least three initial FDIs in the service sector.

1/ Improving the supply of building land and industrial zones

The supply of industrial sites has improved over the last few years. Investment in industrial sites is a considerable burden for municipalities as principal investors because it requires large sums of money in the long run. The 2004-2006 period saw the realisation of 21 projects¹⁴ in a total value of SIT 13.245 bn (EUR 55.25 m); SIT 5.76 bn¹⁵ (EUR 24.03 m) thereof was financed from structural funds.

The following measures to improve the supply of building land are being applied or are planned to be applied: (i) recording all land plots and facilities in public ownership either directly or indirectly and which can be zoned for investment or used as the government's input in a joint investment; (ii) providing aid (competent bodies: Ministry of the Economy and Public Agency for Entrepreneurship and Foreign Investments - PAEFI) for local communities and managing firms to set up industrial districts or technology parks; and (iii) co-finance the spatial completion and provision of utilities in industrial districts and technology parks from European funds and the national budget.

2/ Systematically removing administrative barriers to business and investment (spatial planning, building and operating permits, employment contracts)

The regulatory burden on business and investment is gradually being reduced in line with the government's Programme of Measures for Reducing the Administrative Burden. The e-VEM system (online One-stop shop system), which enables online registration of individual private entrepreneurs, was established on the basis of the Act Amending the Companies Act. The main obstacles to investors include the procedures for obtaining land for investment purposes, building permits and work permits for non-residents. The simplification of procedures for obtaining land use permits is in process, notably the simplification of documentation requirements for applicants. Rules on the procedures and the required documentation to obtain work permits are in preparation. The new rules will significantly reduce the number of required documents and the time needed to obtain work permits.

¹³ Companies in which foreign investors own 10% or more of capital.

¹⁴ 3,588,606 square metres of industrial sites received utilities.

¹⁵ The amount corresponds to 96.58% of the funds programmed on the EPD instrument 1.4.1 for the 2004-2006 period.



(Also see III.A.3.1, Improving the business environment and reducing the administrative burden, measure 2, p. 23 and III.C.1.1 Quality of regulation and simplification of legislation, measure 3, p. 37).

3/ Reducing the initial costs of a start-up investment to enable businesses to advance to high/medium-high technology and the creation of high-quality jobs.

Financial incentives for foreign investment allocated on the basis of public tenders reduce the initial costs of a start-up investment. A public tender for stimulating FDI in 2006 has been issued this year. The response of foreign investors is positive.

4/ Assertive marketing of Slovenia as a suitable FDI location

Activities in this area are focused on attracting high-tech projects and regional management centres of multinational corporations. Annual goals have been delivered successfully. Activities include participation at specialised trade fairs and the provision of information to potential investors through the Invest Slovenia portal and experts from PAEFI. In addition, new and updated brochures and databases for foreign investors are in preparation.

III. A.2.3. Ensure open and competitive markets

III.A.2.3.1. Competition policy

The Slovenian competition protection regime has largely been brought into line with the EU's directives and regulations. The national Competition Protection Office is an independent regulator with statutory powers to control restrictive agreements, the abuse of a dominant position in the market, and concentrations. In addition to the Competition Protection Office, which supervises the overall functioning of the competition regime, there are sectoral regulators whose main statutory power is to create and promote competition in the network industries dealt with in the public utilities and network industries chapter

Priority measure (Guideline no. 13):

- 1/ Amend legislation to increase transparency, standardise procedures, improve investigative powers and strengthen the control of concentrations.
- 2/ Gradually expand the scrutiny of major violations of anti-trust legislation (cartel agreements, abuses of a dominant position).
- 3/ Strengthen the capacity and powers of the Competition Protection Office.

1 Amending legislation to increase transparency, standardise procedures, improve investigative powers and strengthen the control of mergers

A new law to regulate this area is currently being drafted and it is due to be submitted to the parliamentary procedure by the end of 2007. The aim of the new legislation is to increase the transparency and standardisation of procedures, which should also improve the consistency of competition regulations with the prevailing legislation in other areas¹⁶, strengthen the investigative powers of competition regulators and increase the efficiency of sanctions and merger control.

2/ Strengthening the control of major violations of antitrust legislation

In practice, most procedures still deal with concentrations but their proportion of the total number of cases being handled is gradually declining. Greater emphasis will gradually be placed on assessing more serious infringements of antitrust legislation, such as cartel agreements and abuses of a dominant position.¹⁷

¹⁶ General Administrative Procedure Act, Takeovers Act, Securities Market Act and Minor Offences Act.

¹⁷ In 2005, the Competition Protection Office issued 59 decisions, of these 54 were about concentrations, three dealt with the abuse of a monopoly while two concerned restrictive agreements. In the first six months of 2006, the Office issued 17 decisions, 15 concerning concentrations and two dealing with a restrictive agreement.

The Competition Protection Office also organised a joint consultation on liberal professions attended by representatives from the European Commission, line ministries and chambers. The consultation was the first step in the project of amending the regulatory framework in the area of liberal professions, i.e. highly specialised professional services that have a broad impact on the national economy and therefore need to be regulated appropriately.

3/ Strengthening the capacity and powers of the Competition Protection Office

The decisions of the Office are final. The enterprises involved in its procedures may seek legal protection at the Administrative Court. The Office is empowered to autonomously carry out investigative activities and take final decisions. The enforcement of the new Minor Offences Act also gave the Office the power to impose sanctions, restricted to the power to impose minimum fines. However, the stipulated sanctions diverge markedly from the prevailing sanctions in most EU countries. The new powers of the Competition Protection Office make the strengthening of its administrative and financial capacity one of the top priorities of Slovenia's competition policy¹⁸. The planned measures to strengthen the CPO's administrative capacity include a phased staff increase¹⁹ that should reach the optimum level by the end of 2008.

III.A.2.3.2. Privatisation

Priority measure (Guideline no. 13):

1/ Speed up the withdrawal of the state from firm ownership (privatisation).

1/ Speeding up the withdrawal of the state from firm ownership (privatisation).

The state still owns substantial shares in several companies and remains an indirect shareholder in most leading Slovenian companies. In line with the adopted reform framework, an advisory panel was appointed to supervise the state's withdrawal from active firm ownership and the restructuring of the two parastatal funds, KAD (capital fund) and SOD (restitution fund), into portfolio investors. The programme of the withdrawal of state control from companies was adopted by the government in July 2006. State-owned companies were divided into three groups. The first group comprises non-profit enterprises, from which the state is supposed to withdraw in 30 months. The second group includes enterprises listed on the stock exchange, for which a period of 24 months is foreseen for the state's withdrawal. The third group covers major companies where time limits for sale are inappropriate.

Advisory panels were also appointed for four leading Slovenian commercial companies (Telekom, Triglav Insurance Company, NLB bank, NKBM bank) to prepare privatisation programmes for these firms. Strategic proposals for the privatisation of Telekom Slovenia (Also see III.A.2.3.3.1, Electronic communications and postal services, Measure 4, p. 16) and NKBM were approved by the Slovenian government on 11 May 2006. Pursuant to the Decree on the Sale and Other Forms of Disposing of Financial Assets of State and Communities, two privatisation committees were set up to co-ordinate the privatisation of NKBM and Telekom Slovenia in line with the adopted strategic guidelines.

The privatisation of NLB was complicated by the decision of the main (34%) foreign NLB shareholder to withdraw from the NLB as a strategic owner and to remain only a financial

¹⁸ Ensuring adequate staff levels and financial resources is one of the key priorities for a more effective operation of the national Competition Protection Office. In July 2006, the Office employed 18 employees who receive continual professional training. The Office will need at least 37 staff to tackle the workload arising from its extended powers and additional responsibilities.

¹⁹ Given the Office's current absorption capacity, five additional employees could be recruited every six months. However, realisation of this target strongly depends on the government's staff policy.



investor in the future. This also delayed the completion of the privatisation programme, which had originally presumed an increase in the ownership share of the foreign investor.

The advisory panel for the privatisation of the Triglav Insurance Company has also submitted its final report. One of the key problems it identified was the ambiguity concerning ownership of the company's remaining share held by the KAD (pursuant to the Ownership Transformation of Insurance Companies Act), which should be transferred to the insured individuals of 1990.

III.A.2.3.3. Public utilities and network industries

III.A.2.3.3.1 Electronic communications and postal services

The Slovenian electronic communications market is still dominated by Telekom Slovenia since the new providers of electronic communications still largely depend on its infrastructure. Competition in fixed telephony and third-generation mobile telephony markets is still in the initial phase of establishment. The licence for the first 3G fixed telephony service provider was issued in 2001, and a further two licences have been granted this year. Competition already exists with fixed international telephone calls and mobile telephony, however the incumbent operators still hold relatively high market shares. Telekom Slovenia is the largest provider of fixed telephony services. In 2005, three providers of IP fixed-voice services entered the market. Overall, 17 operators provide national and international telephone services at a fixed location²⁰. In the past year there were six operators²¹ in the mobile communications market and the market share of the main operator has been decreasing gradually. At the end of March, the share of the leading operator totalled 72% according to the number of active users and 77% according to the number of outgoing calls.

The prices of telecommunication services fell by 0.6% in 2005 and by 0.6% in the first eight months of 2006, which shows the positive impact of competition on prices. Prices of publicly accessible telephone calls at Telekom's fixed location did not change in 2005 but have seen a 9.5% rise in 2006. On the other hand, alternative providers offer calls within their own networks free of charge, which indicates that they have started charging a flat rate regardless of the number of calls.

In the area of broadband Internet access, there is competition between cable operators and xDSL technology providers (cable operators: 24%, xDSL operators: 76%). An important step towards ensuring competition was the decoupling of the local loop and lifting of the ISDN access requirement for the provision of ADSL services carried out in 2005. At the moment there are several xDSL services providers in the market, which helped reduce the prices and ensure high quality services. The share of the largest xDSL operator decreased to 89% at the end of March 2006.

Priority measures (Guideline no. 13):

- 1/ Stimulate the entry of new telecommunications operators to the market and their further development.
- 2/ Modernise the regulatory framework and improve the operation of the Post and Electronic Communications Agency.
- 3/ Build broadband electronic networks and ensure a transparent and competitive supply of existing leased lines.

²⁰ Only Telekom Slovenia provides services at a fixed location in its own network but, thanks to new technologies, the number of operators providing services on Telekom's network has increased. These operators partly operate through cable providers and have started to build their own networks in densely populated areas (e.g. T-2).

²¹ Mobitel (GSM, DCS, UMTS), Simobil (GSM, DCS), Vega / in 2006 Tušmobil (DCS), Izimobil, Debitel and M-mobil (virtual mobile operators).

4/ Gradually privatise the telecommunications incumbent (Telekom Slovenia).

1/ Stimulating the entry of new telecommunications operators to the market and their further development

An independent regulatory body, the Post and Electronic Communications Agency, ensures competition and controls price ratios in telecommunication services. By analysing the relevant markets and imposing additional obligations on operators with significant market power, the Agency is increasing competition in specific electronic communications markets. Potential abuses of the dominant position of Telekom Slovenia have to be eliminated to allow successful development of operators and improved competition. Further, ex-ante regulation has provided the conditions for a higher share of operators providing call services through a pre-selection of operators and increased access to broadband Internet, IP telephony and television over the decoupled local loop.

Another measure aimed at increasing competition is number portability. Number portability was introduced by mobile operators at the beginning of 2006 and for publicly accessible telephone services at a fixed location in May 2006. According to recent data, over 5,700 mobile numbers have been transferred so far. The transfer of fixed numbers is also functioning smoothly.

2/ Modernising the regulatory framework and improving the operation of the Post and Electronic Communications Agency

Regulations in the area of electronic communications will be updated by the Act Amending the Electronic Communications Act, whose draft has been submitted for public hearing. The amended act intends to: (i) eliminate the shortcomings that became obvious during the implementation of the old law and the directives under the 2002 regulatory framework; (ii) enable the launching of new electronic networks and services; (iii) implement Directive 2006/24/ES of the European Parliament and of the Council of 15 March 2006 on the retention of data generated or processed in connection with the provision of publicly available electronic communications services or of public communications networks and amending Directive 2002/58/ES.

The amendments to the Electronic Communications Act also concern the operation of the Post and Electronic Communications Agency. They extend the Agency's autonomy and powers of surveillance and its powers in administrative enforcement and the possibility to act upon irregularities established in the operations of electronic communications and postal services providers.

3/ Building broadband electronic networks and ensuring a transparent and competitive supply of existing leased lines

Enterprises in state ownership (DARS, the national motorway company, and Slovenian Railways) have their backbone optical networks built along motorway and railway lines. They can offer their excess telecommunications line capacities in the market and thereby help to increase competition in the electronic communications market.

The Government has adopted measures for the upgrading and marketing of telecommunications infrastructure. The approved business plans of companies for the marketing of telecommunications infrastructure will enable the appropriate use of excess capacities, including by forming strategic partnerships.

The building of broadband electronic networks will be carried out as part of the national project called the 'Information Highway for Everyone' intended to provide access to broadband services and Internet to the entire population. It will be carried out through several independent projects with interlinked effects. The realisation of these projects is part of the national strategy on the development of broadband services.



4/ *Phased privatisation of the telecommunications incumbent (Telekom Slovenia)*

The state's share in Telekom Slovenia, the largest operator in the electronic communications market, totals 62.53%. If we also take into account its indirect share owned through the national restitution and pension funds (KAD and SOD), the state owns 74.14% of the company. This year, the government has prepared a strategy for the sale of the state's share in the incumbent operator. The plan is to sell all shares in the direct and indirect ownership of the state. The company will be sold in one piece together with its subsidiaries²². The first step in the process was taken by floating the company on the stock market on 1 October 2006.

The main objectives of selling the state's share in Telekom Slovenia are to: (i) establish an ownership structure that will ensure efficient management, competitiveness and successful development of Telekom Slovenia and its subsidiaries in the long run; (ii) achieve the maximum possible selling price along with other objectives and to create positive effects for the development of the electronic communications sector; (iii) guarantee the transparency of all transactions, including by safeguarding the interests and rights of all shareholders, and refund the claimants established pursuant to the Return of Investments in the Public Telecommunications Network Act as soon as possible.

After privatisation the state will retain 25% of the company plus one share, which will allow the government to have a say in some of the company's strategic decisions. Relatively high budgetary revenues are expected from this source, however, they cannot be estimated exactly at the moment.

III.A.2.3.3.2 Public utilities and environmental protection

Priority measures (Guideline no. 13):

- 1/ Integrate the current municipal public service providers into larger organisational units at the regional level.
- 2/ Launch the EMAS / ISO 14011 system in public utilities.
- 3/ Strengthen control over the provision of public utilities with a specific and monopoly position.
- 4/ Guarantee equal operating standards among providers of public utilities regardless of their organisational type.

1/ *Integrating the existing municipal utilities providers into larger organisational units at the regional level.*

The Slovenian system of municipal public utilities is very fragmented. The integration of the existing providers of municipal utilities into regional organisational units is therefore a national priority. Local utilities often serve too small areas to be cost efficient and technically equipped for the increasingly demanding tasks in this area. The Ministry of the Environment and Spatial Planning has prepared a special operative programme to pool public drinking water suppliers²³. Since the supply of drinking water runs parallel to waste water disposal and treatment, the programmes financed by structural funds and the cohesion fund for the period 2007-2013 were designed in such a way as to ensure maximum pooling of municipal investment. This would reduce the cost of investment and its later management and lead to the creation of public utility consortiums. In the area of waste disposal, the last landfills with a capacity of over 100,000 inhabitants are currently being built, and the public utility of waste disposal is thereby approaching its target goal.

²² Telekom's two subsidiaries are Mobitel (mobile communications) and Siol (Internet services).

²³ The average provider supplies water to around 20,000 people. Out the total 405 water supply systems, only a few major ones cater to more than 20,000 citizens. The idea is to join several public service providers into new companies that supply more than 20,000 people.



2/ Launching the EMAS / ISO 14011 system in public utilities and environmental protection

The legislation regulating the provision of public utilities in the areas of waste water disposal and treatment, waste collection and drinking water supply and the legislation laying down the supply programmes already contain mandatory provisions concerning quality management programmes for the operation of public utilities²⁴. The roll-out of quality environmental management systems (EMAS or ISO 14001) is projected for the second phase. The phased integration of the existing municipal utility providers into regional organisational units will also create the conditions for the introduction of environmental systems.

3/ Strengthening control over the provision of public utilities with a specific and monopoly position

The Ministry of the Environment and Spatial Planning examined applications for prices and investment and tightened its control over public utility providers and municipalities because many municipalities had failed to adopt all regulations stipulated by the Public Utilities Act, or had only adopted a framework regulation without utility-specific ones. The Ministry will accordingly issue decisions pursuant to Article 90 of the Local Self-Government Act.

4/ Guaranteeing equal operating standards among providers of public utilities regardless of their organisational type.

Equal standards²⁵ in the operation of public utilities providers are already stipulated in the legislation regulating public utilities. Current activities include the drafting of new regulations on the prices of utilities, the transfer of infrastructure to municipalities and the preparation of a cost analysis of the national public utility providers. The operative programme for the supply of drinking water already contains more detailed contents of a cost-effectiveness analysis, providing for uniform standards of operation. To this end, several comparative analyses will be carried out to examine the effectiveness of public utilities providers, their use of natural resources in providing services, the satisfaction of users, the condition of infrastructure etc. Special efforts will be devoted to the improvement of utilities, introduction of new technologies and transfer of know-how, as well as the creation of new markets for secondary raw materials and products.

III.A.2.3.3.3. Electricity and natural gas

Priority measures (Guideline no. 13):

- 1/ Fully liberalise the energy sector.
- 2/ Separate and reorganise electricity distribution companies.
- 3/ Impose new, commercial rules for the allocation of cross-border electricity transmission capacity.
- 4/ Create more domestic players in the wholesale market.
- 5/ Take steps to build new transmission and production capacities.

The adoption of the amended Decree on the Method for the Implementation of Public Service Obligation relating to the Organisation of the Market in Electricity, which redefined notably the balance sheet accounting rules, was an important move leading towards a better operation of the energy market. The legal power to conclude balance sheet contracts was devolved from the transmission network system operator to the market organiser, and the procedure for changing providers was simplified. The operation of the energy market was also enhanced by the adoption of the amended Energy Act, which the government submitted to the parliamentary procedure in July 2006, and which should abolish the licence required for

²⁴ The last regulation that has introduced quality management in the operation of public utilities is the Rules on Drinking Water Supply adopted in 2006.

²⁵ The main differences are observed in infrastructure management, depreciation charges in own prices, and the quality of service provision.

wholesale energy trading in Slovenia. This will primarily simplify the access of foreign providers to the Slovenian energy market and especially to the Slovenian power exchange.

1/ Full liberalisation of the energy sector

In line with the EU's electricity and gas directives, the energy sector will be fully liberalised on 1 July 2007. At the same time, the last 25% of electricity consumers (around 700,000 households) will be able to choose from among several suppliers. In natural gas, roughly 150,000 household consumers use approximately 10% of the gas. They will also have the right to select their preferred supplier. The statutory time limits are also stipulated in the Energy Act.

2/ Separation and reorganisation of electricity distribution companies

The legal separation of distribution companies will be completed by 1 July 2007. Preparations for the reorganisation of distribution companies are already under way.

3/ Enforcing new, commercial rules for the allocation of cross-border electricity transmission capacity

The competent bodies for this task in Slovenia are the electricity transmission network system operator and the Energy Agency of the Republic of Slovenia. In line with the recently adopted guidelines within the framework of the European cross-border directive, the commercial rules will be co-ordinated at the regional level. Slovenia is divided among two European regions and the region of Southeast Europe. The rules are currently being discussed between the regions. Slovenia is represented by ELES (the national electricity transmission company), the Agency and the Ministry of the Economy. The rules should be agreed upon by the end of the year to ensure that providers are acquainted with the terms of business at least six months in advance. A large proportion of the cross-border capacity that had not been allocated through public tenders a year ago is being allocated by ELES at auctions organised by Borzen (the Slovenian power exchange).

4/ Creating more domestic suppliers in the wholesale market

Gen Energija, an independent player in the market, has already been established. ELES Gen, a company that owns the Slovenian half of the Krško nuclear power plant and used to be in 100% ownership of ELES, was separated from ELES by the government and placed under direct state ownership. The new company has already begun to operate independently in the market. So far it has sold around 20% of the Slovenian energy output from the nuclear plant, while the sale of the remaining 80% is still bound to the medium-term contracts with the leading Slovenian company in the power sector, the HSE. In addition, the government has adopted a privatisation programme proposal that plans to merge Termoelektrarna Brestanica and the entire chain of the Sava hydro-electric plants with the pillar of Gen Energija to better balance it with the first pillar (the HSE). Elektro Maribor also decided to enter the market with its own group of companies independent of the HSE, which is likely to increase competition particularly after 1 July 2007 when the cross-border transmission capacities will be opened up fully and foreign wholesale suppliers will be able to enter the Slovenian market.

5/ Steps to build new transmission and production capacities

The Slovenian government has approved the building of a 400 kV overhead power line from Cikovce to Hevitz, which opened the way for the adoption of a national spatial plan required to complete the connection with Hungary. Several power licences for the construction of new production facilities in Slovenia have been issued, but the construction itself depends essentially on investors. At the moment, no special measures to promote investment in production facilities are foreseen because there is a sufficient pool of interested investors.

III.A.2.3.3.4 Transport policy

Adopted in June 2006, the Resolution on the Transport Policy of the Republic of Slovenia, is a modern, concise and straightforward document setting out the main objectives of Slovenia's future transport policy. The planned measures focus on mobility, accessibility, environmental protection and safety, economic development, optimum use of resources, intermodality and interoperability, and a balance between transport modes. The main objectives of transport policy are to achieve a social optimum in the transport sector, increase transport safety and protection, use energy efficiently and reduce environmental pressures arising from transport.

An action plan for the introduction of a free-flow electronic toll collection system was also approved in June 2006. New transport technologies and solutions are planned to be rolled out. By the end of 2008, the toll collection system on motorways and highways will be equipped with the microwave DRSC free-flow technology. By 2012, a satellite toll collection system for heavy goods vehicles (over 3.5 tonnes gross weight) will be in use on the entire road network.

Priority measures (Guideline no. 13):

- 1/ Establish an integrated system of public passenger transport (single tariff system, combined tickets, harmonised timetables, combined information system, intermodal terminals).
- 2/ Promote the provision of comprehensive logistical services by setting up the architecture for intelligent transport systems.
- 3/ Deregulate transport modes and sell state-owned shares in transport companies in line with the prevailing legislation wherever the public interest allows and where justified in terms of competition, quality and safety.
- 4/ Harmonise the national railway legislation with the second railway package.
- 5/ Adopt a new harbour law to regulate the conditions of harbour management, the provision of harbour operations and the use of marine resources.
- 6/ Standardise the transport, technical and safety regulations on air transport and liberalise the procedures regarding the commercial aspects of air transport.

1/ Establishing an integrated system of public passenger transport

Activities in the area of public passenger road and railway transport include the setting up of an integrated system of public passenger transport that will operate as a commercial public service for the provision of passenger transport. The aim of the new system is to increase the scope and quality of public passenger transport by improving the geographical and price accessibility of services. The draft Public Passenger Transport Act, which is the framework law regulating public rail and road passenger transport in Slovenia, is currently in the phase of harmonisation. The project for launching the combined ticketing and passenger information system is also in preparation. A cross-ministerial subcommittee is examining the possibilities of introducing single budgetary financing for public passenger transport. The general transport conditions and standards of access to public passenger transport have been adopted.

2/ Promoting comprehensive logistical services by setting up the architecture for intelligent transport systems

Preparations are under way to establish logistical clusters and a system of auctions for goods transport services required by electronic enquiry. The idea is to link up logistical centres along geographical and modal parameters to boost economic development and increase the capacity of the system, which will contribute to the optimisation of freight transport and relieve pressures on the environment.

3/ Deregulation of transport modes and the sale of state-owned shares in transport companies

A new draft Road Transport Act is being drafted to bring the national law more in line with the less stringent EU legislation in this field. The new law will relax the requirements for obtaining operating licences and public authorisations for issuing licences and permits on the basis of public tenders. The new regime should improve the competitive position of Slovenian operators in the EU's internal market while maintaining equally high safety and quality standards in transport services.

4/ Harmonising the national railway legislation with the second railway package

The harmonisation of national legislation with the second railway package is in progress. The bill amending the Act Amending the Railway Transport Act is in the phase of harmonisation. Also in preparation are amendments to the Safety of Railway Transport Act that will implement mainly the technical and safety part of the second railway package. With the adoption of these laws, the national legislation will be harmonised with the EU's regulations and enable the cross-border provision of services, a higher level of operating safety and non-discriminatory access to infrastructure by establishing independent regulatory bodies.

5/ Adoption of a new law to regulate the operation of harbours

A new comprehensive law on harbours is being prepared. The law will provide detailed legal provisions to resolve the unsettled issues of property rights in the freight port of Koper and the separation of the management and operation functions in the port.

6/ Standardising the transport, technical and safety regulations for air transport and liberalising the procedures regarding the commercial aspects of transport

The national air transport legislation is being harmonised with EU law in order to liberalise the commercial aspects of transport and ensure common standards in transport, technical and safety regulations. A total of 21 regulations (rules, decrees, acts) for this area were adopted in 2005 and a further six regulations were passed in the first six months of 2006. Administrative procedures were shortened and new lines were opened, including lines for low-cost airlines.

III.A.2.3.5. Expansion and improvement of infrastructure

Priority measures (Guideline no. 16):

- 1/ Railway infrastructure: complete investment work on corridors V and X – upgrading of lines and track installations to increase speed and axle load limits, renewal of existing lines and the building of passenger centres.
- 2/ Road infrastructure: complete the motorway network by 2010, deliver the national programme for the development and maintenance of state roads.
- 3/ Maritime infrastructure: increase the capacity of the freight port in Koper and link it up with the road and railway infrastructure.
- 4/ Air transport infrastructure: modernise international airports and air traffic control infrastructure.

III.A.2.3.5.1. Railway infrastructure

The National Programme for the Development of Railway Infrastructure was drafted in 2005 and is currently being harmonised. The programme emphasises the need for higher investment in railway infrastructure. The document sets out priority investment projects on railway infrastructure for the period 2006-2020 with detailed budgets and will serve as the basis for their phased preparation and implementation.

1/ *Railway infrastructure works on corridors V and X – upgrading the lines and track installations to allow higher speed and axle load limits, renovation of existing lines and the construction of passenger centres.*

Renovation and modernisation projects on corridors V and X are under way.²⁶ The planned investment in the trans-European long distance high-speed rail network had to be changed substantially last year due to Slovenia's geographical conditions which hamper the feasibility of constructing standard high-speed lines. Construction has been complicated for safety reasons, impeded access of passengers to services and for financial reasons. Therefore, Slovenia will promote investment in the renovation of lines on corridors V and X to enable trains to run at 160 km/h.

III.A.2.3.5.2 Road infrastructure

The current activities on road infrastructure comprise the completion of the motorway network and modernisation of other state roads to shorten travel times and reduce traffic congestion, improve regional connections and link them up with the main European corridors and, consequently, to ease environmental pressures.

2/ *Road infrastructure: completion of the motorway network by 2010; delivery of the national programme for the development and maintenance of state roads*

In 2005 the national road network comprised 5,847 state roads. Works carried out on roads last year included routine maintenance²⁷, road management and safety, regulation of traffic in populated and unpopulated areas, the restoration and reconstruction of road installations and building of substitute installations²⁸. The National Programme for State Roads Development and Maintenance, which will serve as the realisation plan for major road works and expansion of capacity of the state road network.

The construction of the motorway network is consistent with plans set out in the Resolution on the National Programme of Motorway Construction in Slovenia and the annual motorway construction and maintenance plans. In 2005 a total of 10.8 km of road sections were put into operation while construction continued on 42.5 km of road sections and began on 55 km of roads. 22.3 km of road sections are set to be completed in 2006, while construction will continue on 82.8 km and start on 47.5 km of road sections.

III.A.2.3.5.3. Maritime infrastructure

3/ *Maritime infrastructure: increasing the capacity of the freight port of Koper and linking it up with the road and railway infrastructure*

Freight and passenger harbour transport has increased over the last few years. Documentation for the construction of a new, 1,800 m long dry port (construction of the third pier and extension of the first and second piers) is in preparation.

III.A.2.3.5.4. Air transport infrastructure

The main activities in the area of air transport infrastructure concerned the modernisation and upgrading of the existing airport infrastructures and compliance with the Schengen Agreement's provisions.

²⁶ The competent bodies are preparing the documentation for investment projects on the line sections Divača–Koper, Pragersko–Hodoš, Trieste–Divaja. Modernisation is already under way on sections of the lines Ljubljana–Zidani Most–Maribor, Koper–Divaja, Ljubljana–Sežana, Dobova–Ljubljana–Jesenice, Zidani Most–Šentilj, Pivka–Ilirska Bistrica. The second phase of the Križni vrh project was completed in 2005.

²⁷ Activities other than routine maintenance included reconstruction, modernisation, renovation and asphalt overlays on state roads. 12 crossroads were arranged and 15 more are currently being arranged. 19 km of new state roads and 6 km of new cycle paths were built.

²⁸ Substitute installations are slopes, retaining walls, culverts etc.

4/ *Air transport infrastructure: modernising international airports and air traffic control infrastructure*

Preliminary studies of medium-term requirements and technological outlines for the modernisation of air traffic control have been prepared. Within activities for the renovation of Ljubljana Airport, procedures for reconstruction of the old passenger terminal and construction of a new one have been launched. The modernisation of infrastructure at Maribor Airport is in progress.

III.A.3. BUSINESS ENVIRONMENT AND DEVELOPMENT OF ENTREPRENEURSHIP

The level of entrepreneurial activity in Slovenia is low. In 2003-2005, the number of firms in the business sector²⁹ grew by 8.1% while the rate of early entrepreneurial activity³⁰ first dropped from 4.6% (2002) to 2.6% (2004) and then rose to 4.4% in 2005 which is, however, still the fourth lowest rate in the EU³¹. Slovenia also shows a relatively high mortality rate among emerging enterprises. The mortality index rose from 2.1 (2002) to 2.7 (2004) and then returned to the 2002 level in 2005. Even higher values were only recorded in France, Greece and Belgium among the EU countries. This reflects the low level of efficiency of the entrepreneurial process in Slovenia that is causing entrepreneurs to lose resources and time and incur opportunity costs of unrealised returns.

The main obstacles to entrepreneurship in Slovenia are access to alternative sources of finance and the regulatory framework for business, although the latter is improving gradually. According to data from the GEM (Global Entrepreneurship Monitor), venture capital investment in Slovenia totalled just 0.009% of GDP in 2004, ranking Slovenia at the very end of 16 EU members.

Priority measures (Guidelines no. 14 and 15):

- 1/ Prepare a new programme for promoting entrepreneurship and competitiveness. The programme should be simple, transparent and focused.
- 2/ Streamline the allocation of state aid through the 'one-stop-shop' system.
- 3/ Improve the quality and access to support services for small and medium-sized enterprises; link up advisory and guidance institutions within a single network.
- 4/ Improve access to start-up and venture capital and simplify bank lending procedures.
- 5/ Provide instruments to enhance co-operation between industry, education and research institutions, and promote the mobility of human resources.

1/ *Preparing a simple, transparent and focused programme to promote entrepreneurship and competitiveness*

At the beginning of July, the Slovenian government approved the Programme of Measures to Stimulate Entrepreneurship and Competitiveness for the period 2007-2013, which will serve as the key guideline for the activities and expenditure in this area in the forthcoming period. The programme sets out clear objectives and criteria that will also be used in applications for state aid. The package of measures covers four main areas, with each breaking down into several core measures:

²⁹ Activities C to K according to the Standard Classification of Activities (AJ PES data). The SORS data shows that the number of firms in the business sector rose by 2.6% from 1999 to 2004.

³⁰ The level of early entrepreneurial activity is measured as the proportion of the population (aged 18-64) planning to set up a business or running a business for less than 42 months (Global Entrepreneurship Monitor Slovenia, 2005).

³¹ The EU average (5.40 in 2004) is an estimate based on data from 16 member states: Poland, Ireland, United Kingdom, France, Greece, Denmark, Spain, the Netherlands, Germany, Finland, Italy, Hungary, Portugal, Sweden, Belgium and Slovenia (Acs et al., 2005). In 2005, the GEM study included Austria and Latvia instead of Poland and Portugal.

(1) *promoting entrepreneurship and a business-friendly environment*: (i) promote entrepreneurship and training for business; (ii) develop one-stop-shop entry points; (iii) introduce a voucher-based system of consultancy and training; (iv) support the EIC network; and promote entrepreneurship among specific target groups.

(2) *skills for business*: (i) subsidise employers' costs of apprenticeship programmes for secondary school pupils; and (ii) 'Researchers for Industry': support young scientists doing basic research, improve researcher mobility, support development teams in firms.

(3) *development and innovation in industry*: (i) build logistical platforms to help develop leading-edge industries (infrastructure); (ii) promote R&D and investment industries; (iii) establish a national centre for competitiveness and innovation; (iv) stimulate the creation and activity of innovative teams; (v) promote advisory and support services for innovation; and (vi) foster new innovative firms.

(4) *helping small and medium-sized enterprises through equity and debt financing*: (i) establish a venture capital fund; and (ii) promote the investment of SMEs by granting loans and guarantees.

Based on selected targets and indicators common to several measures, the programme for stimulating entrepreneurship and competitiveness³² is designed to: (i) create approximately 15,000 new high-quality jobs by 2013; (ii) establish at least 1,200 new enterprises, including 20 high-tech gazelles; (iii) double the number of top-skilled workers in industry by 2013; (iv) increase the shares of innovation-active companies by 2013 (to 75% large, 60% medium-sized and 40% small firms); (v) increase the share of high-tech products exports in total national exports from 5.8% to 15% by 2013; (vi) raise the annual number of European patents per million citizens to 100 by 2013; (vii) set up at least five high-tech logistical industry platforms by 2013; (viii) achieve at least 3% higher value added in firms that receive aid compared to industry-specific averages; and (ix) reduce the obstacles to financing high-growth firms with strong development potential by 2013.

III.A.3.1. Improving the business environment and reducing the burden of regulation on business

2/ *Setting up one-stop-shop systems to facilitate the opening of a business*

An electronic one-stop-shop (e-VEM) system for individual private entrepreneurs was launched in 2005. The time needed to set up a private entrepreneur's business was shortened from 8 days to 1 day and the fees for registration, closing and changing the organisation form of the individual private entrepreneurs were abolished. The one-stop-shop system (for registration, health and tax data declaration) should allow citizens to save SIT 179.73 m (EUR 750,000) annually³³. 16% more new individual private entrepreneurs were registered in 2005. The VEM and e-VEM projects for individual entrepreneurs have proved effective in practice and will be complemented with similar one stop system for the registration of firms (limited liability and unlimited companies). Activities are already under way and the project is due to be completed in 2007. This service will enable future entrepreneurs to settle all registration formalities in the one place and shorten the procedure from registration, submitting other required data and receiving decisions to 7 days.

The integration of implementing bodies will continue in 2007, which should lead to the rationalisation of parastatal implementing bodies, the transparency of their operation and application of the one-stop-shop system.

³² The planned total expenditure for the period 2007-2013 is estimated at SIT 211 bn (EUR 880 m). SIT 83,340 m (EUR 347.77 m) thereof will be financed from the national budget, SIT 106,982 m (EUR 446.43 m) from the ERDF, and SIT 21,623 m (EUR 90.23 m) from the ESF.

³³ The cost of setting up the VEM system for individual entrepreneurs totalled SIT 59.91 m (EUR 250,000), while the cost of setting up the VEM for limited liability companies is estimated to be SIT 143.78 m (EUR 600,000).

3/ Improving the quality and access to support services for small and medium-sized enterprises; linking-up consultancy and guidance institutions into a single network

In 2005, the government established the Public Agency for Entrepreneurship and Foreign Investment (PAEFI) by joining two former agencies, the Small Business Development Centre (SBDC) and the Slovenian Trade and Investment Promotion Agency (TIPO) in co-operation with the Slovenian Enterprise Fund. The Agency³⁴ started working in January 2006 and the reorganisation has led to better synergy between the programmes of former SBDC and TIPO and improved the efficiency of the policy conducted by the Ministry of the Economy. PAEFI's programmes are much more clearly defined and quantified than the comparable programmes of the past. The new agency with its streamlined operation is expected to provide effective services to business through the one-stop-shop system.

III.A.3.2. Promoting entrepreneurial development and innovation

5/ Providing instruments to enhance co-operation between industry and education, research and development institutions, and promote the mobility of human resources

In 2005/2006 the government has provided financial backing for the establishment of four university incubators and three technology parks with the necessary infrastructure. The government provides the start-up finance, support services and infrastructure for spin-off firms operating in these hubs.

Until 2006, 21 commercial zones received utilities while 14 commercial zones were set up or expanded. The further development of innovation hubs until 2007³⁵ will be additionally supported through structural funds providing finance for technology centres, clusters and parks.

The establishment of a Slovenian centre for competitiveness and innovation at the end of 2006 will enable the networking of all support services, innovative enterprises, investors, universities and research institutions. The centre will also serve as the national centre for innovation and will be used to create a fully operative innovations market with the aid of one-stop-shops. The centre will work to establish and improve the links between the Euro Info Centres, the Innovation Relay Centre (IRC), the Chamber of Commerce and Industry of Slovenia, the Chamber of Craft of Slovenia, innovation hubs, agencies, institutions and funds.

This year the government has also approved the working programme of the Slovenian Technology Agency (TIA). The TIA's main task is to foster technological development, innovation and technological entrepreneurship. The agency supports and stimulates developmental endeavours of the business sector through financial aid for the technological developmental programmes of firms, particularly those resulting from the clustering of companies and their co-operation and knowledge exchange with research institutions, both nationally and abroad.

III.A.3.3. Training for entrepreneurship

In order to stimulate researchers from domestic and foreign research institutions to spend time working in industry, a public tender for co-financing such researchers has been carried out this year as part of the researchers' mobility programme. The funds budgeted for this purpose in the period 2006-2008 total SIT 1,350 m (EUR 5.63 m).

³⁴ The PAEFI has a budget of SIT 2,688.1 m (EUR 11.22 m) for the programmes running in 2006. Within that, SIT 97.1 m (EUR 450,191) should flow in from international projects.

³⁵ The following hubs will be financed through the ERDF's Measure 1.1 (Promoting the creation of an innovative environment) in the period 2004-2006 (2007): technology centres IRSPIN (SIT 690.9 m/EUR 2.88 m) and TECES (SIT 1,072.2 m/EUR 4.47 m), technology clusters ACS (SIT 2,809.5 m/EUR 11.72 m) and KGH (SIT 721.2 m/EUR 3.01 m), and the Ljubljana-Brdo Technology Park (SIT 1,949.8 m/EUR 8.14 m).



The planned measures designed to stimulate enterprise and training for entrepreneurship in 2007-2013 include the integration of entrepreneurial training at all levels of education, the co-financing of employers' costs for vocational training and apprenticeship programmes for secondary school pupils, and the sub-programme 'Researchers for Industry' (with an annual budget of SIT 3,634 m/EUR 15.16 m during 2007-2013), aimed at increasing the quality and applicability of scientific and research work, knowledge transfer and links between the business sector and the R&D sphere.

III.A.3.4. Access to finance for small and medium-sized firms

4/ Improving access to start-up and venture capital and simplifying the bank lending procedures

This year, the Slovenian Enterprise Fund (SEF) is providing SIT 6.5 bn (EUR 27.12 m) of financial aid to enterprises, particularly SMEs, to promote their development and investment in new technological equipment and machinery. The SEF also piloted a start-up capital programme for incubated firms applying the *de minimis* rule. In addition, the SEF has improved the terms of debt financing this year.

The Act Regulating a Supportive Environment for Entrepreneurship will be adopted this year. Among other things, the law will regulate access to venture capital and provide for the establishment of a venture capital fund for businesses. The Venture Capital Corporations Act, which will lay down the exact rules of equity financing, is also expected to be finalised by the end of the year. We therefore expect that venture capital funds will be in full operation in Slovenia in 2007.

III.A.3.5 Promoting the internationalisation of firms

Priority measures (Guidelines no. 10 and 13):

- 1/ Collect and disseminate high-quality foreign trade data and provide consultancy.
- 2/ Promote Slovenian products and services.
- 3/ Train human resources for international business.
- 4/ Open representative offices of Slovenian business abroad.

In August 2005 the government adopted and launched the Programme for Stimulating the Internationalisation of Companies for the period 2005-2009. The concrete implementation of the programme has been endorsed by the government's approval of the 2006 working programme and financial plan for the PAEFI. The programme should deliver the following goals by 2009: (i) 100,000 visitors to PAEFI 's web portal, with a daily average of 400 different visitors; (ii) 250 requests for information and advice; (iii) 1,500 offers of business opportunities; (iv) 250 up-to-date news items for exporters; (v) 10% higher demand for Slovenian suppliers; (vi) obtaining information from firms about their skills for successful performance in international markets; and (vii) each PAEFI representative office of Slovenian business should attract 50 users of services, 70% of which should be small and medium-sized enterprises.

1/ Collecting and disseminating high-quality foreign trade data and provide consultancy and 2/ Promoting Slovenian products and services

General information about foreign markets and business opportunities in these markets is provided through the web portal 'Export Window'. The portal will be upgraded in 2006 to increase the quantity of available up-to-date information and enhance active communication with users. New topics will be added.

Information for foreign business partners is provided through the portal 'SloveniaPartner', managed jointly by PAEFI and the Chamber of Commerce and Industry of Slovenia, and the



brochure 'Slovenia your Business Partner'. Both have been updated this year. PAEFI's web portal provides individual services for potential foreign buyers (information about suppliers in Slovenia; for serious requests also more detailed market analyses).

3/ Training for international business

This year the PAEFI has had active contacts with other European agencies promoting trade internationalisation (e.g. the Swedish Trade Council) which offer information about training for international co-operation. The Slovenian agency will also work together with these bodies in projects run by the European Commission, including the Leonardo da Vinci programme. Representatives from the Slovenian agency will take part at the expert conferences and roundtables as both lecturers and participants.

4/ Opening Slovenian trade representation offices abroad

In compliance with the Law on Promoting Foreign Direct Investment and Internationalisation of Enterprises that was adopted in June 2006, the legal groundwork for the establishment of PAEFI's trade representation offices of Slovenian business has been prepared. Based on the economic evaluations conducted, the government has given its prior consent to the establishment of four Slovenian trade representation offices abroad: in Düsseldorf, Milan, Istanbul and Bucharest.

III.B THE SECOND DEVELOPMENT PRIORITY: EFFECTIVE GENERATION, TWO-WAY FLOW AND APPLICATION OF THE KNOWLEDGE NEEDED FOR ECONOMIC DEVELOPMENT AND QUALITY JOBS

III.B.1 RESEARCH, INNOVATIONS AND TECHNOLOGY

III.B.1.1 Promoting R&D activities and innovations

Slovenia's main development document relating to R&D is the National Research and Development Programme (NRDP), gathering together the most general objectives and policies on this topic from national strategic documents in a comprehensive range of sub-objectives and measures for their implementation. Where reasonable and possible, the objectives of the NRDP are expressed as specific target values, while all measures include an indication of the responsible bodies and the deadlines for their implementation.

The NRDP focuses on all key segments pertaining to the wider domain of research policy – from providing excellent science in public research institutes and universities as an indispensable long-term basis for innovation and thus the economy's competitiveness through to integrating the public research sphere with the business sector, providing corporate incentives for strengthening investment in R&D and creating a favourable environment for entrepreneurship and innovations. From a total of 60 measures included in the NRDP, 41 i.e. two-thirds relate to supporting technological development and the economy, and 14 or almost one-quarter of these are directly aimed at strengthening co-operation between the public research sphere and the business sector.

Since the National Assembly only adopted the Resolution on the NRDP in December 2005, there was little time for implementation of the programme. Nevertheless, significant sections of the NRDP are included in the plans and documents for the utilisation of funds from EU structural funds under the new financial perspective. Further, new forms of tax relief were introduced for enterprises investing in R&D, while a new law on risk capital companies is being drafted which aims to provide the missing legal basis for risk capital funds and public-private partnerships in this sphere. In autumn 2006, a public debate will be held on the Protection of Intellectual Property Rights Act, which among others deals with research results and innovations achieved in public research organisations or in co-operation between public research organisations and the business sector.

Finally, mention needs to be made of the Young Researchers Programme that, since its establishment in 1985, has provided several PhD degrees and made a significant contribution to lowering the average age of researchers in Slovenia. Such an example of good practice was recently applied to the training of young researchers in the economy for the economy; this year, it was brought even closer to the needs of enterprises and upgraded with the obligation for young researchers to undergo training abroad.

Priority measures (Guidelines Nos. 7 - 8):

- 1/ Increase public expenditure on R&D by approximately 0.1% of GDP a year.
- 2/ Gradually change the structure of public investment in R&D in such a way that additional public funds for R&D will be distributed between the technology sphere and the science sphere in a ratio of 80:20, while within existing public funds the share for specific applied and developmental research will be gradually increased in the sense of promoting technological development and innovation.
- 3/ Change the tax policy and industrial policy and the system of financing research activity which will encourage co-operation between the research sphere and the business sector, the establishment of spin-off enterprises and the employment of researchers in the business sector.
- 4/ Establish a legislative and financial environment supportive of the establishment and growth of high-tech and other innovative enterprises, particularly small and medium-sized enterprises (strengthening the Slovenian Enterprise Fund, co-founding and supporting the operation of risk capital funds and other forms of support for enterprises through rebates etc.).

1/ Increasing public expenditure on R&D by approximately 0.1% of GDP a year

In 2002 and 2003 when Slovenia was setting the objective of 3% of GDP on R&D by 2010, its official data on the achieved gross domestic expenditure on R&D as a share of GDP were considerably higher than the data available since publication of the last official statistics in 2006. One reason for this inconsistency is the revision of data on GDP in 2003-2005³⁶. Another reason is the divide between the first statistical estimates for 2003 and 2004 and the final data obtained from statistical research on R&D.³⁷ According to the most recent official data, the GDP share of gross domestic expenditure on R&D for 2003 and 2004 decreased compared to the previous years to 1.32% (2003) and 1.45% (2004).

Table 1: Gross domestic expenditure on R&D as a % of GDP

	1996	1997	1998	1999	2000	2001	2002	2003	2004
GERD as a % of GDP	1.33	1.31	1.37	1.41	1.43	1.55	1.52	1.32	1.45

According to the latest statistical data, public expenditure³⁸ for financing R&D in Slovenia in 2004 accounted for 0.45% of GDP. In addition to investments in R&D from the national budget, public expenditure on R&D can also be increased through financing from the EU structural funds, the EU framework programmes for R&D, as well as the funds of local communities or regional development agencies. In the next financial perspective, the financing of R&D from structural funds is expected to gradually increase, reaching 0.20% of GDP by 2009 and 0.25% of GDP by 2010.

³⁶ The GDP data were revised three times – in October 2003, April 2004 and September 2005 – in order to adjust to the methodology applied by the EU. Due to the inclusion of new elements in the data on GDP, GDP values increased while the share of gross domestic expenditure on R&D in GDP were reduced accordingly.

³⁷ Up until recently, for 2003 and 2004 only the estimates of the Statistical Office were available and were based – in accordance with an agreement made at Eurostat – on the extrapolation of the average annual rate of real GERD growth in the previous three-year period. However, the extrapolation method is only successful in the case of the stable movement of parameters and not in cases where their dynamics change, like what occurred in Slovenia.

³⁸ It could also be said budgetary funds but in terms of its meaning in the broadest sense, i.e. including funds from the national budget as well as funds from municipality, regional and EU budgets.

The planned share of public expenditure on R&D in GDP (both from the national budget and EU funds) by 2008 is gradually increasing (2005: 0.66%, 2008: 0.77%). The shares from 2006 on include about 0.1% of EU funds. Another important measure is the corporate income tax relief for R&D, which provides for indirect budgetary financing of private expenditure on research and development. Since the more extensive relief was introduced in 2006, evidence of its effects will be available in 2007. Expenditure on R&D is distributed among various line ministries and good co-ordination is necessary for the efficient use of such funds. In order to reach the set objective of 1% of public expenditure on R&D in GDP by 2010, more funds will have to be allocated for this purpose in future national budgets.

2/ *Gradually changing the structure of public investment in R&D*

The baseline situation regarding the distribution of public funds for R&D between the science sphere and the technology sphere is unfavourable – the shares of the technology sphere were definitely too low and accounted for 9% in 2004 and 12% in 2005. Their rise to 20% in 2006 indicates that the financing structure is changing in the desired direction.

As regards raising the share of existing public funds for applied and developmental research (in particular in the priority areas of research and technological development), the Slovenian Research Agency, which deals with scientific research, is relatively limited by the already adopted contractual obligations arising from previous tenders. Up to 2008, in fact, a large part of the Agency's³⁹ budget is fixed and restricted by five-year contracts for research programmes. In the selection of research programmes particular account was taken of the criterion of scientific excellence, whereas in terms of what is known as socio-economic relevance they only partially correspond to Slovenia's research priority areas since they were planned prior to adoption of the NRDP. While in the past participation in research programmes had only been possible for public research institutes of national importance, the new five-year financing period 2004-2008 introduced concessions thus allowing the participation of other public institutes and enterprises. The aim of the NRDP to reduce the share of research programmes and increase project financing (target ratio 40:60) will only be taken into account in the new round of programme financing at the beginning of 2008.

Project financing allows the new tenders to be adjusted to the NRDP's objectives more rapidly as the existing funds are released every year. In 2005, the financing of the Slovenian Research Agency saw the introduction of 'thematic projects' with themes being put up for tender which correspond to NRDP priority areas. Such were defined in more detail by the priority team comprising the Heads of R&D of successful Slovenian enterprises. Due to a minimum share of non-allocated funds for research projects in 2005, the thematic projects account for only 1% of the entire amount available to the Slovenian Research Agency for research but represent new quality – thus, all newly-financed basic projects are directed at research themes aligned with the business sector. Given that a large share of the budget is already intended for science (approximately 88% of all budget funds for R&D in 2005), no fast changes in the scientific budget are expected, not even with additional financing; on the contrary, the changes will evolve gradually with the release of the allocated funds.

3/ *Changing the tax policy and industrial policy and the system of financing research activity*

Among the 60 measures provided in the NRDP, more than 20 or more than a third are entirely or partly intended for changing the system of financing which should encourage co-operation between the public research sphere and the business sector, the establishment of new enterprises and the employment of researchers in the business sector. Measures to promote co-operation between the higher education sphere and the business sector are also envisaged in the new resolution on the National Programme of Higher Education 2006-2010. Urgent

³⁹ 37 % of the total budget and 67 % of all expenditure on R&D are fixed in the Agency's budget until 2008.

measures to be implemented in the near future include the introduction of an efficient methodology to assess the economic suitability of research projects and programmes (involving all project holders) and changes to the system of financing public research organisations which should reward the co-operation with the economic, i.e. business, sector.

Industrial policy measures to promote co-operation between R&D and the business sector are included in the Programme of Measures to Promote Entrepreneurship and Competitiveness 2007-2013. One of the envisaged measures to promote the flow of knowledge into the business sector is the Young Researchers for the Enterprises programme, providing funding for the basic research projects of young researchers in enterprises. The main measures relating to the promotion of innovations include: (i) establishing a Slovenian centre for competitiveness and innovativeness; (ii) encouraging the establishment and operation of innovative groups of enterprises; (iii) supporting SMEs and potential entrepreneurs in the use of consultation and support services for innovations; (iv) encouraging SMEs to acquire intellectual property rights (in 2006 this is part of the tenders, but will represent a separate measure starting from 2007). Measures to promote new innovative enterprises include the establishment of infrastructure for economic development logistic platforms, which will create a suitable environment for newly-established spin-off enterprises and other new innovative enterprises, as well as a series of financial measures to support young innovative enterprises.

10 measures of the NRDP are intended for the development of intermediaries for the transfer of knowledge between the institutions of knowledge and enterprises and other forms of integration of enterprises, research institutes and universities to transfer research achievements into economic use. Considerable yet still insufficient funds for the implementation of such measures were provided under the European Regional Development Fund (Single Programming Document 2004-2006). Support was provided for projects implemented in partnership between enterprises and institutions of knowledge, technology centre projects, technology networks, corporate clusters and technology parks, and projects of research centres of excellence. PHARE funds were used to support university spin-off incubators (with the exception of the Ljubljana University incubator whose operations are made extremely difficult for this reason). In 2005-2006, the activities of technology platforms expanded as well. Insufficient action has so far been taken to establish and provide for the functioning of patent offices and university offices for the transfer of technologies. More support to such activities is planned under the new EU financial perspective⁴⁰.

The upgrading and extension of the measures aimed at providing quality human resources for R&D in the economic sector and at increasing inter-departmental mobility are envisaged in the Human Resources Development Operational Programme for 2007-(European Social Fund). In addition to increasing the financing of the Young Researchers programme and its content-related restructuring in 2005-2006, a new instrument was introduced in 2006 to encourage the transition of scientific-technical researchers from public research organisations to the economic sector. Moreover, a public tender for co-financing researchers in the economic sector amounting to SIT 1.350 m (EUR 5.63 m) to be used in 2006-2008 was held in 2006 under the programme for the transition of researchers from national and foreign institutions of knowledge to Slovenian enterprises.

As far as tax policy is concerned, amendments to the Corporate Income Tax Act introduced – in addition to the existing tax relief for enterprises in R&D⁴¹ – additional tax relief for investments in R&D whereby taxable persons have the possibility to claim a reduction of the taxable base in the amount of 20% of the total sum intended for investment in R&D in a

⁴⁰ Particularly under the operational programmes of the European Regional Development Fund, the National Development Network and, to some extent, under the Operational Programme of the European Social Fund.

⁴¹ Since 1 January 2005 Slovenia has applied relieves for investments in research equipment and relief for the salaries of newly employed persons with a PhD in their first year of employment.

particular tax period, yet only up to the amount of the taxable base. Investments qualified for relief include investments in the internal R&D activities of taxable persons and in the purchase of R&D services provided by other people, including affiliated entities, or other public or private research organisations. Such relief is further improved with a regional component, i.e. regional relief⁴². The government will define the scheme for exercising regional relief in a decree which will become applicable after obtaining a positive opinion from the European Commission.

4/ Establishing a legislative and financial environment supportive of the establishment and growth of high-tech and other innovative enterprises, particularly small and medium-sized enterprises

Most measures concerning this topic are presented in Section III.A.3 Business environment and the development of entrepreneurship. Important measures are provided by the Programme of Measures to Promote Entrepreneurship and Competitiveness 2007-2013, including grants for the launching and growth of newly established innovative enterprises and other extra incentives for young innovative enterprises.

The measures for promoting small and medium-sized enterprises through equity and debt financing (credits, guarantees, donations) are implemented by the Slovenian Enterprise Fund by providing financial instruments and taking into account the trends arising from the macroeconomic environment and market needs. (Also see III.A.3.4 Small and medium-sized enterprises' access to financial resources, p. 25).

III.B.1.2 Promoting the use of information and communication technology and the transition to the information society

Priority measures (Guideline No. 9):

- 1/ Increase the accessibility of ICT by speeding up the development of wireless networks, investment in passive infrastructure.
- 2/ Include the broadest possible population in the use of ICT and information society services and implement the 'A computer for every home' initiative.
- 3/ Provide e-contents in the Slovenian language.

Statistical data on the use of e-government services in Slovenia available for 2004 and 2005 indicate a rise in the number of users and thus a relatively good ranking on the international scale. In terms of enterprises using e-government services Slovenia is well above the EU-25 average⁴³; it is quite close to the European average as regards the share of the population using such services when it comes to obtaining information and administrative forms from administration websites, but lags behind the EU when it comes to submitting forms compiled in an electronic form to administrative bodies⁴⁴.

The use of information and communication technology will continue to play an important role in the future which is proven by the inclusion of ICT in the National Development

⁴² Taxable persons may claim a reduced taxable base in the amount of 30% of the sum intended for investments in R&D provided that they have their seat and perform their activities in regional areas with a GDP per capita below the national average by up to 15%, and in the amount of 40% of the sum intended for investments in R&D provided that they have their seat and perform their activities in regional areas with a GDP per capita below the national average by at least 15%, yet not more than in the amount of the taxable base.

⁴³ According to Eurostat, in 2005 69% of Slovenian enterprises communicated with the public administration via the Internet for the purpose of obtaining information (51% in the EU), 61% for the purpose of obtaining administrative forms (50% in the EU), and 45% for the purpose of submitting compiled forms to administrative bodies (33% in the EU).

⁴⁴ According to Eurostat, in 2005 9.5% of the Slovenian population communicated with the public administration via the Internet for the purpose of obtaining information (10.5% in the EU), 17.6% for the purpose of obtaining administrative forms (20.7% in the EU), and only 2.7% (the latest available data are for 2004) for the purpose of submitting compiled forms to administrative bodies (5.6% in the EU in 2004).

Programme and the National Strategic Reference Framework 2007-2013. Particular attention in such programmes will be devoted to promoting the development and building of a digitalised infrastructure for the entry, storing, access and use of digital contents, particularly in the sphere of cultural heritage (digital library etc.). There will be an accelerated introduction of e-business and the development of e-services as well as promotion of the integration of development potential within the economic sector and the research sphere with support for the establishment and operation of ICT technology platforms. One of the main programmes in this respect will include the provision of broadband connections in less developed regions and rapid access to educational, scientific and cultural institutions.

1/ Increasing the accessibility of ICT by speeding up the development of wireless networks, investment in passive infrastructure

The Slovenian government participates in the development of passive infrastructure indirectly by providing the legal conditions for improving access to the infrastructure of electronic communications. In terms of investments in passive infrastructure, account needs to be taken of the commercial interests of operators. A mapping of Slovenia is under way which will provide the basis to define the areas without commercial interest and where the state will be involved in the provision of broadband connections for households.

Currently there is also a public tender for the setting up of public e-points with wireless access to be completed in October 2006, contributing to a more uniform distribution of Internet access points in Slovenia (particularly in rural areas).

2/ Including the broadest possible population in the use of ICT and information society services and implementation of the 'A computer for every home' initiative

Last year the Ministry of Higher Education, Science and Technology implemented projects to involve the population in the use of ICT and e-services. In the sphere of e-libraries, multimedia centres and e-schools publicly accessible Internet points were set up (e-points). Moreover, the Ministry set up nine new e-libraries and seven new multimedia centres (MMC) and upgraded 10 existing e-schools. In addition, 45 e-points were equipped, providing access to the contents of e-government.

3/ Providing e-contents in the Slovenian language

In providing e-contents in the Slovenian language, a project of cultural heritage digitalisation was carried out last year as part of a more comprehensive project of setting up the Digital Library of Slovenia, which included the digitalisation and access to databases of scientific and cultural documents. In co-operation with the Ministry of Culture, the project of setting up the Music Information Centre of Slovenia was carried out providing access to e-contents in relation to Slovenian musical creativity.

Financing was also provided for the development of the e-services of local e-government: EUPLS (e-forms under the competence of local e-government), e-kindergartens (computerised processing of the applications for reduced payment), e-CRP (insight into the central register of the population for municipal officials).

A project to draw up a comprehensive strategy of e-learning and to set up on such a basis a system of e-education in Slovenia was launched last year; a portal for distance learning of the Slovenian language has already been set up.

III.B.2. KNOWLEDGE FOR DEVELOPMENT AND FOR THE DEVELOPMENT OF HUMAN RESOURCES

III.B.2.1 Promoting the development of human resources and lifelong learning

Priority measures (Guideline No. 23):

- 1/ Formulate an integrated and detailed strategy of lifelong learning.
- 2/ Reform higher education, post-secondary technical education and secondary technical and vocational education and guarantee opportunities for horizontal and vertical mobility at the national and international levels (ECTS credits, European and national qualifications framework).
- 3/ Complete the reform of the university sector by increasing the number of providers, ensuring greater adaptability to the needs of business and industry, higher quality and competition.
- 4/ Provide education for sustainable development.

1/ Formulating an integrated and detailed strategy of lifelong learning

In the sphere of vocational and secondary technical education, activities are being carried out to complete the Lifelong Learning Strategy⁴⁵, expectedly by the end of 2006. Measures of lifelong learning are being put into practice in accordance with the Memorandum on Lifelong Learning and the Lisbon Strategy.

Educational programmes in vocational and secondary technical education are being restructured so as to be intended for more professional standards (for several professions or for an area of a profession), have a modular structure (and credits assigned in the following years) and have a particular emphasis on ICT and the methods of distance learning, multimedia packages and programmes for special needs. For this purpose, funds are provided from the European and social fund (ESF). 20% of each educational programme will be up to the school to define together with the social partners in its own environment. This will add to the greater mobility of graduates in the labour market, the greater flexibility of vocational and technical education, to the possibility of including adults (the employed and unemployed) in education per individual parts of the programme (modules), and to the inclusion of the qualifications acquired in the certificate system for acquiring a formal education.

The Vocational and Technical Education Act was adopted in July 2006 and introduces the enhanced interconnection of general, technical and practical knowledge and education adjusted to individual competencies (capabilities). Moreover, it introduces the openness of curricula and envisages the obligation to carry out part of the educational programme directly in the work process, i.e. at the employer's premises. (Also see III.D.1.2.2 Active ageing and measures to address the employment issues of older workers, Measure 3, p. 49 and III.D.2.1. Promoting flexibility, adaptability and mobility in the labour market, Measure 4, p. 61)

2/ Reforming higher education, post-secondary technical education and secondary technical and vocational education and providing opportunities for horizontal and vertical mobility at the national and international levels (ECTS credits, European and national qualifications framework)

The reform of higher education began in 2004 with amendments to the Higher Education Act and the Recognition and Evaluation of Education Act which both set the legal basis for the

⁴⁵ The Strategy is based on 10 strategic cores with which the main dimensions of lifelong learning are put into practice: (i) integration and interweaving of all types, forms, contents and purposes of learning; (ii) importance and consideration of all learning possibilities; (iii) lifelong learning; (iv) learning for the entire width and dimension of life; (v) diversity, variegation, flexibility of learning; (vi) customised learning, incentives and access to learning; (vii) learning for working needs; (viii) learning for the needs of the local community; (ix) identification and recognition of learning; and (x) advisory support to persons in education.

reform of higher education. (Also see III.B.2.1 Increase the employment of young people, Measure 1, p. 46)

In the 2004-2006 programming period, the reform of higher education study programmes in line with the Bologna process⁴⁶ is being financed by the ESF. With the aim of encouraging the international activity of higher education institutions, new thematic areas⁴⁷ were determined in the call for tender for co-financing international co-operation among higher education institutions in 2006.

The Post-Secondary Vocational Education Act was adopted in 2004 and placed higher technical education under tertiary education. In accordance with the Bologna process, the Act introduced credit assignments (ECTS) and established the mechanisms for monitoring and assuring the quality of higher technical education by the same institution as that dealing with higher education. At the national level, a discussion is being held on drawing up a national framework of qualifications aimed at integrating all qualifications within a single framework and clearly indicating the relationships between them.

With the funds from the ESF new baseline positions were established in 2005 to prepare higher education study programmes, while in 2006 and 2007 the integral reorganisation of higher education study programmes into three projects (business and economic sphere, restaurants and tourism, scientific and technical sphere) is going on. The bodies responsible for such reorganisation are higher technical schools co-operating with similar schools in Slovenia (in consortia) and with their counterparts in universities, employers and other related higher schools in EU member states. As regards reducing the educational deficit of the adult population and the education and training of drop-outs, the following activities are being carried out: (i) educational processes in formal and informal education with ICT support; (ii) expanding the quality assurance system with special emphasis on self-assessment in adult education organisations; (iii) development, updating and implementation of educational programmes for expert workers in adult education; and (iv) the implementation of special measures in schools aimed at greater individualisation and support to individual students when learning and acquiring new skills (individual education plans, introduction of portfolios, development of key competencies and compensating for the deficit of students with poor prior knowledge).

3/ Completing the reform of the university sector by increasing the number of providers, ensuring greater adaptability to the needs of business and industry, higher quality and competition

A public debate on the National Programme of Higher Education 2006-2010 is currently taking place. The programme envisages the deregulation of the establishment of public and private higher education institutions and courses, while it encourages the formation of new universities in regional centres, whereby regional centres may represent the very beginning of a new university. The programme also includes plans to link higher education financing to the criteria of academic excellence, co-operation with the business sector, the success of graduates in the market and international co-operation, and studies the possibility of introducing a voucher system and/or deferred fees.

⁴⁶According to the ECTS methodology for the evaluation of higher education study programmes in line with the Criteria for Credit Assignment to Study Programmes According to the ECTS, the modular structure of programmes, selectivity in programmes, possible transitions between programmes, including from higher technical schools, and the concept of lifelong learning.

⁴⁷ Thematic areas include: administration and management of institutions of higher education, joint study programmes ('joint degrees'), credit systems and transitions between study programmes, a credit system of study and internal mobility of students and professors in higher education, the recognition of knowledge and skills acquired prior to enrolling in the programme, the external evaluation of institutions and courses of higher education, the attractiveness of Slovenian higher education to foreign students.



In 2005 and 2006, seven new independent higher education institutions were established, while the Nova Gorica Polytechnic was renamed to become the University of Nova Gorica. New faculties were established in 2006, including public higher education institutions. At the beginning of the 2006/2007 academic year, Slovenia has four universities⁴⁸ and 16 independent higher education institutions, 11 of which offer courses in the 2006/2007 academic year. In addition to the creation of new or reorganisation of old higher education institutions, regional diversification in implementing study programmes is also being boosted by also providing courses outside the seat of the institution. In the 2006/2007 academic year, courses (full-time or part-time) are being provided in 28 Slovenian cities.

The reform of higher education includes measures aimed at increasing the quality of study, facilitating the employment of graduates and changing the financing of higher education. The amendments to the Higher Education Act envisage a Council for the Evaluation of Higher Education within the Expert Council for High School Education to perform the tasks of the national agency for quality assurance in higher education.

The plans for the next period include greater flexibility in the preparation of programmes, the employment of professors, the transition of students among programmes, international co-operation and the promotion of co-operation between universities and research institutions in the scientific and technical sphere. Moreover, it is necessary to raise public and personal expenditure on tertiary education and, at the same time, improve the possibilities for pedagogic and research work at higher schools and universities.

4/ Providing education for sustainable development

In order to provide education for sustainable development, the Consortium of Biotechnical Schools of Slovenia is running a specific project (on the the field of biotechnical studies) under the European Social Fund. It has become clear in the project of 'Programme Renovation - preparation of educational programmes for the biotechnological sphere' that sustainable development is the main element and link connecting the contents of this sphere. The development of key competencies with particular emphasis on the development of entrepreneurial skills and education for sustainable development is included in all school curricula.

III.B.2.2 Flexible systems of education and training

Priority measures (Guideline No. 24):

- 1/ Improve the quality and increase the attractiveness of vocational education – adoption of a new act.
- 2/ Widen employment possibilities through the evaluation and recognition of non-formal and informal learning and ensure the transparency of all processes connected to this.
- 3/ Improve appropriate incentives for employers and employees.

1/ Improving the quality and increasing the attractiveness of vocational education – adoption of a new act

The Vocational and Technical Education Act and the Post-Secondary Vocational Education Act contain mechanisms for the monitoring and assurance of quality. Both acts introduce the principle of self-evaluation combined with external quality evaluation. In secondary vocational education, procedures for self-evaluation (quality commission) will take place in schools and the results will have to be made public. Indicators of quality will be determined

⁴⁸ The University of Ljubljana, University of Maribor and University of Primorska established by the Republic of Slovenia and the University of Nova Gorica created out of the reorganisation of an independent institute of higher education.

by the Expert Council for High School Education⁴⁹ and the results will be monitored by the competent public institution in charge of vocational education. The line minister has the possibility to appoint an independent group of experts to deal with individual issues.

A more proper evaluation of knowledge and experience is provided by the Europass initiative. The national Europass centre was established in Slovenia in May 2005, representing a link between job-seekers and employers and providing information on Europass documents as regards the general public and all other partners involved in the implementation of the initiative.

2/ Widening employment possibilities through the evaluation and recognition of non-formal and informal learning and ensuring the transparency of all related processes

In Slovenia, implementation of the provision on the recognition and confirmation of previously acquired knowledge and skills is most transparently seen in the introduction of procedures for the verification and confirmation of national vocational qualifications. The National Institute for Vocational Education and Training is involved in the certification system by participating in training the members of the verification and confirmation commission, by training advisers and offering advice to the providers of the procedures for verifying and confirming national vocational qualifications. The government drew up amendments to the National Professional Qualifications Act aimed at strengthening the importance of knowledge acquisition outside of formal institutions. The amendments bring about a greater interconnection between formal and non-formal education and work, a more rapid adjustment to labour market needs, and horizontal and vertical transitions.

The Expert Council for High School Education⁵⁰ adopted the criteria for the recognition of knowledge and skills acquired prior to enrolling in a study programme. In accordance with such criteria, the higher education institution will recognise the candidate's knowledge, qualification and skills which – in terms of content and complexity – fully or partly correspond to the competencies defined in the study programme and which have been acquired through formal, non-formal or practical learning.

A uniform system of national vocational qualifications is being built with transparency as the main principle in the development of vocational standards which form the basis for the preparation of educational programmes and catalogues of technical knowledge and skills standards necessary for the acquisition of national vocational qualifications within the certification system. The criterion mostly considered in the preparation of vocational standards is the integral approach. Therefore, vocational standards are being prepared for every level of qualification in a certain technical sphere. The Expert Council for Vocational and Technical Education confirmed 55 vocational standards in 2005 and plans to prepare 60 in 2006. Vocational standards serve as basis for the preparation of the catalogues of technical knowledge and skills standards used in the verification and confirmation of non-formal and occasional knowledge, skills and competencies. The Expert Council for Vocational and Technical Education confirmed 22 catalogues of technical knowledge and skills in 2005 and plans to prepare 20 more in 2006.

Slovenia is setting up a network of regional business education centres (MIC), i.e. institutions specialised in the practical education and preparation of educational programmes for training in accordance with the needs of the regional business sector. Such centres prepare for the confirmation of vocational qualifications in the certification system, the practical part of final exams and vocational degrees, and for master craftsman's, foreman and managerial

⁴⁹ A partner expert body appointed by the government, established in March 1996.

⁵⁰ The Council of the Republic of Slovenia for Higher Education was appointed in February 2005 in accordance with the Higher Education Act.

examinations. They thus expand the possibilities to assert non-formally acquired knowledge and integrate the education and certification systems.

3/ Improving appropriate incentives for employers and employees

In order to improve appropriate financial incentives for employers and employees, the National Development Programme 2007-2013 will provide financial incentives for employers offering practical training to students at all levels of secondary and tertiary education. Following the example of other EU member states, it would be necessary to provide for the relevant funds (partly co-financed by the ESF) or introduce a voucher system whereby students can ask for the payment of certain costs incurred in relation to their practical training and work for the employer.

III.C. THE THIRD DEVELOPMENT PRIORITY: AN EFFICIENT AND LESS COSTLY STATE

III.C.1 IMPROVING THE STATE'S INSTITUTIONAL COMPETITIVENESS

Priority measures (Guideline No. 14):

- 1/ Improve the co-ordination of designing and implementing the state's development function (economy, social security, environment).
- 2/ Introduce the compulsory pre-assessment of the regulatory impact and develop the methodology for evaluating the influence over the economy.
- 7/ Establish central records, e.g. uniform central records in the fields of social transfers, the real property register etc.

1/ Improving the co-ordination of designing and implementing the state's development function

In January 2006, the Slovenian government established the Government Office for Growth which is in charge of co-ordinating and monitoring implementation of the Slovenia's Development Strategy, while it also performs tasks related to economic and social reforms and development. In so doing, the Office provides all the necessary expert support for ministries and participates in drafting laws, implementing regulations and other legal acts required in implementing the Slovenia's Development Strategy and reforms.

Based on strategic documents, an agreement on the methodological approach to the National Development Programme and the National Strategic Reference Framework has been reached that includes both the conceptual positions of the resolution on national projects for 2007-2023 and the preliminary set of projects contained in the draft resolution.

2/ Introducing the compulsory pre-assessment of the regulatory impact and developing the methodology of evaluating the influence over the economy

The Slovenian government adopted a methodology for implementing and monitoring the Declaration on the removal of administrative obstacles and the participation of interested stakeholders, which relates to the acquisition of information on the impact of regulatory proposals and their effects on the relationship between the public administration and customers as regards the introduction of new or the amendment of the existing administrative or other procedures, and as regards new obligations to report data or any other obligation of customers. This methodology intends to provide a detailed definition of the contents of the initial regulatory impact assessment. The Declaration on the removal of administrative obstacles and participation of interested stakeholders in the process of adopting government decisions introduces mechanisms which contribute to the drafting of quality regulatory proposals and to skilfully supported government decisions in a more consistent manner. The issue raised is the consistency of the implementing principles of the impact assessment of the proposed measures, the principles of consultations with civil society representatives in



drafting the decisions, and the principles relating to the preliminary inter-ministerial co-ordination of documents. In spite of the initial problems, the final appraisal of implementation of the regulations review project in terms of the elimination of administrative obstacles indicates an improved co-operation of line ministries and adequate provision of information and co-operation for interested stakeholders.

The Slovenian government is aware of the importance of processes to improve legislation and for this purpose it established an inter-ministerial working group. By the end of this year, the working group will prepare instructions for the preliminary impact assessment (environment, economy, social status, administrative burdens, finance etc.) and an action plan for introducing these instructions into the public administration.

7/ Establishing central registers, e.g. a 'one-stop-shop' for providing social rights and rights in the fields of labour and the real property register

Since May 2006 the e-government has been offering the citizens a new portal of the public administration electronic service, which in the one place collects forms of public administration institutions. With the new portal, any public sector body has at its disposal a free-of-charge tool for the publication of applications and the description of the services it offers the citizens and it may also use the free-of-charge modules for e-delivery, e-signature and e-payment, through which they receive charges paid by the citizens in an electronic form; electronically, they also receive applications sent through the portal. Currently, the portal is offering over 500 descriptions of services and 400 forms and the system will continue to expand in order to cover all public sector institutions and relevant persons seeking access to information of a public nature. Owing to the abridgement of administrative procedures, the project will gradually provide savings to institutions and citizens alike. Moreover, it promotes their rationalisation and removes the need for physical contact with the public administration institutions as it supports the completion of a full electronic cycle of transactions, from the submission of applications to the receipt of e-delivered documents.

The main concept of the e-social security project and, respectively, of introducing the uniform central register in the field of providing social rights and rights in the field of labour has already been established. However, activities at the operational and technological levels will commence in 2007.

The new records of the real property register will be established by the Surveying and Mapping Authority of the Republic of Slovenia. The real property register is a public record of all immovables⁵¹ that, in terms of record keeping, defines real property and ensures the use of data on immovables for the purpose of spatial development, tax policy and the implementation of statistical monitoring (Also see III.E.1 Improved spatial planning and housing policy, p. 63)

III.C.1.1 Quality of Regulation and Simplification of Legislation

Priority measures (Guideline No. 14):

3/ Adoption and implementation of the Removal of Administrative Obstacles Programme.

3/ Adoption and implementation of the Removal of Administrative Obstacles Programme

At the end of 2005, the Slovenian government adopted the Removal of Administrative Obstacles Programme. The Programme's purpose is to pursue the objective of an efficient public administration for the citizens and the introduction of better regulation of the field of drafting regulations and adopting decisions. All bodies responsible for implementing

⁵¹ The real property register allows various users to supplement its contents in compliance with their rules and intentions so, as to determine additional data kept on immovables.

measures as well as ministries and government services must consider this programme when drafting the regulatory and other programmes of work for 2006, 2007 and 2008. The Slovenian government has charged the Ministry of Public Administration with the co-ordination and supervision of the programme's implementation and with preparation of the first report on its implementation by the end of March 2007. The time limit for carrying out the majority of the 34 measures is the end of 2006; some measures are given a later time limit⁵² due to their comprehensiveness.

The Slovenian government also promotes the participation of interested stakeholders in decision-making in the field of removing administrative obstacles. In 2005, the Council for an Economy-Friendly Administration was set up which design proposals with the aim of reducing administrative obstacles for enterprises and providing the greater transparency of the conditions for business operations. Since January 2006, there has been an electronic address on the Government's portal within the e-democracy context enabling citizens to send in their observations relating to administrative obstacles.

III.C.1.2 Increasing the efficiency of the state and management of the public administration

Priority measures (Guideline No. 14):

- 4/ Implement a system of strategic planning and managerial tools in the public administration and introduce the Common Assessment Framework (CAF); inclusion in the EFQM.
- 5/ Establish standards of the performance and efficiency of the public administration; analyse the administration's business processes as a basis for the optimisation, standardisation and computerisation of procedures.

4/ Implementing a system of strategic planning and managerial tools in the public administration

As part of the implementation of a system of strategic planning and managerial tools in the public administration, the methodological groundwork for strategic planning and a comprehensive system of monitoring the realisation of strategies (indicators) was designed in 2005. The methodological groundwork and instructions for measuring the e-government's performance covers a comprehensive concept of measuring its performance. In addition, a prototype of information support for monitoring the e-government's performance evaluation was developed. Based on the experience gained so far, a concept of evaluating the efficiency of the realisation of the strategic objectives of the Slovenian government was developed that follows the working programme of the Slovenian government for the current year. The concept of evaluating the efficiency of the realisation of the Slovenian government's strategic objectives is based on a system of strategic planning.

5/ Establishing standards of performance and efficiency of the public administration; analysing the business processes of the administration as a basis for the optimisation, standardisation and computerisation of procedures

Within the framework of promoting the introduction of systems of quality management in the public administration, the Project of Prizes of the Republic of Slovenia for Business Excellence in the public administration was carried out in 2005. This is the first pilot project of granting a national prize for quality. In 2005, a methodical introduction of systems of quality according to ISO standards and self-assessment according to the criteria based on the EFQM and CAF models of excellence. As part of the model for measuring and assessing the performance of state bodies, a compatibility model relating to administrative operations was drafted. This model represents the first stage and baseline of the development of a system for

⁵² The introduction of electronic court proceedings is to take place by the end of 2007, the elimination of administrative backlogs by 30 October 2008 and a further centralization of management and maintenance of land register and land cadastre, and the cadastre of buildings in a new institution by the beginning of 2010.

assessing the performance of the public administration bodies. In 2006, a barometer of quality has been developed and is being used to continuously monitor the satisfaction of customers.

III.C.1.2.1 A less costly state

In the field of the efficient management of financial and material resources the Slovenian government is actively introducing into practice some knowledge and solutions from the private sector and the public administrations of other Member States. At the same time, the modernisation and renovation of processes and their computerisation further increases the efficiency of the public administration and the quality of administrative operations.

To reduce costs various mechanisms are in place, e.g. (i) common public contracts; (ii) uniform and common solutions (e.g. uniform presentational websites, programme applications for supporting related tasks, central modules for all public administration bodies etc.); (iii) the evaluation of the reputation and knowledge of the public administration, which facilitates an additional discount in various transactions; (iv) control over the use of goods and services (office supplies, fuel, telephone services etc.); (v) care for efficient operations which is connected not only with an adequate system of training and motivation but also with the transfer of unnecessary costs incurred by public officials from the national budget to them in person.

The envisaged annual savings of the achieved primary reductions⁵³ of the public administration's costs amount to approximately SIT 1000 m (EUR 4.17 m). Thereof, the savings related to the common public contract for the purchase of vehicles will amount to approximately SIT 150 m (EUR 625,000) and for the use of mobile telephone services to SIT 250 m (EUR 1.04 m) annually.

An efficient administration not only means a reduction of costs within the administration itself. Indeed, it is of equal or even greater importance that it provides for the reduction of costs of users in their transactions with the administration. The latter is achieved by using the following methods: (i) removal of administrative obstacles; (ii) simplification and acceleration of procedures (e.g. introduction of systems using the 'one-stop-shop' concept like e-VEM (an e-one-stop-shop), a framework such as the computerisation, interlinking and compilation of records in the public administration, the introduction of data exchange between public administration institutions; (iii) elimination of administrative backlogs; (iv) e-government and other advanced operating methods (introduction of a generic system for the e-payment of charges, e-delivery etc.).

III.C.1.3 Public-private partnership

Priority measures (Guideline No. 14):

6/ Introduce a public-private partnership.

6/ Introducing a public-private partnership

It is reasonable to include the private sector in the financing and management of large infrastructural projects and in the implementation of some other public tasks. The government is currently discussing the draft proposal of the Public-Private Partnership Act whose aim is to facilitate and promote private investment in public infrastructure and other projects of public interest and to provide for the transparency and fairness of procedures of concluding various forms of co-operation between the public and private sector for these purposes.

⁵³ A public call for tenders for mobile telephone services, reduced costs in purchasing electric energy, uniform websites of the public administration bodies, lower costs of airline tickets for official flights of employees of government bodies in economy class on the Ljubljana-Brussels-Ljubljana route.

This Act envisages various forms of co-operation, i.e. (i) a contractual partnership relationship (contractual partnership), which may have the nature of (ii) a concessionary relationship (concessionary partnership); (iii) a public-contracting relationship (public-contracting partnership); and (iv) a relationship of a status (institutional, equity) partnership. Incentives for the higher performance and contractually defined risks of contractual parties enable the public sector to use the advantages of the private sector when seeking profitable investments.

III.C.1.4 Improving the functioning of the judicial system

Priority measures (Guideline No. 14):

8/ The increased efficiency of the judicial system.

In 2004 and 2005, the number of pending court cases dropped by 3.4 (12%). Backlogs in the land registry are still diminishing rapidly, however they remain high in Ljubljana and Maribor in particular. The situation is critical with compulsory enforcements: the amount of pending cases is triple the amount of cases settled annually. Despite some positive steps, the procedures are still unreasonably protracted which was also confirmed by the European Court of Human Rights⁵⁴.

A serious obstacle to the greater efficiency of courts is not only the passivity of the parties and other participants to legal proceedings, the judicial standards and working conditions of the courts and judges but also the regulations which prolong the duration of legal proceedings. The duration of enforcement cases, estimated to account for 53.9% of all pending court cases, is not measured separately by judicial statistics. Regarding economic transactions, enforcement is relevant because the creditor is not merely interested in winning the case but in actual payment.

8/ Increased efficiency of the judicial system

In order to enhance the efficiency of the judicial system, the Protection of the Right to Trial without Undue Delay Act was adopted in April 2006. The purpose of this Act is to provide adequate protection in this field, while its impact also pertains to the simplification of legislation and standardisation of legal proceedings. The Act regulates in detail a single simplified procedure according to which alleged infringements of the constitutional right to trial without undue delay are settled, while stipulating relatively stringent deadlines for settling any claim under this Act.

In 2006, the Slovenian government drafted the Act amending the Enforcement of Judgements in Civil Matters and Insurance of Claims Act⁵⁵, which pursues the objective of simplifying and accelerating legal proceedings. The solutions proposed by the law are partly the consequence of the twinning project 'Reduction of court backlogs in the field of enforcement', which is taking place at the Supreme Court of the Republic of Slovenia in 2006. The prime objective of this project is the computerisation of the enforcement procedure for the purpose of simplifying and accelerating the latter, and the disburdening of judges, expert assistants and court clerks, primarily in the phase of granting permission for enforcement.

⁵⁴ A Slovenian citizen, Franjo Lukenda, was the first to succeed with an appeal against a violation of the right to trial within a reasonable period of time. The Court has already decided several times in favour of citizens due to an infringement of the right to trial within a reasonable period of time.

⁵⁵ ZIZ-E. In 2006, two amendments to the Enforcement of Judgements in Civil Matters and Insurance of Claims Act (ZIZ-C and ZIZ-D) were adopted that *inter alia* follow the objective of the simplification and acceleration of legal proceedings, and provide for the acceleration of the enforcement procedures and disburden the executive courts.

There is also an inter-ministerial harmonisation of legislation taking place, which will facilitate implementation of the elimination of court backlogs project, i.e. the Lukenda project, whose core objective is the elimination of court backlogs in courts by 2010. The proposed amendment to the Courts Act envisages the provision of a trial without undue delay by means of a new institute of 'flying files' and by supplementing records on the performance of courts and judges with resolved and pending cases, which are defined as court backlogs. The proposed amendment to the Judicial Service Act facilitates the more efficient performance of the judicial function⁵⁶ and provides a legal basis for the 're-activation' of retired judges. The Act amending the General Offences Act adopted in March 2006, among other things, already provides for the disburdening of judges regarding some tasks, which speeds up judicial proceedings and thus improves the efficiency of courts.

In providing and organising additional technical staff for a limited period of time⁵⁷ for the purpose of eliminating court backlogs, jobs in courts for approximately 290 unemployed people were provided within the programme of on-the job training supported by financial means from the European Social Fund. The further inclusion of unemployed people has also been envisaged. The latter concerns lawyers who with their knowledge and work can qualifiedly contribute to the rapid elimination of backlogs and offer the required services relating to implementation of the Free Legal Aid Act. In order to increase the efficiency of the judicial system in line with the Lukenda project, a further 170 judges and 750 administrative staff are planned to be employed until 2008⁵⁸.

A White Paper addressing the lack of workspace at Slovenian courts was adopted in June 2006. The priority measures proposed include investment in existing facilities and methods for obtaining new premises. The current activities aimed at achieving the set goals include purchases of real estate in the government's internal market, conclusion of tenancy contracts at locations where more permanent solutions are currently unavailable, exchange of premises with other sectors, purchases of rented premises, etc.

Projects concerning the full computerisation of courts are under way and the test application in courts is foreseen for March 2007. The additional training of judges and prosecutors primarily in the field of economic crime has also been provided⁵⁹.

III.C.2 STATE AID

Priority measures (Guideline No. 13):

- 1/ Reduce the share of state aid as a share of GDP to the EU level
- 2/ Improve the structure of state aid in the direction of strengthening horizontal measures promoting competitiveness and economic growth, and reduce individual and sectoral measures having a negative impact on competition in the market.

1/ Reducing the share of state aid as a share of GDP to the EU level

In Slovenia, state aid has in the last year been drastically reduced compared with its volume in previous years. The share of state aid in GDP dropped in 2005 for the first time below one

⁵⁶ The institute of an inter-district court judge with the aim of providing a higher mobility of district court judges within the area of the same higher court, by taking into account primarily the occupation of judicial posts and caseload in individual district courts within the area of the same higher court.

⁵⁷ Employment for a limited period of time until 31 December 2010 has been envisaged, when the elimination of court backlogs is expected.

⁵⁸ 70 judges and 250 administrative staff in 2006, and 50 judges and 250 administrative staff in 2007 and in 2008.

⁵⁹ Comprehensive training courses organised in 2006 include a school for magistrates and state prosecutors, a school for judges resolving general offences, a seminar for investigating judges, a workshop for state prosecutors dealing with criminal offences relating to unauthorized use of copyright works, and a workshop for state prosecutors dealing with intertwining of signs of criminal offences against property and economy. A seminar for judges and state attorneys for the protection of a right to trial without undue delay, a school of civil law, a school of administrative law and a school of labour and social law for judges are being prepared too.

percent (0.98%), which is the result of an ongoing decreasing trend (state aid amounted to 2.76% of GDP in 1997). Among individual state aid categories in 2003–2005, aid earmarked for agriculture and fisheries still prevailed (2005: 38% of all aid) which, however, decreased in comparison with 2003 and 2004 by more than 40%. The reason for this drastic decrease lies primarily in the modified presentation of aid for the tasks of the Common Agricultural Policy which, following accession to the EU, is no longer treated as state aid. Thus, the different treatment of that part of the aid which had been allocated for agriculture also contributed significantly to the indexed drop in state aid in Slovenia.

However, the comparison of state aid (without transport, agriculture and fisheries) shows that aid in Slovenia (2005: 0.46% of GDP) is only slightly higher than the EU average (2004: 0.44), lower than in the past year (2004: 0.53%), and significantly lower than in the new member states (2004: 0.70% of GDP).

2/ Improving the structure of state aid directed at strengthening horizontal measures to promote competitiveness and economic growth, and reducing individual and sectoral measures having a negative impact on competition in the market

The Slovenian state aid structure is also improving. The share of state aid for horizontal objectives in 2005 has in comparison with the previous year increased by 3.6% (to 26.53%). The aid earmarked for R&D (33.1%) and employment (21.6%) still prevails in the structure of horizontal objectives. In comparison with 2004, in 2005 both areas of aid, together with aid for SMEs, increased their structural shares. On the other hand, shares of aid to other categories (environmental protection, energy saving, rescue and restructuring, training) decreased. Following a substantial increase in 2003 and 2004, the share of state aid to special sectors in 2005 again fell (2004: 26.2%; 2005: 19.53% of all aid). This reduction results from the reduced smaller aid given to the transport sector since the restructuring of railways in 2003 and 2004 was also supported by state aid, whereas in 2005 the aid only covered the restructuring of personnel. In 2005, aid for regional objectives escalated (2005: 15.34% of all aid), which is the result of the highly intensive implementation of aid according to the scheme of promoting entrepreneurship and competitiveness (also with a significant contribution from the EU funds), and of the individual support provided for the implementation of an investment programme of one of the major foreign-owned enterprises).

The key data show that state aid in Slovenia is on the decrease in compliance with the set objectives and, at least programme-wise, it is being earmarked for more productive purposes. The analysis⁶⁰ of state aid's impact on research and development has indicated that subsidies for R&D are increasing the R&D expenditure of enterprises and the recipients of state aid or subsidies.

III.C.3 DEVELOPMENTAL RESTRUCTURING OF PUBLIC FINANCES

Priority measures (Guideline No. 4):

- 1/ Change the structure of general government expenditure according to the priority developmental tasks and for the better absorption of EU funds.
- 2/ Gradually reduce the share of general government expenditure in GDP by at least 2 percentage points.
- 3/ Carry out a comprehensive tax reform based on the principles of relieving labour, stimulating competition and employment, and simplifying the system.

1/ Changing the structure of general government expenditure according to the priority developmental tasks and for the better absorption of EU funds; and 2/ A gradual reduction of the share of general government expenditure in GDP by at least 2 percentage points

⁶⁰ A. Dynamic Impact of Subsidies for R%D in Slovenia, 2006, mimeo

In the field of public finances, the Slovenian government pursues the objective of reducing general government expenditure and the budget deficit. These policies are also reflected by the budget for 2007 and 2008 adopted by the Slovenian government in September 2006. According to estimated realisation, the share of general government expenditure in GDP will increase by 0.5 p.p. in 2006 over 2005, however it will narrow by 0.8 p.p. in 2007 and by a further 0.8 p.p. in 2008.

While reducing general government expenditure, it will also be necessary to ensure a developmental restructuring of expenditure and to redirect part of the general government expenditure from the present purposes to developmental priorities as follows: (i) increasing general government expenditure on R&D to the target 1% of GDP by 2010; (ii) raising common expenditure on tertiary education to the target 2% of GDP by 2010, to which the public sector should contribute approximately two-thirds; and (iii) increasing general government expenditure on active employment policy, training and lifelong learning, and scholarships.

3/ Carrying out a comprehensive tax reform based on the principles of relieving labour, stimulating competition and employment, and simplifying the system

The seven proposals for new tax laws¹ referred to the National Assembly for discussion in September 2006 were drafted within the tax reform process. The envisaged tax changes will not violate the obligation undertaken by Slovenia in acceding to the Stability and Growth Pact which binds Slovenia to observe budgetary discipline regarding the budget deficit.

In the field of imposing taxes on the income of individuals by way of personal income tax, the burden on active income caused by personal income tax will be reduced in 2007 through an increased untaxed share of income and the reduction of the active progressivity of income taxation. The general tax relief will thus be increased by 11%, while the number of income tax brackets will be reduced from five to three with a 16% margin at the minimum level and a maximum margin of 41%. By reducing the personal income tax scale's progressivity, improved conditions for the employment of highly qualified personnel and an increased possibility of following the achievements of the technologically top-performing enterprises on the global scale will be established. Simplifications in administrative operations of establishing the tax base will contribute to the promotion of the voluntary payment of taxes and the readiness of individuals to operate in the business environment.

Changes in the field of the income taxation of legal entities will provide a transparent and stable tax environment, the elimination of the economic and legal double taxation of income, and legal certainty for taxable persons. The latter should secure basic conditions for the investment of new capital and direct investment in the national economy and for substantially reducing interest in redirecting domestic capital to countries with low capital taxation and poor fiscal transparency. The tax relief for investments in equipment was abolished; however, the special relief for investments in domestic R&D activities and the purchase of R&D services and equipment has been preserved. The preservation of this tax relief aims at the promotion of investments in research and development that will boost the competitiveness of the Slovenian economy. The general tax rate is being progressively reduced to 20%, which will be achieved in 2010 (2007: 23%, 2008: 22% , 2009: 21%).

In order to simplify procedures for small taxable persons, the new Value Added Tax Act raises the taxable turnover threshold, which means the obligatory entry to the VAT system, introduces tax warehouses and abolishes the obligation of keeping special tax records on VAT. By changing the definition of taxable turnover, which is taken into account when assessing the scope of business operations for the obligatory entry to the VAT system, the number of VAT taxable persons will be reduced and the system simplified for those taxable persons who pursue predominantly VAT-exempted activities without the right of claiming the deduction of input tax.

Another feature of the new laws is the comprehensive regulation of the taxation of real property and vessels, and tax on inheritance and gifts. The package of seven new laws also includes the Tax Procedure Act, which essentially simplifies the tax procedure and eliminates unnecessary administrative operations both with taxable persons and tax authorities, thus substantiating the expectations of reducing costs when implementing the fiscal legislation and improving the performance of the tax administration.

General government revenue as a share of GDP⁶¹ increased by an estimated 0.3 p.p. in 2006 over 2006, however it is projected to decrease gradually in the next two years – by 0.5 p.p. in 2007 and by 0.7 p.p. in 2008. The proposed amendments to tax legislation will alleviate the tax burden in several areas. The most important effect will be achieved by the phasing out of the payroll tax, which will reduce the share of this tax in GDP from 1.8% recorded in 2005 to an estimated 1.5% in 2006 and further to 1.2% in 2007 and 0.6% of GDP in 2008.

The share of revenue from personal income tax is projected to drop from 6.1% of GDP in 2006 to 5.6% of GDP in 2007 (by 0.5 p.p.). General government revenue from personal income tax will be lower due to the simplified and less progressive tax system, which will particularly reduce the tax burden on the highest incomes. As a result of the proposed amendments to the Corporate Income Tax, revenue from this tax will decrease by 0.4 p.p. from 2007 to 2008 (from 3.2% to 2.8% of GDP).

On the other hand, revenue from excise duties is forecast to grow slightly faster than GDP in 2007 and roughly even with GDP growth in 2008. The share of this revenue in GDP will increase from the estimated 3.3% of GDP in 2006 to 3.5% of GDP in 2007.

III.D THE FOURTH DEVELOPMENT PRIORITY: A MODERN SOCIAL STATE AND HIGHER EMPLOYMENT

III.D.1. EMPLOYMENT, INCREASED LABOUR SUPPLY AND MODERNISATION OF SOCIAL PROTECTION SYSTEMS

III.D.1.1 Horizontal goals and measures

The unemployment rate in Slovenia in the 15-64 age group was 66% in 2005, up from 65.3% in 2004 and above the average in the EU-25 (2005: 63.8%). Compared to the average in the EU-25, Slovenia has a high share of women in the labour market (2005: 61.3%). In accordance with the planned labour market reforms (tax and pension reform), it is expected that employment will continue to grow given the favourable economic environment.

The unemployment rate (ILO) in the 15-64 age group increased slightly in 2005 compared to the year before (2004: 6.3%; 2005: 6.5%), but it was still lower than the average in the EU-25 (2005: 8.7%). However, the structure of the unemployed remains problematic: the share of those with low employment prospects (older, unskilled) has been growing along with the share of highly skilled unemployed and women. The share of the long-term unemployed stood at 3.1% in 2005, which is somewhat lower than in the year before and well below the EU-25 average (2005: 3.9%).

Priority measures (Guideline no. 17):

- 1/ Prepare programmes for increasing the employability of both the unemployed and employed.
- 2/ Discourage early retirement.
- 3/ Improve the adaptability of workers and enterprises by promoting the use of flexible forms of employment and lifelong learning.

⁶¹ More detailed data will be presented in the stability programme.

- 4/ Bolster private investment in human capital.
5/ Increase employment incentives within the social protection system.

1/ Programmes for increasing the employability of both the unemployed and employed

General measures carried out to increase the employability of the unemployed as well as the employed include: providing the population with information regarding education and employment; counselling and assistance in job search, which is aimed at providing information to and motivating the unemployed; and training and educating the unemployed without a vocational or technical education and workers who are in the process of being made redundant. Subsidies for employers to hire those with low employment prospects and measures for direct job creation and the promotion of self-employment also contribute to the employability of the unemployed, along with the activation and employment of welfare recipients with the help of subsidies to employers who hire a welfare recipient for a fixed term or an indefinite period.

The amendments to the Employment and Insurance against Unemployment Act that were adopted in July 2006 in particular introduced stricter obligations for the unemployed regarding the seeking and accepting of employment, increased fines for the failure to comply and streamlined social transfers by combining the right to a cash unemployment benefit with financial social assistance. To enhance the employment of younger and older persons, the act provides for the reimbursement of the employer's contributions. To reduce obstacles to the employment of younger women, it provides the reimbursement of contributions for the employment of a jobless person who substitutes a worker on maternity leave.

In September 2006, the Social Security Act was amended by provisions that introduce significant changes to the system of financial social assistance. (Also see III.D.1.2. Modernisation of social protection systems, p. 50)

In the January-December 2005 period 182,765 people were newly included in active employment policy measures, namely 109.4% of the planned number, of whom 18,899 were included in measures co-funded by the European Social Fund. In the January-June 2006 period 668,920 people were newly included in active employment policy measures, which represents 72% of the planned 922,800 people.

Considering the key structural problems in the labour market, the measures to increase the employability of the unemployed are aimed at: (i) bolstering and developing human resources to improve the employability of individuals; (ii) stimulating the unemployed through counselling and motivation to seek and accept work for the achievement of good career prospects; (iii) programmes for the training and education⁶² of both the unemployed and the employed, which will accelerate the closing of the gap between employers' demands and labour market supply; (iv) improving the system of youth scholarships; (v) promoting new employment and the activation/motivation of human resources for the exploration and identification of business potential; (vi) improving the labour market's flexibility and introducing more flexible forms of employment; (vii) developing special services for employment and incentives for employment in the private and public sectors; and (viii) promoting regional and cross-sectoral mobility.

2/ Discouraging early retirement

As in previous years, the discouraging of early retirement was carried out in 2005 in accordance with the adopted pension reform, since the retirement age was raised by 2.2 years in the 1995-2005 period. (Also see III.D.1.2.2 Active ageing and measures to address the employment issues of older workers, p. 48)

⁶² Programmes include formal, informal and occasional education, the acquisition of national professional qualifications, in-service training and other shorter forms of training.



3/ *Improving the adaptability of workers and enterprises by promoting the use of flexible forms of employment and lifelong learning*

Measures to improve the employability of the unemployed and employed include the carrying out of projects aimed at introducing flexible forms of employment and work at home, as well as the creation of a more flexible labour market through the development and implementation of various employment schemes, including job rotation. The emphasis lies on providing secure employment, in particular by creating jobs in the non-profit sector.

(Also see III.D.2.1. Promoting adaptability and mobility in the labour market, p. 61)

4/ *Bolstering private investment in human capital*

Public spending on education⁶³ as a share of GDP amounted to 6.02% in 2003, which places Slovenia above the average in the EU-25. What is more, private spending on education institutions was also high, at 0.9% of GDP 2003. By level of education, the highest proportion of funds is spent on tertiary and pre-school education. The ratio between funds from public and private sources was 86.4:13.6 in 2003.

(See III.B.2 Knowledge for the development of human resources, p. 32)

Private investment in human capital will also increase through the planned establishment of a fund for the development of staff and scholarships. The development of the scholarship fund, which will be co-financed by employers and the state and be used for sponsorships, is especially important in this framework.

5/ *Increasing employment incentives within the social protection system*

(See III.D.1.2.3 Modernisation of social protection systems, p. 50)

III.D.1.2 Promoting a lifecycle approach to work

III.D.1.2.1 *Increasing the employment of young people*

The employment of young people (15-24) is still below the EU average in Slovenia. This is mainly due to the high participation of young people in secondary and tertiary education, but also because the unemployment rate is above the EU average. The growing number of first-time job-seekers with a higher education among the unemployed and the long-term unemployed remains a problem.

Priority measures (Guideline no. 18):

- 1/ Reorganise higher education (introduction of the Bologna Declaration).
- 2/ Reduce the average period of study and improve study performances.
- 3/ Integrate young people into the working environment.

1/ *Reorganising higher education (introduction of the Bologna Declaration)*

The reform of higher education is based on the 2004 amendments to the Higher Education Act and the Recognition and Evaluation of Education Act. Under the amendments to the Higher Education Act, first- and second-degree study programmes will be phased in by the 2009/2010 academic year at the latest, which means that those programmes adopted before the amendments to the act came into force will be phased out. Between the adoption of the amendments to the Higher Education Act in 2004 and July 2006, the Higher Education Council confirmed 150 new study programmes⁶⁴. The last enrolment year for the current

⁶³ More information is available in the analytical supplement of the Development Report, IMAD, 2006.

⁶⁴ A total of 64 first-degree programmes, 80 second-degree programmes and 6 third-degree programmes. Enrolment in the 2005/2006 academic year was open for 39 programmes (22 for the first degree, 16 for the second degree and 1 for the third degree). In the following academic year, applications will be accepted for 94 programmes (53 for the first degree, 37 for the second degree and 4 for the third degree).



programmes will be 2008/2009 and the programmes will have to finish in the 2015/2016 academic year.

In accordance with the Criteria on the accreditation of higher education institutions and study programmes,⁶⁵ one of the criteria for the establishment or transformation of a higher education institution will be 'needs and employment opportunities', the sufficient interest of candidates in the programmes and the legal regulation of those professions which require a planned education.

(Also see III.B.2.1 Promoting the development of human resources and lifelong learning, Measure 2, p. 32)

2/ Reducing the average period of study and improving study performances

One of the long-term goals set out in the National Programme of Higher Education 2006-2010 to improve study performance is to increase the graduation rate to 75% relative to first-year enrolment levels. The achievement of this goal will be underpinned by an appropriate scholarship policy and measures that will improve the motivation of students.

The period of study will also be reduced by eliminating the year for graduation after the last semester at the first and second levels as the completion of one's thesis will be made an integral part of the last semester of study. One of the goals up until 2010 is to reduce the average period of study by at least one year (from 6.9 to 5.9 years) and to increase the number of graduates in professional higher education and university programmes from about 6,000 to 8,000 per year.

(Also see III.B.2.1 Promoting the development of human resources and lifelong learning, Measure 3, p. 33)

3/ Integrating young people into the working environment

Young people under the age of 26 have been identified as a priority target group for participation in the Active Employment Policy Programme's activities of in-service training, integrated training programmes and the reimbursement of employers' social contributions (if they employ an unemployed person under the age of 26 or 28⁶⁶). The goal of the measures is to improve the employability of youth and facilitate their transition from the education process into the labour market.

The structural fund measure Education and Training, where young people have the priority, included 23,540 people in 2005, with this figure being projected to rise to 48,700 in 2006. Up until June 2006, 22,229 people had been taking part, 45% of the planned number. Most of the people involved in the measure are expected to participate in formal education (where enrolment peaks in the autumn months at the start of the school year) and in the co-financing of the education of employees, where a public tender for selecting the employers is underway.

The Employment Service of Slovenia has set objectives for 2006 to reduce the share of the young unemployed without a vocational education⁶⁷ (to 8.5%) and the share of first-time job-seekers with a university degree or higher (to 2%).

In June 2006 the share of young people without a vocational education was 7.2% and the share of first-time job-seekers with a university degree was 2.2%, which is in accordance with the plans. The reduction of the share of young people without an education is largely a result of the successful activities of motivating and counselling for education which concluded with participation in the Programme 10,000 (over 600 unemployed people). In the first three

⁶⁵ The criteria were adopted on 10 September 2004 by the Higher Education Council.

⁶⁶ First-time job-seekers under 26 who have been registered as unemployed at the Employment Service of Slovenia for over 6 months, or the unemployed younger than 28 who have been registered as unemployed for over 24 months.

⁶⁷ The registered unemployed.

months of the year, 4,208 people were provided with individual vocational counselling, half of them younger than 25. To reduce the educational deficit, special measures were also carried out in schools with a view to individualise learning support and promote the attainment of new knowledge (individual education plans, introduction of a portfolio, development of key competencies, helping students with weak basic knowledge to make up for the deficit).

To reduce the share of young unemployed people, the Employment Service of Slovenia is carrying out the following activities in 2006: (i) within 6 months after registering as unemployed, the young unemployed will be included in active employment policy programmes of training, retraining, practical training, employment and other measures including, if necessary, permanent assistance in seeking employment; (ii) motivating young people without a vocational education to educate for professions that are in short supply in the labour market, which will be provided through the participation of the career orientation department. There will also be group-based motivation and the provision of information in co-operation with the social partners, in particular employers; and (iii) group activities will be organised for young people with a higher education, in particular unemployed recipients of Zois scholarships for gifted students. The National Institute for Vocational Education and Training is already carrying out the ISM Centres project – a local network of centres for career counselling that is designed to capture those young people who do not register with the Employment Service of Slovenia and thus stay outside the system.

The purpose of reforming the scholarship system is to improve its transparency, direct scholarships towards meeting the needs of the economy and to bring the scholarship system into line with the system of social transfers. A bill on scholarships is currently being drafted.

III.D.1.2.2 Active ageing and measures to address the employment issues of older workers

The share of older people (55-64) in work, which was 30.7% in 2005 (29% in 2004), is still low but gradually rising. The low employment rate in this age group is affected by relatively early retirement, in particular the mass early retirements seen at the beginning of the 1990s. The average retirement age has been increasing: for old-age pensions it stood at 58 years and ten months in 2005, however this is still lower than the average in the EU-25 (60.7 years).

Priority measures (Guideline no. 18):

- 1/ Increase the retirement age in accordance with the pension reform already in place.
- 2/ Develop integrated programmes for employing older workers.
- 3/ Promote active ageing and lifelong learning.

1/ Increasing the retirement age in accordance with the pension reform already in place
In the current and projected demographic challenges that Slovenia faces, one of the underpinning objectives of the pension system is to enact policies that extend the active period of each individual and the population as a whole.⁶⁸ The pension system has built-in measures which were implemented by the 2000 reform of the pension system⁶⁹ and are now being upgraded with phase-in measures. The beneficial effects of these measures were also visible in 2005, for example in the steady increase in the number of people who postponed their retirement beyond the old-age retirement age threshold (6% of all old-age pensions claimed), the rise in the average retirement age since the start of the pension reform (2.2 years between 1999 and 2005), the relatively steady and balanced increase in the number of

⁶⁸ Set down in the 2005 national strategic report on appropriate and sustainable pensions, which was adopted by the Slovenian government in July 2005 and submitted to the European Commission in August that year.

⁶⁹ For example, the gradual tightening of the retirement criteria and the determination of the old-age pension in mandatory insurance, including the introduction of incentives for later retirement under the bonus-malus system (the right to partial retirement etc.).

pensioners (up 1.4% from 2004) and workers (up 1.1% from 2004), and the preservation of the ratio between workers and pensioners at the 2004 level (1.7:1).

To accelerate the desired effects of the rising retirement age, there are plans to upgrade measures aimed at extending the active period through changes to the mandatory pension insurance system. Moreover, pilot projects are being carried out in the framework of active employment policy measures to design innovative programmes to include older people in the labour market or to postpone their exit from the labour force. These include: (i) mentor and instructor schemes promoting the exchange of know-how, skills and competencies between employees; (ii) programmes for stimulating the transfer of knowledge to younger generations and the harnessing of active retirement; and (iii) the development and implementation of combinations of part-time employment with part-time retirement with a view to promoting active ageing and, consequently, a later exit from the labour force.

Draft amendments to the Pension and Disability Insurance Act are about to be submitted for interdepartmental harmonisation. They include changes to the provisions on partial retirement which widen the scope for combining activity and retirement, facilitate partial retirement and stimulate part-time employment in older age.

Incentives for later retirement will be systematically adjusted, including by partially exempting employers from paying contributions for employees that meet the old-age retirement criteria, and an overhaul of the bonus-malus incentives for later retirement. (Also see III.A.1 Policies and measures in the macroeconomic area, Measure 5, p. 8).

2/ Development of integrated programmes for employing older workers

In the framework of the priority measure Development of integrated programmes for employing older workers, it is necessary to mention the promotion of the new employment of older people, a sub-activity of the active employment policy for 2006 that is co-funded by the European Social Fund. The second activity is the reimbursement of contributions for employers who hire an unemployed person older than 55 who has been registered with the Employment Service of Slovenia for over 12 months, or a registered unemployed person over 55 with an occupation that is in oversupply. The objective of the measure is to increase the employment rate among older people, with the secondary goal being to improve the employability of this age group.

The activity 'promotion of new employment of older people' commenced in the second half of 2005. A total of 155 people were included by the first half of 2006, 62% of the planned number (250 people). Participation in the activity 'subsidies for self-employment' fell particularly short of the expectations as the Public Agency for Entrepreneurship and Foreign Investment had not carried out the support activity 'assistance in self-employment' which provides the unemployed with a business plan and training for self-employment.

As people with low employment prospects, older unemployed people also have priority when participating in other active employment policy measures such as the public works and activities co-funded by the European Social Fund (assistance in the employment of long-term unemployed women and projects of non-market employment programmes).

3/ Promoting active ageing and lifelong learning

A new active ageing strategy is being drafted and will be submitted for interdepartmental harmonisation by the end of 2006. It will include the necessary measures for extending the working period of older people, with the emphasis on the creation of appropriate working conditions (quality and adaptation of the workplace), working time, healthcare as well as training and retraining. The strategy will also include measures for employers and recommendations for the better adaptation of older people to the longer working period. The content is partially related to the Strategy for the Protection of Older People and the Quality

of Population Ageing, which was adopted in September 2006, in that it creates conditions for the active inclusion of older generations in work and employment.

The drafting of the strategy of lifelong learning, which is a cornerstone of the employment of older people, is ongoing and should be completed by mid-December 2006.

III.D.1.2.3 Modernisation of social protection systems

Priority measures (Guideline no. 18, Guideline no. 22):

- 1/ Carry out a comprehensive reform of social transfers.
- 2/ Rationalise procedures and budgetary expenditure.
- 3/ Draft a new Social Protection Act.

1/ A comprehensive reform of social transfers and 2) Rationalising the procedures and budgetary expenditure

In order to speed up and improve the quality of decision-making, improve transparency and make it easier to track procedures for determining eligibility for social rights, Slovenia has been designing solutions to connect the various registers whereby the purpose and scope of such integration will be clearly defined, inquiries made traceable and measures put in place to reduce the scope of the abuse of data access by the providers. When the registers are connected, it will be easier to claim different rights in one place through the 'one-stop shop' system. According to plans, when the 'one-stop shop' system is implemented the departments of social security will have the power to decide on a greater range of rights and offer information on rights not directly in their domain. It makes sense to combine the decision-making on rights that depend on the income and property status of individuals or families in the one place as this will substantially simplify the exercising of social rights. It will further improve transparency, streamline the procedure and cut costs, making the system simpler and friendlier⁷⁰. A draft Act on Conditions and Procedures for the Exercise of Rights from Public Funds has already been drawn up.

Legislation which determines social transfers in the form of cash receipts prescribes different types of harmonisation depending on the various bases⁷¹. This creates illogical situations and inequities⁷², jeopardising the sustainability of financing (due to inappropriate indexation, spending on social transfers is growing faster than funding). To eliminate these shortcomings, the Slovenian government adopted a draft Act on Harmonisation of Transfers to Individuals and Households in September 2006. It envisages two basic types of harmonisation: consumer price growth and wage growth, or a combination of both systems. The changes will make the harmonisation procedures more uniform and improve the system regulation, equality and sustainability of financing.

Concrete measures in this field include: (i) unemployment assistance that had previously been granted by labour offices⁷³ is being transferred to social work centres in order to streamline decision-making and payments. Unemployment assistance is not tied to contributions like unemployment benefits so it is more prudent to have a uniform system of cash assistance like the one for welfare receipts under the Social Security Act; (ii) the introduction of a more just

⁷⁰ Under the present system, eligibility for social rights is determined on the basis of different calculations of income (gross, net, minimum, guaranteed wage), there are even different definitions of property and family or household members whose income and property affects the decision on eligibility. To eliminate the illogical provisions and prevent abuse (individuals may now adapt their data to best suit the respective right), efforts will be made to address these inconsistencies by uniformly defining them for all, or at least most, social rights.

⁷¹ Consumer prices, guaranteed wages, net wages, average net wages, base wages in the non-commercial sector, wages in the corporate sector, reference prices, available budget funds, the insurant or local community.

⁷² Benefits or compensation for an absence from work may be bigger than the salary, whereas some harmonisation mechanisms are so old that they are not even calculated any more (e.g. the guaranteed wage).

⁷³ Based on the Employment and Insurance against Unemployment Act.



obligation of welfare recipients to accept any offered employment and any appropriate job under a specific-task or copyright contract; (iii) the promotion of active measures over passive ones continues. The system of subsidising the employment of welfare recipients is being upgraded and expanded to fixed-term employments; and (iv) to prevent long-term employment and passivity of the unemployed the system is introducing the obligation that after six months an unemployed person must take a job even if it requires education two levels below the education level they have attained. In addition, such will be stimulated through subsidies (employers who hire such a person may obtain a SIT 1.5 m (EUR 6,259) subsidy from the state).

3/ *Drafting a new Social Protection Act*

In early 2006 the National Assembly adopted the National Programme of Social Protection 2006-2010 which lays the groundwork for measures to reduce inactivity and create an environment that fosters activity. According to the plans, the evaluation of activity and willingness to work is to be entirely transferred to institutions that are in charge of such matters – labour offices – whereas cash welfare assistance is only to be granted to those people who are unable to work or cannot find any work, whose income is too low to survive and those who truly have no chance of surviving based on their work.

In September 2006 the National Assembly adopted amendments to the Social Security Act which, in the chapter on cash assistance, introduce the standard lowering of cash welfare assistance⁷⁴ and determine the duty of welfare recipients to accept and keep any job. In this way, welfare recipients retain their working habits, remain in contact with society, acquire work experience, improve their social inclusion and contribute to the general well-being of society. The unfounded rejection of an offer of employment shall result in the termination⁷⁵ of cash welfare assistance for 6 months.

Preparations are underway to adopt the framework Long-term Care and Insurance for Long-Term Care Act, which will integrally regulate long-term care and provide stable financial sources by introducing a system of compulsory (and voluntary) social insurance. The funding of related services will be based on solidarity and mutuality, which will make the services and benefits of long-term care just and accessible.

III.D.1.2.4 *Equal opportunities*

Priority measures (Guideline no. 18):

- 1/ Implement special programmes to promote the careers of women.
- 2/ Encourage men and women to undertake training and employment in areas where one or the other are under-represented.
- 3/ Ensure significant representation of women in active employment policy programmes and special programmes encouraging female employment.

Analyses show that the vertical and horizontal segregation of sexes still remains in the labour market despite the adoption of relevant legislation and an institutional framework. However, the gender pay gap has been closing: the ratio stood at 93.1% in 2003, which places Slovenia among those EU member states with the smallest pay gap.

1/ *Implementing special programmes to promote the careers of women*

In 2005 Slovenia adopted the Resolution on the national programme on equal opportunities for women and men 2005-2013, whose goal is to improve the status of women. The

⁷⁴ A standard reduction in welfare benefits in cases where the recipient has a permanent residence or actually lives with people who are not family members under this act and have sufficient resources on their own to make a living.

⁷⁵ Welfare recipients have the worst income status so it is urgent that they actively address their situation.

Resolution is based on a comprehensive analysis undertaken by the Office for Equal Opportunities. The action plan for implementing the Resolution in 2006 and 2007 defines the priorities⁷⁶ and activities for achieving the goals per individual areas of the national programme. It determines the funding needed to carry out the tasks and activities, the time frame and manner in which individual activities are to be performed.

The long-term strategy for implementation of the gender equality principle will be carried out within the framework of the horizontal priority Equal Opportunities of Men and Women⁷⁷ with the help of structural funds. Equal opportunities will be created with an array of measures for the removal of obstacles that prevent men and women from playing an equal role in public and private life. The ultimate goal of the equal opportunities policy is gender equality – the equal recognition, power and participation of women and men in all spheres of public and private life. Equal opportunities objectives are also defined in the documents of the National Development Programme 2007-2013, but they still need to be integrated in all phases of planning and activity: programming, implementation, monitoring and evaluation, whereby the principle of gender mainstreaming needs to be taken into account.

2/ Encouraging men and women to undertake training and employment in areas where one or the other are under-represented

Greater attention is being paid to the prevention of gender-based vertical and horizontal segregation (men occupy higher positions than women; the division into male and female occupations) and the elimination of the persistent pay gap between men and women for the same work. In accordance with the European employment strategy, the Ministry of Labour, Family and Social Affairs has developed a gender-based system of labour market indicators to monitor the differences between men and women and to plan future gender equality measures. The basic criterion for monitoring and measuring the efficiency of the measures is the balanced representation of men and women in all spheres of public life. Under the recently adopted Act on Employment and Insurance against Unemployment, employers are eligible for the reimbursement of contributions if they hire an unemployed person to substitute a woman on maternity leave. The promotion of education and employment of men and women in areas where one or the other are a minority (non-standard professions) is defined as a measure in the Operational programme for the development of human resources for the 2007-2013 period, complete with the relevant monitoring indicators.

3/ Ensuring significant representation of women in active employment policy programmes and special programmes encouraging female employment

Another way of creating equal opportunities for men and women is by including 50% of women in all activities of the active employment policy, which is in line with the objectives of the measure Promotion of Social Inclusion⁷⁸ in the Single Programming Document, and with special programmes for specific female target groups.

Last year Slovenia carried out ‘Assistance in the self-employment of long-term unemployed women’, the biggest project in the framework of this measure. The aim is to co-finance the

⁷⁶ The priorities are: (i) the analysis and research of gender-based discrimination in employment and work and raising awareness about prevention mechanisms; (ii) the implementation of special programmes for promoting the employment and work activity of women in the framework of active employment policy measures; (iii) the implementation of special programmes for promoting self-employment of women and for female entrepreneurship; (iv) the stimulation of men and women for education and training in areas where either sex is under-represented; and (v) providing information to and raising awareness among employers as well as the expert and general public about sexual and other harassment at work and the course of action in the event of harassment.

⁷⁷ Operational elements that will be carried out gradually: (i) appointing a working group of contact people; (ii) providing information to and raising awareness in the target groups; (iii) training the final beneficiaries, holders of an activity, employees at key institutions etc.; and (iv) creating user-friendly guidelines and tools.

⁷⁸ In the framework of the promotion of social inclusion, seven projects were approved from the start of the programming period to the end of 2005, five of which won approval in 2005. To promote gender equality, the measure is committed to ensuring that 50% of all recipients of the aid are women.



employment of long-term unemployed women who have been registered as unemployed with the Employment Service of Slovenia for over two years or who have been unemployed for over two years notwithstanding their participation in local employment programmes (public works), in order to prevent their social exclusion and to actuate labour participation.

The project focuses on jobs with non-profit employers (most of which are unable to fully finance new employment) to meet the demand for social and other non-profit (public) services that cannot be obtained in the market and are characteristic of so-called social enterprises and non-governmental and non-profit organisations. The scope and type of demand in this field provides ample opportunities for the creation of new jobs and, considering the nature of work, the employment of women in particular.

III.D.1.2.5 Reconciliation of work and private life

Priority measures (Guideline no. 18):

- 1/ Introduce employee-friendly working time and organisation of working time.
- 2/ Increase the share of flexible forms of employment.
- 3/ Introduce new programmes and services for child and elderly care.

The existing Parental Protection and Family Benefit Act goes a long way towards providing for the reconciliation of work and private life. One of the novelties it has introduced is the option that one of the parents in a two-child family may work for a shorter working time until the child's sixth year of age, whereby the state provides for the payment of social contributions in the amount of the difference between the minimum wage and full working time.

1/ Introducing employee-friendly working time and organisation of working time

Legislation novelty set out in this field is that one of the parents is eligible for state coverage of social security contributions if they leave the labour market to take care of four or more children. This eligibility is available until the youngest child's tenth year of age. The parents can also split parental leave between them.

One right granted exclusively to the father is 15 days of paternal leave that he can use until the child's sixth month of age (full reimbursement) and 75 days that he can use until the child is three years old (reimbursement of contributions only)⁷⁹.

In 2006 additional activities are underway in accordance with the measures to reconcile work and private life: the title 'Family-friendly company' shall be conferred on the International Day of the Family starting in 2007 on those companies which meet broad criteria in creating optimal conditions that will allow the employees to reconcile their everyday professional and family obligations.

2/ Increasing the share of flexible forms of employment

Established rights are being carried out on an ongoing basis under the Parental Protection and Family Benefit Act. Flexibility will be further enhanced with certain new rights that were enacted with the adoption of amendments to this act in May 2006.

3/ Introducing new programmes and services for child and elderly care

In the framework of programmes and services for child care, school and pre-school institutions have been carrying out and upgrading measures for improving the quality of service and helping parents in integral child care, improving the quality of life for families and children and creating possibilities for the children's all-round development. As for elderly care, the Strategy for elderly care and quality ageing of the population was adopted in 2006.

⁷⁹ There is also a flexible parameter in that these rights may be used in a single stretch or by individual days.

III.D.1.3 Ensuring inclusive labour markets

III.D.1.3.1 Active and preventive measures for unemployed and inactive people and the creation of new jobs

Priority measures (Guideline no. 19):

- 1/ Design special programmes for people with low employment prospects and for intensive work with them.
- 2/ Invest in the training of unskilled workers.
- 3/ Introduce and implement programmes of employment in the non-profit sector.

Active and protective measures for unemployed and inactive people and the creation of new jobs represent the central part of the employment policy. People with low employment prospects⁸⁰ in particular are a priority group among the unemployed who are included in active employment policy measures.

1/ Special programmes for people with low employment prospects and for intensive work with them

In the framework of active employment policy measures, people with low employment prospects participate in general counselling, vocational guidance and employment assistance, which is designed to increase the intensity of assistance to individuals looking for work. One way in which jobs are created is public works, which are meant for the social and labour inclusion of people with the lowest employment prospects. A total of 5,368 people with the lowest prospects of finding regular employment were included in public works programmes in 2005.

Activities for the employment of people with low employment prospects will continue to be focused on: (i) improving employment opportunities, in particular for people older than 55 years, those with lower work ability, the disabled, young people, people with an employment handicap and those who have no education, qualifications or work experience; (ii) the training and education of the unemployed without an appropriate education and the retraining of people whose occupation is in oversupply; (iii) giving priority to people with low employment prospects (in particular young people whose occupation is in oversupply and people aged over 55 who have an occupation that is in oversupply or health problems) and the disabled (in particular the occupationally disabled) in employment programmes of social entrepreneurship.

2/ Investing in the training of unskilled workers

The goal of the Employment Service of Slovenia for 2006 is to reduce the share of the unemployed without a vocational education from 40% to 37%; in June 2006 the share was 39.1%.

To adapt the labour force to the current needs of the labour market, activities are aimed at the training of unemployed and employed people, whereby special emphasis is placed on the promotion of programmes of education and training for occupations in shortage. Participation in preventive programmes of vocational guidance is designed to reduce structural imbalances and prevent (long-term) unemployment.

The following programmes are currently being implemented: (i) preventive vocational guidance; (ii) motivation of people for active participation in training for occupations in shortage; and (iii) training and education for unemployed people with a lower education and

⁸⁰ Set out in the Regulation on the implementation of active employment policy measures.



for workers who are in the process of being laid off, in order to prevent long-term unemployment (e.g. the job rotation scheme).

3/ Introducing and implementing programmes of employment in the non-profit sector

The introduction and implementation of programmes of employment in the non-profit sector is yet another activity geared towards the goal of full employment. The programmes in progress in this field include: (i) co-funding of employment with employers from the non-profit sector with a view to increasing the employment rate, developing new services and expanding the network of non-profit activities (public utility and environmental services, culture, education, social assistance etc.); (ii) promotion of the employment of old people, long-term unemployed women and particularly vulnerable social groups (disabled, Roma, minorities, immigrants); and (iii) promotion of the development of social entrepreneurship (the so-called third sector for vulnerable groups) and new non-profit social services.

III.D.1.3.2 Discrimination in the labour market

Priority measures (Guideline no. 19):

- 1/ Implement the Resolution on the national programme for equal opportunities of women and men.
- 2/ Consistently exercise inspection controls regarding discrimination.
- 3/ Implement awareness-raising campaigns on combating discrimination in the labour market (mostly in 2007 – the European Year of Equal Opportunities for All).

Those at a disadvantage in the labour market include women, the disabled, Roma, immigrants, ex-prisoners, rehabilitated addicts and other vulnerable groups. Differences between the sexes are evident in the employment rate (the most critical group is women of child-bearing age young (often highly educated)) and in the pay gap for equal work.

The goals⁸¹ of equal opportunities are defined in the National Development Programme 2007-2013. Equal opportunities will be implemented through horizontal measures in all the planned activities as well as with the creation of purpose-made programmes.⁸² Information is also provided to target audiences with a leaflet on equal opportunities that is used as part of the horizontal priority Equal Opportunities in the Structural Funds.

1/ Implementing the Resolution on the national programme for equal opportunities of women and men

The action plan for implementing the Resolution on the national programme for equal opportunities of men and women in 2006-2007, which defines the funding needed for the carrying out of the tasks and activities, the time frame and the manner in which individual activities will be carried out, was adopted in April 2006. (Also see III.D.1.2.4 Equal opportunities, Measure 1, p. 51)

Special programmes to combat discrimination in the labour market and in employment, education and training will be carried out as part of the Operational programme for the development of human resources⁸³, wherein special emphasis will be placed on the creation of an environment conducive to the reconciliation of work and private life. Meanwhile, within the framework of the European Regional Development Fund, attention will be paid to providing access to the built environment, information and communications (in particular for the disabled and other functionally impaired persons). The creation of appropriate conditions

⁸¹ The ultimate goal of the equal opportunities policy is the equality of all, which means the same accessibility, acknowledgment, power and participation in all spheres of public and private life.

⁸² Promotional awareness-raising campaigns, the development of new projects for equal opportunities in the labour market, the prevention of social exclusion etc.

⁸³ The programmes will be carried out by the Employment Service of Slovenia.



for the equality of the disabled in society requires an individualised approach as well as social activity and responsibility. The social inclusion of the disabled is also an integral part of the general planning, implementation, monitoring and evaluation in the framework of structural funds.

Creating and ensuring equal opportunities for all will proceed through various measures for the removal of obstacles that hamper equal participation in public and private life. In accordance with the resolution, the National Assembly has already amended the electoral legislation to increase female quotas for local elections.

2/ Consistent inspection controls regarding discrimination

In the framework of its activities planned for 2006, in August the Labour Inspectorate of Slovenia⁸⁴ started carrying out a closer inspection of fixed-term employment contracts, especially those that employers conclude with workers who enjoy special legal protection under provisions on parenthood (pregnant women, mothers with children under the age of three). In this way, the inspectorate is paying special attention to discrimination on the bases of gender, parenthood and age.

3/ Implementing awareness-raising campaigns on combating discrimination in the labour market

The promotional activity 'Daddy, get active!' is underway in 2006 to promote a more active role of men in family life and to combat stereotypes and cultural obstacles that define the roles of men and women in family and society.

III.D.1.3.3 Disabled people in the labour market

Priority measures (Guideline no. 19):

- 1/ Improve employment prospects by implementing the provisions of the new Occupational Rehabilitation and Employment of Disabled Persons Act.
- 2/ Regularly monitor the employment of disabled persons per activity and employer.
- 3/ Introduce a system of quotas.

The disabled are more disadvantaged in the labour market than the rest of the population. According to estimates⁸⁵, the disabled made up 8.1% of the entire population of Slovenia in 2005, whereas their share in the active population was 6.6%⁸⁶. A total of 17% of the disabled in the labour market were registered as unemployed in the registers of the Employment Service of Slovenia, whereas 98.1% of the occupationally disabled were in registers governed by other acts.

Over the past few years employment of the disabled has been managed foremost through active employment policy programmes and their employment in the social economy (social entrepreneurship), which in Slovenia takes the form of sheltered workshops. 2005 saw the start of pilot projects of employment centres for people with the severest disabilities who had previously been outside the employment system and included in active employment policy measures. Six such employment centres started operating in 2006, with three more in the process of being established. This type of supported employment is introducing the model of integrated employment.

⁸⁴ The Labour Inspectorate of Slovenia is conducting an oversight of the implementation of acts and other regulations, collective bargaining agreements and general regulations governing employment relationships, wages and other income from work, the employment of workers in Slovenia and abroad, co-determination, strikes, health and safety at work, as well as the implementation of acts and regulations that explicitly call for inspectorial control.

⁸⁵ An assessment based on data on the recipients of invalidity pensions and benefits for disability before the age of 18, and data on the disabled in the labour market.

⁸⁶ Of all disabled people in the labour market, 29,418 (54.8%) were employed (22,864 in the normal work environment, 6,554 in sheltered workshops).

1/ Improving employment prospects by implementing the provisions of the new Occupational Rehabilitation and Employment of Disabled Persons Act

The Occupational Rehabilitation and Employment of Disabled Persons Act, which was enacted in July 2004, introduces new forms of employment for the disabled. Implementing regulations were adopted at the end of 2005 so the positive effects of increased employment opportunities for disabled persons are expected over the coming years. The occupational rehabilitation of disabled persons, with its system of concessions for performing public services in the network of occupational rehabilitation providers, started in March 2006. All disabled people have the right to be included in occupational rehabilitation.

2/ Regular monitoring of the employment of disabled persons per activity and employer; and 3/ Introducing a system of quotas

The system of quotas for the employment of disabled people, which was launched in 2006, introduces the regular monitoring of the employment of disabled persons per activity and employer and the relevant incentives/disincentives. Employers started preparing for the enactment of the Decree establishing employment quotas for disabled persons⁸⁷ in 2005, which produced positive results already that year in that employers had a greater interest in hiring disabled people and preserving jobs for the disabled (in 2005 12.8% more unemployed disabled persons got a job than the year before, while in the first half of 2006 the number increased 38% year-on-year).

The government has also established the National Fund for the Promotion of the Employment of the Disabled⁸⁸, which is funded by fines paid by employers who fail to meet the prescribed quota, funds from the Pension and Disability Insurance Institute dedicated to promoting the employment of the occupationally disabled, revenues from the national budget obtained from fines and appropriated proceeds under this act, budget funds for subsidising the wages of disabled people and donations.

III.D.1.3.4 Position of the Roma in Slovenia

Priority measure (Guideline no. 19):

1/ Adopt a special law on the Roma community.

1/ Adoption of a special law on the Roma community

The draft Roma Community in Slovenia Act is undergoing inter-departmental harmonisation. The proposed act gives the Roma community a special ethnic community special protection known in legal theory as positive discrimination. It also governs the employment of the Roma.

III.D.1.4 Identifying labour market needs

III.D.1.4.1 Labour market brokerage, functioning and modernisation of the ESS and agencies

Priority measures (Guideline no. 20):

1/ Modernise the Employment Service of Slovenia.

2/ Train and motivate employment counsellors.

⁸⁷ The Decree establishing employment quotas for disabled persons entered into force on 1 January 2006.

⁸⁸ To ensure equality in the employment participation of disabled people, the fund accepts the following financial incentives: wage subsidies for disabled persons, costs of workplace adaptation, payment of services in supported employment, exemption from contributions for the pension and disability insurance of employed disabled people, bonuses for exceeding the quota, annual awards to employers for best practice in the employment of the disabled, other incentives for the employment of disabled persons and the preservation of jobs for the disabled and other development incentives.

3/ Promote employment brokerage agencies as an element of labour market adaptability.

The main institution responsible for implementing employment policies is the Employment Service of Slovenia (ESS). It performs various public services including employment brokerage, the registration of unemployed persons, the provision of employment information and vocational guidance.

In employment brokerage, the ESS also generates and improves the transparency of information on job vacancies by making it part of its broader service of job-searching support that is available on its website. In this way and with the information on job vacancies that it submits to the EURES⁸⁹ portal, it is contributing to the transparency of the labour market and reduction of frictional unemployment. The ESS publishes information on 1,000 to 1,500 job vacancies daily, sends 8,000 emails per week to subscribers with information on job vacancies and provides for interactive communication between employers and registered job-seekers.

1/ Modernising the Employment Service of Slovenia

In its drive to modernise itself, the Employment Service of Slovenia started providing additional electronic services⁹⁰ for the unemployed, employers and the institutions carrying out employment programmes in April 2005. There are also plans to use other electronic services to improve the efficiency of employment brokerage (e.g. SMS).

The ESS provides individual and group services (provision of information, counselling) to unemployed people with a view to accelerating employment and improving employment prospects through the active labour market policy programmes. One of the key tools it uses is the employment plan⁹¹ which also makes it possible to monitor the activity of the unemployed. To improve co-operation with employers and provide assistance in meeting their needs, the ESS carried out 1,376 visits to employers in 2005, with the number projected to top 2,000 in 2006. This year it is working in conjunction with employers' associations and individual employers to carry out special activities to address the shortage of drivers, construction workers and metal workers in the labour market (promoting these occupations in the media, meetings between the employers and employees, training of unemployed persons). A total of 951 workers from other EU member states were referred directly to Slovenian employers under the EURES system, which comes on top of the 6,500 counselling sessions on the free movement of labour. Another way in which the ESS is addressing labour market shortages is by issuing work permits and including the unemployed in active employment policy measures.

In 2006 the ESS intensified its modernisation efforts by adopting a development document which determines the key areas of work and guidelines. The programming objectives for 2006 include: (i) the adoption of an overhauled work doctrine with unemployed people which envisages the introduction of modern approaches to the quick identification and elimination of obstacles to the employment of unemployed persons and the training of counsellors; (ii) the adoption of a new work doctrine with employers which introduces new forms of more efficient co-operation in eliminating labour market shortages, the treatment of redundancies

⁸⁹ The EURES is a network of public job agencies which provides services within the framework of the free movement of labour and implements the principle of giving EU citizens priority in employment over the citizens of third countries.

⁹⁰ For the unemployed (ordering of certificates from the Employment Service's records), for the employers (job matching, supply of copyright works as required by law, annual employment plans, tenders for sponsorships), for the institutions which carry out employment programmes (exchanges of data with the operators of public works, exchanges of data with participants of the Education and Training of Workers programme).

⁹¹ The Employment Service designs an employment plan for over 90% of the newly registered unemployed in a period of two months after they have registered as unemployed. All the newly registered unemployed are included in special information and motivation seminars.



and planning of employment programmes; (iii) the upgrading of existing and introduction of new services in employment brokerage with the use of new technologies; (iv) the creation of conditions for launching a new application for employment programme support (PZ-net); (v) designing a proposal for upgrading and changing the organisation of work. The objective here is to improve efficiency and streamline work processes to release staff resources and direct them to work with customers (a lower ratio between counsellors and unemployed people); and (vi) the remodelling of counsellor training programmes based on a competence model and by taking into consideration the experiences of public employment institutions in the EU.

The reform and modernisation of the ESS is proceeding with the help of funding from the European Social Fund.

2/ Training and motivating employment counsellors

For its achievements in improving the employability of unemployed persons, the Employment Service has received the ISO certificate of quality for three of its regional units and the central service. The certificate was again confirmed in the first half of 2006.

3/ Promoting employment brokerage agencies as an element of labour market adaptability

To raise the efficiency of employment brokerage, the Employment Service is working together with private job agencies in accordance with the terms and conditions that were confirmed by the competent ministry. Such contracts were signed with 13 private job agencies in 2005 and with 21 in 2006.

III.D.1.4.2 Removing obstacles to workers' mobility across Europe

Priority measures (Guideline no. 20):

- 1/ Prepare a programme for eliminating deficiencies in individual professional segments through selective immigration.
- 2/ Monitor developments in Slovenian and EU labour markets and regulate them based on the actual situation.
- 3/ Promote the repatriation of emigrant experts.

1/ Preparing a programme for eliminating deficiencies in individual professional segments through selective immigration; and 2/ Monitoring developments in Slovenian and EU labour markets and regulating them based on the actual situation

The situation and needs of the Slovenian labour market were monitored on an ongoing basis last year as part of the selective migration policy. In conjunction with the social partners and other stakeholders, certain measures were put in place to remove administrative obstacles to the employment of foreigners who are citizens of third countries, which has accelerated the obtaining of work permits in particular for occupations that are in short supply in the Slovenian labour market. A regulation was adopted which determines those professions that are in short supply in the Slovenian job market and for which employment may be granted without labour market control (a shortened procedure for obtaining a work permit).

In accordance with the EU's legislation, the amendments to the Employment and Work of Aliens Act also introduced changes in the self-employment of foreigners who are citizens of third countries, allowing them to start self-employment after 12 months of legally residing in Slovenia.

May 2006 saw the expiry of the two-year transitional period for the free movement of labour. Ireland, Sweden and Great Britain liberalised access to their labour markets for Slovenian citizens in May 2004, while Spain, Portugal, Greece, Finland, Iceland and Italy followed in May 2006. Having consulted the social partners and analysed the state of the Slovenian labour



market, the Slovenian government adopted a decree eliminating enforcement of the principle of reciprocity in the free movement of labour, which means that the employment of EU citizens is now completely free in Slovenia.

III.D.1.4.3. Illegal work and employment⁹²

Priority measures (Guideline no. 21):

- 1/ Establish a system to monitor the scope of illegal work and employment.
- 2/ Monitor the activities and effects of the prevention of illegal work and employment.
- 3/ A stricter oversight regarding illegal work and employment.

The Prevention of Illegal Work and Employment Act, which has been in force since 2000, defines illegal work and employment as activities which can be carried out legally; it does not deal with activities that cannot be performed legally (human trafficking, illegal copying of software and media, procurement). Most illegal work and employment is detected in construction, catering, trade and transport where, however, co-ordinated group actions by inspection authorities are especially efficient. At least 200 group inspections are carried out annually and co-ordinated by the government Commission for the determination, co-ordination and monitoring of activities for the prevention of illegal work and employment. In annual reports to the government and the Economic and Social Council, the Commission presents the activities and effects of the prevention of illegal work and employment.

The gradual reduction of the scope of illegal work and employment shall continue in 2006 and 2007 through: (i) preventive and repressive measures through the co-operation of supervisory authorities which are in charge of monitoring illegal work and employment; (ii) the creation of a system for measuring the effects of the prevention of illegal work and employment (to be completed by July 2007⁹³); (iii) the use of the instrument declaring property in tax inspections in cases where there is a gap between reported income and actual assets; (iv) greater financial discipline and the exploration of other forms of stimulating taxation of legal forms of work and employment; (v) a new system of sanctions for illegal work and employment; and (vi) cutting welfare assistance to beneficiaries who work illegally.

In July 2006 the Slovenian government adopted amendments to the Prevention of Illegal Work and Employment Act. In order to significantly curb illegal work and employment, it proposed a solution whereby unemployed people who work illegally are presumed to have been employed for an indefinite period even though they had not signed an employment contract with their employer.⁹⁴ The amendments also include new exemptions from illegal work and employment, for example small work⁹⁵.

III.D.2 PROMOTING ADAPTABILITY AND MOBILITY IN THE LABOUR MARKET

III.D.2.1. Promoting adaptability, flexibility and mobility in the labour market

Priority measures (Guideline no. 21):

- 1/ Promote friendly forms of flexible labour market and employment.

⁹² Chapter III.D.1.4.3. Illegal work and employment has been included in the report on the recommendation of the Economic and Social Council and the European Commission.

⁹³ Slovenia will upgrade the methodology for calculating illegal work and employment in 2007.

⁹⁴ In this case the employer will have to give the worker an employment contract within three days or the worker will have the right to take court action. In the event the employer does not provide an employment contract in this period, the sole proprietor or person responsible at the company faces tough sanctions.

⁹⁵ Small work is defined as the work of a person who is not a full-time employee (a maximum of 40 hours per month, whereby the wage may not exceed 50% of the minimum wage), does not perform freelance work and is not receiving a pension. The employee must register such a person for social security and wage-related contributions. The performance of such work does not require an employment contract under the Employment Relationships Act.



- 2/ Replace passive measures with active labour market measures to activate people and stimulate employment and social inclusion.
- 3/ Increase mobility through investments in tenant dwellings in regions with labour shortages.
- 4/ Improve workers' skills to retain employment on a long term-basis through lifelong learning, and reduce structural imbalances according to labour market needs.

1/ Promoting friendly forms of flexible labour market and employment

As part of the efforts to promote friendly forms of flexible labour market and employment, Slovenia will continue carrying out programmes for the introduction of: (i) flexible forms of employment and work at home, in particular in social services. We will also carry out additional: (ii) projects for improving the flexibility of the labour market through the development and introduction of various training schemes, including job rotation, whilst providing for the security of employment by creating jobs in the non-profit sector; and (iii) programmes for stimulating regional and inter-sectoral mobility.

In 2006 preparations are underway for changes to the Employment Relationships Act. In its intensive negotiations with the social partners, the Slovenian government has been advocating the flexicurity approach which is established in Scandinavian countries and being taken up as a model in European employment policy. This model is designed to give employers greater leverage when adapting to the labour market and globalisation but it also provides for appropriate income and social security for people made redundant in the process, and for active employment policy measures and lifelong learning to help them find new jobs as soon as possible.

2/ Replacing passive measures with active labour market measures to activate people and stimulate employment and social inclusion

Subsidies for employers who hire a recipient of cash benefits, including welfare benefits, for a fixed or indefinite period help to promote social and work by making eligibility for benefits conditional on the claimants' willingness to accept paid work. This is an activity that replaces a passive measure with an active one.

(Also see III.D.1.2.3 Modernisation of social protection systems, Measure 1, p. 50)

3/ Increasing mobility through investments in tenant dwellings in regions with labour shortages

Internal mobility in Slovenia is substantially lower than in the EU. The high share of owner-occupied dwellings, coupled with the poor supply of private rental units and non-profit housing, hampers the mobility of the labour force. The number of internal migrations has been increasing (in 2005 it was up 6.5% over the year before).

The government has been drawing up a new National Housing Strategy. It will provide a comprehensive set of objectives and measures for housing, dealing with the supply side as well as the funding thereof. The draft strategy includes objectives: (i) increasing the market supply of building land for housing construction, lowering the price of building land and increasing the market supply of tenant- and owner-occupied dwellings; (ii) improving the supply of favourable housing loans and developing models of subsidies and tax relief; and (iii) securing public funding for the promotion of housing construction and the reform and financing of social programmes in housing. (Also see III.E.1. Better spatial management and housing policy, p. 63)

4/ Improving workers' skills to retain employment on a long term-basis through lifelong learning, and reducing structural imbalances according to labour market needs



According to the Eurostat indicator of lifelong learning⁹⁶, Slovenia has been successful in this field as the share of people aged from 25 to 64 included in education and training was 17.8%, which is significantly higher than the average in the EU-25 (11%). To reduce the education deficit of adults and provide training to early school-leavers, there are courses for people with only primary, lower or vocational education, for those with low functional and digital literacy and for those who left the educational process early (the 25-64 age group, 15-64 for the unemployed). To improve the adaptability of workers, companies and other organisations in responding to globalisation trends, Slovenia has been co-funding the training and education of employees (retraining). This will raise the education level of employees and give them appropriate knowledge and skills, in particular fundamental abilities which workers must upgrade on an ongoing basis in order to preserve their jobs and to stop them going into unemployment.

(Also see III.B.2.1 Promoting the development of human resources and lifelong learning, Measure 2, p. 32)

There is an additional measure for dissemination of the system of quality and adaptability in education and training – the special priority ‘Career Counselling’, which is defined as such in the National Development Programme. Its aim is to connect the existing career counselling services and to integrate them into a single information and counselling system. In this way all information will be available in the one place and the system will help build the individual’s career throughout their life.

(Also see III.D.1.2.2 Active ageing and measures to address the employment issues of older workers, Measure 3, p. 49)

III.D.2.2 Health and safety at work

Priority measures (Guideline no. 21):

- 1/ Implement the Resolution on the national occupational health and safety programme.
- 2/ Inform workers and employers about occupational health and risks.
- 3/ Monitor the situation related to occupational safety.

Within the scope of the available funds, Slovenia has been carrying out measures to achieve the health and safety at work objectives that are defined in the Resolution. Practical guidelines for the evaluation of risks when working with chemicals are in place and promotional campaigns for safe work in the construction industry and in noisy work environments have been organised. The campaigns included manuals for safety at work that were distributed to workers. Work is also underway to create an information system for health and safety at work based on methodologies agreed upon and adopted in the EU. The project is scheduled for completion at the end of 2006.

Another programme that will be completed in 2006 is the PHARE Fit for Work project which promotes health at work and constitutes the implementation of the measures set out in the Resolution.

III.D.2.3 Increasing the attractiveness of work

Priority measures (Guideline no. 22):

- 1/ Establish a new basis for the allocation of transfers.
- 2/ Gradually abolish payroll tax.
- 3/ Examine the possibility of a further disburdening of wages.

⁹⁶ The European Commission has warned that the indicator is methodologically flawed.

2006 saw the adoption of agreements on wage growth in the public and private sectors for 2006 and 2007, while the Slovenian government also adopted the draft Minimum Wage Act. (Also see III.A.1 Policies and measures in the macroeconomic area, Measure 3, p. 7)

1/ Establishing a new basis for the allocation of transfers

The national social protection programme was adopted in spring 2006 to determine measures to increase the attractiveness of work and was followed in September 2006 by the Social Protection Act. The underlying changes being introduced are aimed at motivating unemployed people and the recipients of social benefits to actively look for work and accept occasional and temporary employment.

(Also see III.D.1.2.3 Modernisation of social protection systems, p. 50)

2/ Phasing out payroll tax

The gradual abolition of payroll tax which is underway in the framework of efforts to increase the attractiveness of work will significantly reduce labour costs, thereby increasing the resources of the national economy available for developing high technologies.

(Also see III.A.1 Policies and measures in the macroeconomic area, Measure 2, p. 6)

3/ Examining the possibility of a further disburdening of wages

Wages will be additionally disburdened by the new Personal Income Tax Act, which reduces the number of tax brackets from five to three and cuts the tax rates across the board: the lowest rate will be 16% and the highest 41%. The reduction of progressivity is to create better conditions in particular for the employment of highly educated staff.

(Also see III.A.1 Policies and measures in the macroeconomic area, Measure 2, p. 6 and III.C.3 Developmental restructuring of public finances, Measure 3, p. 43)

III.E. THE FIFTH DEVELOPMENT PRIORITY: MEASURES FOR SUSTAINABLE DEVELOPMENT

III.E.1. IMPROVED SPATIAL MANAGEMENT AND HOUSING POLICY

Priority measures (Guideline No. 13):

- 1/ Increase the supply of building land for the economy and housing construction.
- 2/ Record and commercially activate building plots.
- 3/ Ensure the regular updating of cadastres and the land register.

In 2006, the proposal for the Spatial Planning Act was drafted whose aim is to ensure the optimum rationalisation of procedures relating to the adoption of spatial legal acts. Parallel to this, the amendment of those spatial regulations in the field of spatial planning will be undertaken. This refers to architectural activity, the status and organisation of the planning and design profession, and the quality of architecture in urban and rural environments in Slovenia.

The provision of appropriate housing facilities is important not only from the viewpoint of the housing policy in its narrower sense, but also as regards the creation of conditions for implementing the family and demographic policy objectives of the state. It also has a significant impact on the economy and the mobility of the workforce. Thus, 2006 saw the adoption of amendments to the National Housing Saving Scheme and the Housing Grant for Young First-Time Homebuyer Families Act, which provided a basis for subsidies⁹⁷ as a stimulation to resolve the first housing problem by purchasing or constructing an apartment. The construction of non-profit rental housing and market housing for young families at favourable prices will also have to be pursued intensively in the following period. In so doing,

⁹⁷ Eligible are young families, whose income ranges within the legally determined census

priority should be given to the construction of apartments⁹⁸ within the public-private partnership.

1/ Increasing the supply of land for the economy and housing construction

The supply of appropriate land for the economy and housing construction is primarily the responsibility of the competent local communities. Therefore, in the field of housing construction the decision on additional activities⁹⁹ of the state carried out through the Housing Fund of the Republic of Slovenia was adopted. Consequently, the fund capital is also expected to expand through tangible assets, i.e. through inactive state-owned building plots (Also see III.A.2.2. Increase inflows of development-promoting domestic and foreign investment, Measure 1, p. 10).

2/ Recording and commercially activating building plots

At the beginning of May 2006, the National Assembly adopted the Recording of Real Property Act. Against this background, the land cadastre, the cadastre of buildings and the real property register will be established, kept and maintained. The new records of the real property register will be established by the Surveying and Mapping Authority of the Republic of Slovenia. The real property register is a public record of all immovables that in terms of record-keeping defines real property and ensures the use of data on immovables for the purposes of spatial development, tax policy and the implementation of statistical monitoring.

By establishing the real property register, building plots will also be recorded as part of the register. Among other things, data on the actual use of real property and the value and usability of the land will be kept in the register. Comprehensive measures of several policies, both housing and tax policies, and the spatial planning policy will facilitate the activation of building land and plots.

3/ Ensuring the regular updating of cadastral and the land register

Establishing the real property register is a pre-condition for the progressive co-ordination of data and the compilation of various previous records in terms of contents and organisation. Based on the Recording of Real Property Act adopted in May, the inventory of real property should be launched in December 2006 and completed by April 2007.

III.E.2. ENVIRONMENTAL PROTECTION POLICY

Slovenia has so far achieved a relatively high level of environmental development mainly due to its favourable geographical position and exceptionally rich natural conditions. Among the EU member states, it has designated the largest part of the national territory (i.e. 35.5%) as NATURA 2000 while almost 60% of the country is forestlands and its biodiversity is among the strongest in global terms. In Slovenia's primary energy balance the share of renewable sources totals around 9%, with hydro energy representing 5% and biomass 4%; nearly one-third of electricity is produced from water. In agriculture the shares of both integrated and ecological farming are continually rising, with the latter totalling 2%. On the other hand, however, Slovenia still has a relatively high energy intensity and maintains emission- and energy-intensive industries while energy consumption has been on a rapid increase in all sectors. As regards traffic, environmental pressures are mainly attributable to the fast-growing share of road traffic. Economic growth has entailed the increased consumption of natural resources and thus environmental pressures.

⁹⁸ 315 non-profit rental apartments were built by the Slovenian Housing Fund in partnership with municipalities in 2005, and additional 1023 apartments are under construction. There are already 284 market apartments built, and additional 877 apartments for sale on the market are under construction.

⁹⁹ In this connection, the preparation of adequate regulatory bases is under way, meaning that a special governmental decree will be adopted for this purpose. To this end, the transfer of land with the total area of 2099 square metres in Ljubljana, in the vicinity of the town centre was already effected

In November 2005 the Resolution on the National Environmental Protection Programme¹⁰⁰ was adopted by the National Assembly. Its main objectives are the general improvement of the environment and the quality of living and protection of natural resources. It was prepared for the period up to 2012, with the 2005-2008 measures covering: (i) climatic change (greenhouse gas emissions reduction, ozone layer protection); (ii) nature and biodiversity (the National Nature Protection Programme including the management programme for the Natura 2000 sites, the monitoring of the condition of forest ecosystems, soil protection and genetically modified organisms); (iii) the quality of living (the National Water Management Programme covering the regulation, protection and use of water; air protection; chemicals management; noise; electromagnetic radiations; and urban environment); and (iv) waste and industrial pollution.

Priority measures (Guideline no. 11):

- 1/ Implement the Operational Programme for the Reduction of Greenhouse Gas Emissions and the Operational Programme for the Maintenance and Improvement of Ambient Air Quality.
- 2/ Implement the national water management programme through adequate operational programmes.
- 3/ Enforce all the operational programmes in the waste management field by 2008.
- 4/ Promote the general public's participation in decision-making processes; raise public awareness and inform people.
- 5/ Apply environmental criteria in the tax legislation reform and the implementation of industrial policy, introduce 'green' public procurements and consider environmental issues in sectoral policies and spatial planning.
- 6/ Implement the national nature protection programme.

1/ Implementation of the Operational Programme for the Reduction of Greenhouse Gas Emissions and the Operational Programme for the Maintenance and Improvement of Ambient Air Quality

In October 2006 the Government started the public debate on the amended greenhouse gas emission Operational Programme¹⁰¹, which will encompass the improvements of records as additional studies were carried out confirming that Slovenia was capable of utilising the total permitted CO₂ absorption. Waste emissions and escaping emissions were also reassessed. Agricultural emissions were evaluated by relying on the Rural Development Programme and measures for the reduction of greenhouse gas emissions.

Slovenia's emissions trading scheme includes 94 operators of installations to whom the state has granted permits to emit greenhouse gases. The new 2008-2012 National Plan for Emission Coupons Allocation, including 98 operators, was submitted for public consideration in July 2006. On the basis of the adopted Plan, Slovenia will allocate coupons to operators for a new period until the end of 2007.

Apart for excessive emissions (mainly resulting from traffic, industry and households), the excessive air pollution¹⁰² has also resulted from unfavourable climatic and orographic conditions. Therefore, Slovenia has begun to prepare programmes for the co-operation between the state and local communities. Stress will be laid particularly on the identification and utilisation of synergies with other environmental policies, especially the cushioning of climatic change and the sustainable development of urban areas.

¹⁰⁰ The environment area is regulated by three systemic acts, i.e. the Environmental Protection Act, the Waters Act and the Nature Preservation Act.

¹⁰¹ The Programme was adopted in July 2003 and amended in July 2004.

¹⁰² The data on ambient air quality monitoring in Slovenia point to excessive limit values of the PM10 floating parts and target values of ozone at most measurement stations, while excessive limit values of sulphur dioxide are very locally-bound and have been decreasing.

2/ *Implementation of the national water management programme through adequate operational programmes*

As concerns water management, activities related to the preparation and adoption of appropriate plans went on last year. Thus a decree on the detailed content and preparation method of the water management plan was adopted and the Krka Pilot Project that mainly provides technical assistance in implementation of the water directive was continued. To establish a uniform record-keeping system, activities were undertaken to set up a water register where information on water infrastructure, water areas, flooding areas and relevant legislation will primarily be kept and linked with other records. Water protection activities mainly comprised the protection of drinking water by establishing water protection areas and the regulation of the swimming water field. To regulate waters, and especially to prevent harm caused by water, rules on how to determine flooding and erosion areas and categorise them according to the risk level began to be prepared in 2005. In line with the water fund's programme, activities were undertaken to invest in the maintenance of existing infrastructure and prepare spatial documentation for the construction of new infrastructure.

3/ *Enforcement of all the operational programmes in the waste management field by 2008*

To enforce the Operational Programme for Removing Waste to Reduce the Amount of Biodegradable Waste, the overburdened and technically inadequate non-hazardous waste landfill sites already began to be closed down in 2004 and 2005; eight of them belong within the repair of old burdens. The closing down procedure will continue for at least three years, with the Ministry having allocated SIT 361.5 m (EUR 1.51 m) for the purpose.

The management of separately collected municipal waste is regulated by the Rules on the Management of Separately Collected Fractions in Performing the Public Service of Municipal Waste Management. Several waste collection centres¹⁰³ were set up in 2005 and most Slovenian municipalities have been introducing separate waste collection at source by equipping their urban environments with appropriate infrastructures. In addition, important regional waste management centres¹⁰⁴ are under construction and several large wastewater treatment plants¹⁰⁵ were opened in 2005.

Further, a number of executive regulations were adopted concerning the management of ship-generated waste, end-of-life motor vehicles, waste electric and electronic equipment and the excessive shipment of waste. A framework was drawn up for the performance of the mandatory public service of collecting waste from vessels in the Koper port area. The Government adopted rules introducing the environmental tax for the pollution caused by the generation of end-of-life motor vehicles and the use of lubricating oils and liquids. The December 2005 amendments to the Decree on the Manner, Subject and Terms of Performing the Public Service of End-of-life Motor Vehicle Management abolished the payment required for dismantling the vehicles from the last owners. The costs of maintaining this industrial public service will be covered from the national budget by the funds collected from the environmental tax for the pollution caused by the generation of end-of-life motor vehicles.

At the beginning of 2006 the Government adopted the Operational Programme for the Management of Waste Electric and Electronic Equipment. The rules define the equipment producers' individual responsibility while their obligations can also be fulfilled within a joint plan.

¹⁰³ In the municipalities of Ljubljana, Ptuj, Postojna, Ljutomer, Radovljica, Škofja Loka, Kranj, Tržič, Šenčur. All were predominately financed from environmental taxes and municipal budgets.

¹⁰⁴ Bukov žlak for the Savinjska region, Puconci for the Pomurje area, the Dolenjska regional centre, a regional centre for Koroška and the Unično regional centre for Zasavje. A consensus is being reached on the locations for the centres in the Gorenjska and Obalno kraška regions.

¹⁰⁵ Including one in Ljubljana, Ljutomer, Slovenj Gradec etc., which means 450,000 PE of treated wastewater.

Forty-six projects of investing in the setting up of environmental protection facilities within local industrial infrastructures in 2004-2006 were approved for national co-financing, covering the provision of the population with drinking water, the removal and treatment of municipal wastewaters and waste management. The funds earmarked for those projects in 2005 totalled SIT 1.388 bn (EUR 5.79 m).

4/ Promotion of the general public's participation in decision-making processes; raising public awareness and informing people

In line with the so-called Aarhus Convention principles, the general public's participation in decision-making processes concerning environmental matters is being promoted by publishing draft documents on the Ministry of the Environment and Spatial Planning's web site and calling for their public consideration. Comments and suggestions are examined and appropriately considered (about 100 annually). The Ministry also organises various consultations and informative meetings with those interested.

In the awareness-raising field, emphasis is largely laid on the co-operation with non-governmental organisations, including regular annual meetings of the Minister with NGOs, co-financing of the NGOs' work programmes (SIT 32 m (EUR 133,533) in 2005), participation in individual projects and facilitation of a consensus on the establishment of an environmental centre. The Ministry of the Environment and Spatial Planning systemically co-finances the Eco Schools programme (SIT 3 m (EUR 12,581) per year). As an institution, it also participates in the training of environmental teachers – multipliers. Several awareness-raising environmental projects were implemented last year, e.g. Slovenia reduces CO₂, European Mobility Week, Flupi, Become a Danube Artist, 'Take less. Have more.' etc.

The Ministry of the Environment and Spatial Planning also held numerous consultations with municipal towns and prepared guidelines broadly defining the content and steps needed for the preparation of municipal environmental protection programmes. The main stress is on a comprehensive approach to local communities' environmental planning and management.

5/ Application of environmental criteria in the tax legislation reform and the implementation of industrial policy, introduction of 'green' public procurements and consideration of environmental issues in sectoral policies and spatial planning

Comprehensive Assessment of Impacts on the Environment

The objective of implementing the comprehensive assessment of impacts on the environment is to ensure a high level of environmental protection and to contribute to the inclusion of environmental aspects in the preparation and monitoring of plans and programmes in order to promote sustainable development. Comprehensive assessment enables the reduction of activities that could cause substantial harm to the environment and protected areas, thus implementing the principles of sustainable development, comprehensiveness and prevention. All the plans, programmes, spatial or other documents and their amendments that might be harmful to the environment are assessed. The procedure ensures the participation of all competent national bodies and organisations, along with the informing and participation of the general public.

Agriculture

Environment-friendly farming methods reflected in soil-fertility preservation, environmental protection and the preservation of biodiversity and traditional rural landscape are the chief priorities that also follow from the environmental strategic documents at the EU and Slovenia levels and are included in the National Strategic Plan and the Rural Development Programme 2007-2013. The Operational Programme for the Protection of Water against Pollution by Nitrates from Agricultural Production (2004-2008) and the Programme for the Reduction of

Pesticide Use Risk¹⁰⁶ define the modes of reducing soil degradation and the introduction of environment-friendly forms of agricultural land use. The protection of soil against agricultural impacts is indirectly included in the rural development activities since the provisions of the nitrate directive depend on the implementation of all measures in the agricultural directive. Agriculture and forestry can also greatly contribute to sustainable energy use. Investments facilitate the easier and more efficient use, processing and working of renewable energy sources, which is reflected in the activities of the 1st and 3rd pillars of the National Strategic Plan for 2007-2013.

Science

The Resolution on the 2006-2010 National Research and Development Programme lists sustainable industry technologies among Slovenia's priorities.

Traffic

The Ministry of Traffic implements infrastructural projects in line with the national and EU environmental protection laws. Permanent measures are implemented in the field of national roads, with their objectives including the reduced burdening of the environment with road traffic noise, i.e. so-called sound or noise pollution.

Efficient energy use and renewable energy sources

Over SIT 500 m (EUR 2.09 m) was allocated in 2005 for financial incentives to invest in efficient energy use and the use of renewable energy sources, having stimulated investments totalling about SIT 2.3 bn (EUR 9.59 m). According to a preliminary estimate, the investments resulted in a reduction of fossil fuel use by about 38,650 MWh (and thus of CO₂ emissions by 12,000 tons) per year.

A multisectoral group will be established to investigate the possibility of using biomass to produce bioethanol as a substitute for fossil fuels. It will also investigate whether the wood and other biomass of overgrowing areas can be efficiently used in Slovenia – considering the current level of equipment used in modern biotechnology – to produce bioethanol.

Financial incentives for the preparation of investment were granted in the amount of SIT 82.3 m (EUR 343,431) to co-finance 35 energy reviews of enterprises and institutions, studies on efficient energy use projects' feasibility and the preparation of energy concepts.

Within the Global Environment Facility (GEF)'s 'Removal of Barriers to the Increased Use of Wood Biomass as an Energy Source' project, two wood biomass remote heating (WBRH) projects were implemented in 2005 while investments in three smaller systems are in their final phase of preparation.¹⁰⁷

6/ Implementation of the national nature protection programme

Regarding biodiversity, attention was mainly paid to the Natura sites, especially to the preparation of an operational programme and action plan for the preservation of biodiversity through the management programme for the Natura 2000 sites. A number of relevant activities were carried out by incorporating the Natura 2000 sites' preservation and

¹⁰⁶ Both are part of the Resolution on the National Environmental Protection Programme.

¹⁰⁷ I.e., the projects in Vranksko and Kočevje, together totalling SIT 1.2 bn (EUR 5 m). The anticipated yearly use of fossil fuels will thus decrease by 28,590 MWh, and the CO₂ emissions by 5,020 tons. An investment (SIT 310 m (EUR 1.29 m)) in three smaller WBRH systems in the Luče and Mozirje municipalities is in its final preparation. In addition, investment programmes for WBRH in 33 other municipalities and project documentation for the acquisition of a building permit for the Pivka municipality project have already been prepared.



management activities into other sectors.¹⁰⁸ In addition, there were preparations to establish an information system to meet the needs of the Natura 2000 preservation. Projects of setting up new natural parks have been revived, and the public service for the Goričko Landscape Park management was started in 2005. Further, training on the link between nature and tourism was organised, and the Ministry of the Environment and Spatial Planning took over powers concerning large beasts of prey.

III.E.3. REGIONAL DEVELOPMENT

Priority measures:

- 1/ Set up regions with powers and resources (according to the principle of fiscal decentralisation) to promote their own development.
- 2/ Strengthen the development of a polycentric urban system and of regional centres (particularly centres of national importance), create urban (innovative) regions and promote regional economies with technology parks and business incubators.

1/ Setting up regions with powers and resources (according to the principle of fiscal decentralisation) to promote their own development

The Constitution of the Republic of Slovenia envisaged the establishment of local self-government at two levels and with two types of local communities – municipalities and regions. Normative preparations for the establishment of regions commenced together with preparations for the establishment of municipalities – i.e. with the Local Self-government Act adopted at the end of 1993. In July 2006 the National Assembly promulgated the constitutional act¹⁰⁹ ensuring constitutional conditions for the state's decentralisation. Normative regulation of the second-level of local self-government mainly aims at: (i) regulating the position of regional self-government within the power division system; (ii) establishing relations among administrative levels – the state, regions, municipalities; (iii) decentralising powers from the national to the regional level; (iv) fiscal decentralisation; (v) establishing regions across the national territory; and (vi) regulating the role of municipalities in the establishment and operation of regions.

In 2005 the Financing of Municipalities Act was amended. In 2006 the novelty introduced has already enhanced investment activity in municipalities. Within the national budget, SIT 6.2 bn (EUR 25.87 m) of additional funds was ensured for municipal investment projects, i.e. 3% of the total appropriate use by all municipalities. Apart from that, the Act enabled a significant streamlining of the municipalities' financial management, and a national grant in the event that several municipalities set up a body for joint municipal administration. Municipalities that organise the joint performance of individual municipal administrative tasks are entitled in the current year to an additional grant from the national budget in the amount of 50% of the expenditure covered from municipal budgets to finance the performance of joint tasks in the previous year. In 2006 the state will provide SIT 100 m (EUR 417,292) for this purpose.

The Slovenian government's 2006 normative work programme includes a new draft Financing of Municipalities Act establishing a vertical tax structure to enable most municipalities to execute their tasks and powers exclusively with their own financial resources, without additional amounts from the national budget. The new model of financing local communities will rely more on fiscal decentralisation principles, local financial autonomy and the European Charter of Local Self-Government (MELLS)'s recommendations.

¹⁰⁸ Particularly agriculture (within both the implementation of the 2004-2006 programme period programmes and preparations for the new, 2007-2013 programme period), forestry (preparations for the new programme period) and regional development (preparations for the new programme period).

¹⁰⁹ Amending Articles 121, 140, and 143 of the RS Constitution.

2/ *Strengthening the development of a polycentric urban system and of regional centres (particularly centres of national importance), creating urban (innovative) regions and promoting regional economies with technology parks and business incubators*

The new Promotion of Balanced Regional Development Act introduces development regions based on the association of municipalities, with the regional council as a political decision-making body and the regional development council as a partnership body intended to engage the business and non-governmental sectors. Such a development region is a legal entity that may establish its own financial account and has legally defined powers when administering development. This will ensure that the regions can begin to take more responsibility for their own development.

In 2005-2006 the regional economy was supported by direct regional financial incentives for priority projects in individual development regions, mostly constituted by the construction of industrial zones and business incubators and of technology parks in certain regional centres (Ljubljana, Celje, Nova Gorica, Koper) that have higher education programmes and appropriate innovation potential. The building of industrial zones was also supported within the Single Programme Document 2004-2006.

In line with the Promotion of Balanced Regional Development Act, the volume of regional incentives in the national budget will increase in the next 2007-2013 programme period to reach 1.5% of GDP, in which development resources from the EU structural funds are also included and where a gradual rise in expenditure on special regional policy measures to 0.25% of GDP is envisaged. The increase in funds for this purpose derives from the need for additional finances to prepare projects for the new EU financial perspective so as to ensure Slovenia achieves the appropriate absorption capacity. It also relates to the expected establishment of regions whose autonomy needs to be ensured and while eliminating internal developmental disparities, which will be achieved more efficiently if decisions are reached according to the subsidiarity principle. This increase has already been partly provided for in the 2007 national budget.

Executive parts of the current regional development programmes in the 12 development regions (based on the balanced regional development act) and the performance of public interest tasks under the responsibility of regional organisations (regional councils, regional development councils and regional development agencies) are co-financed by the Government Office for Local Self-Government and Regional Policy within its adopted budget amounting to SIT 3.2 bn (EUR 13.53 m) in 2006. With the expected greater accessibility of the EU's development resources in the new financial perspective, this item will be disburdened of the co-financing of large regional development projects. Therefore, it will be possible to direct funds mainly to project preparation, special regional incentives in priority areas with major developmental backlogs or grave structural problems, while ensuring the less developed regions' own participation in the European Regional Development Fund programmes.

In 2006 a new generation of regional development programmes in the 12 development regions is being prepared, bringing an integral approach to the regions' developmental programming so as to strengthen co-operation between urbanised and rural areas. The objective is to achieve sustainable development and to include all potential partners (the business sector, trade unions, non-governmental organisations) to enable the consensual determination of priority projects through which the regions will respond to future challenges. The stronger polycentric concept means less environmental pressure and the more efficient control of traffic flows and mobility, and it enables the preservation of settlements while strengthening their development potential.

IV. LINKING THE REFORM PROGRAMME WITH COHESION POLICY

The strategy of using European resources is based on Slovenia's Development Strategy (SDS) whose primary concern is the overall well-being of residents. Therefore, it not only focuses on economic issues but includes social, environmental, political, legal and cultural relations. Due to this setting of goals, in its content the SDS also represents a strategy for Slovenia's sustainable development as well as the transfer of the Lisbon Strategy goals into the national environment with regard to Slovenia's particular developmental possibilities and backlogs.

The cohesion policy co-ordinator in Slovenia is Government Office for Local Self-Government and Regional Development,¹¹⁰ which endeavours to ensure the greatest possible harmony of the co-financed measures with the Lisbon Strategy and the reform programme guidelines.

The harmony between the SDS and the reformed Lisbon Strategy existing at their strategic goal level – the overall well-being of the population – extends to the area of economic development with both documents singling out economic growth and new jobs as the key objectives in the field. The key SDS economic development objective is that within ten years Slovenia is to exceed the average EU level of economic development (calculated as GDP per capita at purchasing power parity) and to increase employment in line with the Lisbon Strategy goals.

The development priorities identified by the SDS represent the framework for the programmes and measures of the National Development Programme (NDP) which, although not the only instrument for the SDS' implementation, is a key one as concerns development investments. The NDP investment priorities thus equal the presented five SDS development priorities while the operational programmes' structure and development priorities also regard the logic and priorities of cohesion policy and the EU in general.

The priority tasks of the SDS and the Reform Programme overlap completely. Their development goals will be realised through the implementation of cohesion policy – the implementation of the National Strategic Reference Framework and individual operational programmes. In the next programme period, cohesion policy in Slovenia will continue its present orientation towards first achieving the goals of economic growth and job creation. The Lisbon orientation of cohesion policy is reflected in the significant volume of resources allocated by Slovenia to the European Social Fund programmes and the support to programmes promoting competitiveness and innovations. Another mode of including the Lisbon goals in cohesion policy is by complementing the measures for enhanced economic growth and job creation by measures from various other areas that produce catalytic effects.

The National Strategic Reference Framework for 2007-2013

The National Development Programme for 2007-2013 represents the planning of an entire national development policy and is an instrument for the »translation« of strategic guidelines into specific investment programmes and projects by taking into account the budgetary possibilities. As concerns its content, i.e. the priorities and time period to which it refers, the NDP is in line with the SDS and, as concerns the financing, it is in line with the national and municipal budgets as well as the resources from the structural and cohesion funds. As such, it represents the basis for preparation of the 2007-2013 National Strategic Reference

¹¹⁰ Acting as the body administering the Single Programme Document for 2004-2006, the body administering the cohesion fund implementation, the national co-ordinator of the Interreg Initiative and the body administering the Slovenia/Hungary/Croatia Neighbourhood Programme.

Framework and the operational programmes for the implementation of the EU's cohesion policy in Slovenia.

Based on the National Development Programme and the National Strategic Reference Framework, the following specific objectives have been defined: (i) to promote entrepreneurship, innovations and technological development by strengthening investments in competitiveness, including human resource development; (ii) to improve the quality of educational and R&D systems, including their accessibility and adaptedness to business sector needs; (iii) to improve the labour market flexibility while ensuring employment security, particularly by creating new jobs; (iv) to ensure conditions for economic growth by ensuring sustainable mobility, improving environmental quality and the appropriate infrastructure; and (v) balanced regional development at the level of the cohesion and statistical regions.

Slovenia will achieve the NSRF goals by carrying out the following operational programmes: (i) the Operational Programme for Fostering Regional Development Potential; (ii) the Operational Programme for Human Resource Development; and (iii) the Operational Programme for the Environment and Traffic Infrastructure Development.

Table 2: National Strategic Reference Framework 2007-2013 –EU resources in 2007-2013, EUR m, constant prices as of 2004

#	Operational programme	Fund	EU resources	%	%	%
1	Operational Programme for Fostering Regional Development Potential	ERDF	1546	41.5	42.5	64.4
2	Operational Programme for Human Resource Development	ESF	655	17.6	18.0	27.3
3	Operational Programme for the Environment and Traffic Infrastructure Development	CF	1236	33.1	34.0	
		ERDF	200	5.4	5.5	8.3
4	Cross-border operational programmes	ERDF	86	2.3		
5	Transnational operational programmes	ERDF	6	0.2		
	Total:		3729	100.0	100.0	100.0

Key: ERDF – European Regional Development Fund; ESF – European Social Fund; CF – Cohesion Fund

The resources from the cohesion fund will be equally divided between the environment and transport areas – i.e., programmes concerning transport infrastructure will receive SIT 148 bn (EUR 618 m) of those resources and SIT 26 bn (EUR 109 m) of Slovenia's own co-financing (part of which will be earmarked for technical assistance), while programmes concerning the environment and energy will receive the same amounts. Although a needs analysis has shown that the need for investment in traffic is considerably bigger than that within the environment and considering the significance of the environmental dimension and sustainable development, Slovenia has decided to grant equal shares to both areas. Within the traffic part of the operational programme, particular weight will be given to investments with favourable environmental effects.

The amount of resources in the European Regional Development Fund (ERDF) and the European Social Fund (ESF) totals SIT 575 bn (EUR 2,401 m) – excluding territorial co-operation. SIT 157 bn (EUR 655 m) has been allocated to the ESF so that the ratio between the ERDF and the ESF programmes is about 73%:27%. In Slovenia, the efficient use of the ESF resources depends on reforms in the employment and education areas and the creation of capacities for the implementation of new programmes. The proposed amount of human

resource investments in 2007-2013 represents a year-on-year increase of 3.7 times compared with the available ESF resources in the Single Programming Document 2004-2006. Another point to consider is that within the operational programme for fostering regional development potential investments in higher education infrastructure and inter-company training centres will also be financed, which will directly contribute to achieving the human resource development and employment goals. If these funds are also considered, the ESF contents represent 32% of the structural fund resources.¹¹¹ If all of this is taken into account, the share of the ESF contents will actually total one-third of the structural funds, pointing to Slovenia's substantially enhanced effort in the area of human resource development and the achievement of the Lisbon goals that substantially exceeds the amount of funds allocated for this purpose by other member states.

The Resolution on the 2007-2023 National Development Projects

The Slovenian Government has been preparing the Resolution on the 2007-2023 National Development Projects, which involves a selection of key (large) development investment projects in the period. The Resolution is vital for a faster economic boost and the achievement of the economic development goals, representing an ambitious and condensed investment plan with several sectoral effects and particular weight being given to so-called large central projects. It comprises those development investment national projects whose implementation will congregate developmental initiatives and resources at both the national and regional levels so as to achieve developmental breakthroughs for the state as a whole. The purpose of the document is to clearly set the priority national development projects in 2007-2023 to ensure the faster achievement of the goals laid down in Slovenia's Development Strategy and the National Development Programme.

The projects included in the Resolution are those whose financial value exceeds SIT 11.98 bn (EUR 50 m), whose effects transcend the boundaries of one region, and which achieve cross-sectoral effects and are capable of converging the contents and guidelines of several sectors. The key areas which the projects will serve are thus: (i) the development network of Slovenia; (ii) the linking of natural and cultural potential; (iii) efficient environment management and a sustainable energy industry; (iv) mobility to support economic development; and (v) institutional and administrative competence.

The initiative for the Resolution is based on the central project concept of the Economic and Social Reform Framework; among other things, it is part of endeavours to concentrate the EU's resources and improve the administrative absorption capacity. It thus represents a unified whole that links the key national development documents together.

¹¹¹ Additional resources for training will be available from an ERDF programme where recipients of funds for investments and equipment will perform all the necessary trainings on the basis of the 34th article of the general decree.

APPENDIX

APPENDIX I – Structural indicators

LISBON PROCESS STRUCTURAL INDICATORS (14) - SLOVENIA'S PROFILE AND CHANGES COMPARED TO THE YEAR BEFORE		
	SLOVENIA PLACES BETTER THAN OR AROUND THE EU-25 AVERAGE	SLOVENIA LAGS BEHIND THE EU-25 AVERAGE
IMPROVEMENT (FROM THE YEAR BEFORE)	<ul style="list-style-type: none"> ❖ Employment rate, 2005 (SLO: 66.0 %, EU-25: 63.8 %, EU-15: 65.2 %) ❖ Youth education attainment level¹¹² 2005 (SLO: 90.6 %, EU-25: 76.9 %, EU-15: 74.1 %) ❖ Poverty risk rate after social transfers, 2003 (SLO: 10 %, EU-25: 15 %, EU-15: 15 %) ❖ Long-term unemployment rate, 2005 (SLO: 3.1 %, EU-25: 3.9 %, EU-15: 3.3 %) ❖ Business investment¹¹³ 2004 (SLO: 21.7 % GDP, EU-25: 17.1 % GDP, EU-15: 17,0 %) ❖ Comparative price levels, 2005 (EU-25=100) (SLO: 76.4, EU15: 103.7) 	<ul style="list-style-type: none"> ❖ GDP p.c. in PPS, 2005 (EU-25=100) (SLO: 80.6, EU-15: 108.3) ❖ Labour productivity in PPS, 2005 (EU-25=100) (SLO: 76.9, EU-15: 106.0) ❖ Employment rate of older workers, 2005 (SLO: 30.7 %, EU-25: 42.5 %, EU-15: 44.1 %) ❖ Energy intensity of the economy, 2004 (SLO: 329.16 kgoe/1000 EUR; EU-25: 204.89 kgoe/1000 EUR, EU-15: 187.48 kgoe/1000 EUR)
DETERIORATION (FROM THE YEAR BEFORE)	<ul style="list-style-type: none"> ❖ Comparative price levels, 2005 (EU-25=100) (SLO: 76.4, EU15: 103.7) ❖ Volume of freight transport relative to GDP, 2004 (1995=100) (SLO: 101.1, EU-25: 104.7, EU-15: 105.3) 	<ul style="list-style-type: none"> ❖ R&D expenditure relative to GDP, 2004 (SLO: 1.45 % GDP, EU-25: 1.86 % GDP, EU-15: 1.92 % GDP) ❖ Greenhouse gas emissions, 2003 (1990=100) (SLO: 98,1, EU-25: 92, EU-15: 98,3)

Source of data: Eurostat, New Cronos database, september 2006.

Note: data for the indicator of the dispersion of regional employment rates are not available for Slovenia.

¹¹² The share of people aged 20 to 24 who have at least finished secondary school

¹¹³ ³The share of GDP allocated for investment by the private sector

APPENDIX II - Overview of expenditure by development priority (total budget and EU funds)

OVERVIEW OF EXPENDITURE BY DEVELOPMENT PRIORITY (TOTAL BUDGET AND EU FUNDS)					
EUR MILLION					
	2005	2006	2007	2008	TOTAL
THE FIRST DEVELOPMENT PRIORITY	131,91	113,09	145,09	217,47	607,56
- ENTREPRENEURSHIP AND COMPETITIVENESS	21,90	38,14	40,62	73,25	173,92
- TRANSPORT INFRASTRUCTURE ¹¹⁴	96,17	50,27	73,47	109,71	329,62
THE SECOND DEVELOPMENT PRIORITY¹¹⁵	525,46	588,44	621,07	651,32	2.386,29
- RESEARCH AND DEVELOPMENT, PUBLIC FUNDING	179,74	225,88	244,44	255,36	905,42
- HIGHER EDUCATION	345,72	362,56	376,63	395,96	1.480,87
THE THIRD DEVELOPMENT PRIORITY	0,00	1,26	1,68	1,62	4,56
THE FOURTH DEVELOPMENT PRIORITY	63,63	90,31	77,53	100,58	332,05
- ACTIVE EMPLOYMENT POLITY	60,80	86,19	73,52	96,48	316,98
THE FIFTH DEVELOPMENT PRIORITY	16,24	50,01	101,18	115,96	283,38
TOTAL	737,24	843,11	946,55	1.086,95	3.613,85
GROWTH INDEX	100,0	114,4	112,3	114,8	
GROWTH INDEX, PERIOD 2005-2008 (2005=100)					147,4
SHARE OF GDP	2,67	2,86	2,99	3,22	

Source of data: Ministry of Finance, line ministries, IMAD, calculations IMAD

According to estimated realisation, the share of general government expenditure in GDP will increase by 0.5 p.p. in 2006 over 2005, however it will narrow by 0.8 p.p. in 2007 and by a further 0.8 p.p. in 2008.

General government revenue as a share of GDP increased by an estimated 0.3 p.p. in 2006 over 2005, however it is projected to decrease gradually in the next two years – by 0.5 p.p. in 2007 and by 0.7 p.p. in 2008. The proposed amendments to tax legislation will alleviate the tax burden in several areas. The most important effect will be achieved by the phasing out of the payroll tax, which will reduce the share of this tax in GDP from 1.8% recorded in 2005 to an estimated 1.5% in 2006 and further to 1.2% in 2007 and 0.6% of GDP in 2008.

The share of revenue from personal income tax is projected to drop from 6.1% of GDP in 2006 to 5.6% of GDP in 2007 (by 0.5 p.p.). General government revenue from personal income tax will be lower due to the simplified and less progressive tax system, which will particularly reduce the tax burden on the highest incomes. As a result of the proposed amendments to the Corporate Income Tax, revenue from this tax will decrease by 0.4 p.p. from 2007 to 2008 (from 3.2% to 2.8% of GDP).

¹¹⁴ The amount excludes bank loans for motorway and railway construction

¹¹⁵ Ministry for Higher Education, Science and Technology estimate



On the other hand, revenue from excise duties is forecast to grow slightly faster than GDP in 2007 and roughly even with GDP growth in 2008. The share of this revenue in GDP will increase from the estimated 3.3% of GDP in 2006 to 3.5% of GDP in 2007.

More detailed data will be presented in the stability programme.

APPENDIX III – Consultation with interested stakeholders

In 2005, after adopting a broad framework of economic and social reforms the government organised a formal consultation on the Reform Programme for Achieving the Lisbon Strategy Goals. The process of preparing these reforms ran parallel to drafting of the Reform Programme for Achieving the Lisbon Strategy Goals. At the same time, the Programme already included those proposed economic and social reforms that proved the least contentious in the debate.

The Committee on the Economy and the Committee on EU Affairs of the National Assembly discussed the Programme at a joint session and expressed their support of its main guidelines in the session's resolutions. Among other things, they emphasised the need that the government should be appropriately organised to enable efficient and co-ordinated implementation of the adopted reform programme. To this end, the government established the Government Office for Growth. The social partners discussed the Programme at the December session of the Social Economic Council. Both employers and trade unions called attention to the fact that they had not been directly involved in the preparation of the document.

Public debate in 2006

The Report on the Realisation of the Reform Programme for Achieving the Lisbon Strategy Goals was discussed by the competent committees of the National Assembly, at the session of the Social Economic Council and at the session of the Sustainable Development Council in September 2006. The discussions were opened by the national co-ordinator for the Lisbon Strategy as the government representative, who presented the status and contents of the document. Throughout the public hearing, the draft report was also available on the government's web page.

National Assembly

The Committee on EU Affairs, the Committee on the Economy and the Committee on Labour, the Family, Social Policy and the Disabled discussed the draft implementation report of the Reform Programme at a joint session. Most members of the three committees commended the Implementation report as being a good document. They highlighted the fact that the Report clearly presented the activities already realised, those that were going to be realised and finally those that were still not in the phase of realisation. Further, the committees were happy to learn that this year the government would submit the draft Implementation report to the committees on time, i.e. before submitting it to the European Commission. This would allow the committees to actively participate in drafting the final version of the text. Members of the committees also expressed the need that all laws and other regulations vital for the implementation of the Lisbon Strategy and realisation of its objectives should be drawn up as soon as possible (referring especially to labour law, a particularly sensitive area).

Among other topics, members of the committees highlighted the following issues during the debate:

- the integration of the Lisbon Strategy in the preparation of reforms and draft legislation that are currently in the parliamentary procedure;
- the importance of matching education policy with the needs of business and industry;
- too little initiative and ambition in areas aimed at increasing the competitiveness of the economy and significantly reducing public expenditure; this would particularly entail improved conditions for investment in the business sector;



- the spending of all budget users should be systematically scrutinised by individual budget items to make their use of funds more efficient and help ensure the long-term sustainability of public finances;
- the too slow privatisation and withdrawal of the state from business and industry;
- that it is questionable whether the planned abolition of the tax relief for hiring young people is reasonable given that the employment of this population group is a major problem; and
- preparation of a pension reform that would not only extend working lives or radically restrict pension growth but would be sufficiently flexible to allow appropriate transitions and working arrangements for extended possibilities of work, particularly for older workers.

Social Economic Council

The social partners were acquainted with the Implementation report at the September session of the Social Economic Council and agreed that the document presented a realistic overview of realisation of the Lisbon programme. On the occasion, the social partners stressed that all social partners should participate in the drafting of such a document within a constructive social dialogue, otherwise it would be difficult to carry out the set tasks. The social partners were also actively involved in the preparation of measures designed to deliver the Lisbon Strategy's goals by participating in negotiations on the new social agreement, tax reform and the new labour legislation.

The trade unions expressed the view that the Implementation report was vague on several key issues:

- the question of the macroeconomic framework, notably public finances; a question was raised as to whether the goals that had already been agreed upon in the social agreement were still effective; the main message of the Implementation Report in this area is that there will be no raising of VAT next year and that public debt will be reduced by 2 percentage points;
- the trade unions are making their endorsement of the tax reform conditional on a satisfactory explanation regarding public finances;
- work should be made more attractive by raising wages (in lower income brackets) and reducing the tax burden on labour costs;
- there is too much fixed-term employment, which has a negative effect on the labour market; and
- the announced changes in the pension reform have not been submitted to the social partners for consideration.

Employers, on the other hand, endorsed the Implementation Report and expressed the view that the changes announced in the reform programme were being delivered at a too sluggish pace. At the same time, the employers regretted that they could not participate more actively in the reform programme preparation process due to time constraints. Employers also highlighted the importance of ensuring a sound general government framework for implementing the reforms. The Chamber of Commerce and Industry prepared its own programme for the achievement of reform objectives in March 2006. The Chamber of Commerce and Industry programme is structured in line with the reform programme priorities and focuses on the following main areas:

- *all-round support to investment activities that bolster economic growth*, focusing on the developmental investment potential of firms, the provision of services for domestic investors and a broad advertising campaign promoting Slovenia as an attractive location for foreign and domestic investment;
- *activities aimed at increasing the flow of knowledge between research institutions and the business sector* include the promotion of innovation activity, creation of new developmental solutions within the framework of technology platforms and strategies for



investment in R&D, setting up a Knowledge Exchange and promoting initiatives to link companies and R&D institutions into clusters and technology networks. The Chamber of Commerce and Industry also plans to set up a benchmarking database for best business practices.

- *training activities, seminars and workshops.*
- *activities supporting development strategies*, including the building and upgrading of infrastructure (transport and energy infrastructure, business and industrial zones) and ecologies. To support the competitiveness of enterprises, the Chamber of Commerce and Industry will, among other things, actively participate in activities to prepare for the euro changeover.
- *entrepreneurship* will be stimulated by a number of the Chamber of Commerce and Industry's direct and indirect activities: the linking of innovative environment institutions promoting small and medium-sized enterprises, training programmes for new and small innovative firms, meetings of representatives from small and large firms, the preparation of codes of good business practices and creation of a series of One-stop shop (VEM) entry points intended primarily for small and emerging business entities.

Sustainable Development Council

The Sustainable Development Council is the main government's consulting body for the area of sustainable development and is intended to maintain dialogue with the civil society on all key developmental issues. The Report on the Implementation of the Reform Programme was presented to the Council at its September session. Representatives of municipalities want a stronger cooperation between the local communities and the state. They expect cooperation at delivering important developmental issues, especially in the areas of traffic and transport infrastructure, the planning of industrial zones and environmental protection. Municipalities could be a significant factor at achieving the Lisbon Strategy goals, especially in the realisation of reforms at the micro level.

APPENDIX IV – The Commission's assessment of Slovenia's Reform programme for achieving the Lisbon strategy goals

In January 2006 the European Commission presented its assessments of all EU member states' reform programmes. Its main findings concerning Slovenia's reform programme are:

- *Macro level*

The programme comprises a comprehensive approach to responding to the challenge of successfully introducing the euro. However, political measures that would be enforced in order to improve public finances remain imprecise and do not allow the strategy's feasibility to be assessed. The Commission highlights the long-term sustainability of public finances as a particularly problematic area.

- *Micro level*

In general, the programme provides a credible response to the main microeconomic challenges. Nevertheless, additional measures will be needed to confront certain challenges such as improved co-operation between research and industry, a stronger Competition Protection Office and increased and more efficient competition in the electric power market.

- *Employment*

In general, the programme covers the right priority tasks. However, the main reforms that were announced have not yet been defined well enough to assess their potential results while a number of individual measures have also been presented too vaguely for their feasibility to be assessed.

According to the Commission, the programme's main advantages include: (i) the measures to improve the legal system, including simplified legislation and less administrative burdens for enterprises; (ii) the endeavours to support the development and internationalisation of small and medium-sized enterprises, including their easier access to finances. However, more attention needs to be paid to: (a) stricter measures to ensure the long-term sustainability of the pension system and to promote active ageing; and (b) a more coherent strategy of research, development and innovations.

Short-term measures to increase the sustainability of public finances

In the field of public finances, the Slovenian government pursues the objective of reducing general government expenditure and the budget deficit. These policies are also reflected by the budget for 2007 and 2008 adopted by the Slovenian government in September 2006. The general government deficit, estimated to total 1.1% of GDP in 2006, will therefore narrow to 0.9% in 2007 and 0.8% of GDP in 2008.

Long-term sustainability of the pension system and active ageing

According to the public finance situation would be unproblematic in the next decade. This is mainly due to the adopted pension reform (the gradual rise in the retirement age for women and a decrease in the level of benefits). The first part of the reform contains parametric changes while the second part has a systemic character. The possibility was introduced of capital-covered additional old-age pension insurance financed by premiums from employees, employers or a combination of both.

The problems of active ageing and seniors' employment aimed at a long-term rise in seniors' activity will be tackled by the following measures: (i) prolongation of seniors' work activity (55-64) is directed at increasing the age limit for leaving the labour market in line with the pension reform; (ii) preparation of a comprehensive strategy for active ageing, which is to be accomplished by the end of 2006; and (iii) ensuring a better qualified and more experienced work force through accessibility of education and training, and lifelong learning.

The pension reform should also be supported by other policies. These should aim at raising the actual retirement age and increasing the activity and employment levels among the elderly, which can be achieved by measures such as defining more fair conditions for the accrual of pensions (lengthening the accrual base period) and encouraging people to stay active longer or discouraging early retirement (the bonus/malus system), but especially by continuing to raise the awareness of people about the situation and promote additional pension insurance schemes.

In order to prevent an escalation of the situation in more distant future, the Government provided for the following measures within the Framework of Economic and Social Reforms: (i) the first pillar comprises measures to increase activity and employment of the elderly and consequently raise the actual retirement age; (ii) the second pillar aims to increase the number of people participating in supplementary pension insurance schemes as well as the level of each individual's premiums and assets in these schemes.

When these measures are carried out and produce their effects it will be possible to reassess the current pension system and estimate whether changes should also be made to the parameters defining the level of pensions or their adjustment. Based on such a realistic assessment and knowing that all other necessary steps have been taken, it will also be possible to produce the arrive at the needed consensus and understanding for such changes (e.g. changes to the pensions adjustment mechanism), should these prove to be inevitable.

Strategy for the science and research area, the relation between research and industry, and the private sector's investment in science and research

In December 2005 Slovenia adopted the National Research and Development Programme (NRDP) for 2006-2010. The programme comprises a whole range of measures from increasing the quality of research work and infrastructure in the public research sphere to strengthening the business sector's research and innovation power. As concerns a stronger relationship between research and industry and more private sector investments in science and research, the NRDP envisages numerous measures to achieve this purpose, from tax incentives for enterprises' investments in R&D to facilitating their access to R&D financing sources, training young researchers for their needs and linking researchers from the public and private sectors. Industrial policy measures intended to promote co-operation between R&D activity and the business sector are contained in greater detail in the 2007-2013 Programme of Measures to Promote Entrepreneurship and Competitiveness.

The planned share of public expenditure on R&D in GDP (both from the national budget and EU funds) by 2008 is gradually increasing, which also has an upward effect on the private expenditure on R&D.

Competition in the network activities area

A number of mechanisms have been established to regulate relations in the market, with the independent regulatory agency having been assigned bigger obligations in ensuring competition and co-operating with both the Competition Protection Office and the EU regulatory bodies. The Post and Electronic Communications Agency's independent regulatory body has initiated the introduction of competition and the ensuring of appropriate price relations for telecommunications services, with the first results beginning to show in 2006.

In the area of energy, standards of quality and reliability of energy supply are envisaged to be introduced and gradually raised. In addition, amplification of the transmission system (an additional 400 kV connection with Italy (Okroglo–Videm), upgrading of the national network (Beričevno–Krško) and a new 400 kV line to Hungary (Cirkovce–Hevitz)) is planned. As

regards natural gas, the renovation of the main gas pipeline connecting us with Austria, Italy and Hungary is also anticipated.

APPENDIX V - Response to the European Council's March 2006 conclusions

In March 2006 the European Council identified four key areas to which the EU member states and institutions should primarily devote their attention up until 2008.

More investments in knowledge and innovation

Increased investments in research and innovations would realise Europe's potential for the production of competitive goods and services. Above all, an environment needs to be created in which the path from the discovery to an innovation would be short and smooth, while co-operation between research institutions and industry also needs to be improved. Slovenia has already envisaged appropriate measures, mainly by adopting the National Research and Development Programme.

Private funds invested in knowledge and a competitive labour force should become one of the priorities among entrepreneurs, meaning that such an environment needs to be established that promotes private investments in R&D. This component should also be emphasised and supported within the EU framework at the top level of decision-making, being aware that globalisation is ever stronger and that, in the event of insufficient or inappropriate measures in this field, Europe might fall behind other important world actors.

The 2006-2010 NRDP defines the measures and incentives in the R&D area, including the increased quality of research work and infrastructure in the public research sphere and the business sector's stronger research and innovation power. The amount of anticipated public funds for R&D within the national budget will gradually increase up until 2008 which, along with the NRDP measures and appropriate tax policy, should also have a positive impact on the business sector's investments in R&D.

Using the potential of enterprises, particularly small and medium-sized enterprises

A business climate needs to be created in which it would be easy to set up and develop an enterprise. The Member States must facilitate the development of enterprises in all their development stages, reduce bureaucracy and enable the SMEs to develop at home and abroad and, especially, make it easier for them to access the needed capital. The reduction of barriers that SMEs confront would attract potential labour force and enable the setting up of new enterprises bringing new jobs.

In the area of entrepreneurship, Slovenia has already adopted appropriate measures primarily by reducing administrative barriers while also implementing the e-VEM system ("e-one-stop-shop"). The 2007-2013 Programme of Measures to Promote Entrepreneurship and Competitiveness adopted in 2006 represents a basis for directing the activities and using the budgetary funds for the promotion of Slovenia's entrepreneurship and industrial competitiveness. In addition, activities have already been undertaken to adopt a methodology and initiate the procedure of assessing the regulations' effects.

Increasing employment possibilities for priority categories

The ageing of the population requires the appropriate functioning of policies so that more people can be employed for a longer time and, above all, so that their talents and experience are used. This means an employment policy that would help people find work in every step of their professional careers. People need proper skills at the proper time and need help when confronting challenges to be better able to build the requirements for continual career



development into their lifestyles. A quality, integrated and diversified system of lifelong career consulting, along with a system of evaluating and recognising informally and casually acquired skills, represents one of the main components of the »flexicurity« system.

Slovenia is conscious of the problems of active ageing and has included in the set of its measures a strategy for active ageing and a strategy for lifelong learning, which are to be prepared by the end of 2006. This is one of the preconditions for greater competitiveness and, above all, the employability of the labour force. In addition, Slovenia has introduced a quota system in the area of employing the disabled, which has already yielded positive employment results.

Energy Policy for the EU

Sufficient energy available at moderate prices is a key steppingstone of development. However, energy is a limited resource that needs to be used sparingly. Therefore, an EU energy policy is needed for the maximisation of energy efficiency and the greatest possible use of renewable resources.

Slovenia supports the goals and measures in the energy field while it also actively participates in tackling the related problems. The European measures are in line with Slovenia's Resolution on the National Energy Programme as well as the energy-related goals laid down in its other development documents.