



REPUBLIC OF SLOVENIA

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

IMPLEMENTATION REPORT
2007

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FOREWORD

In Slovenia, reforms aimed at delivering the Lisbon Strategy's goals are firmly integrated within a comprehensive strategic development framework. Slovenia's Development Strategy of 2005 set out the main developmental goals in line with the Lisbon Strategy's objectives and defined the priority measures for their realisation. The Resolution on National Development Projects defines the key long-term development projects. The National Strategic Reference Framework lays down the spending of EU funds earmarked for the realisation of national development priorities. At the governmental level, the implementation of development policies is co-ordinated by the Government Office for Growth whose institutional impact has been strengthened over the last year, and the Minister without portfolio at the Office for Growth was appointed the National Lisbon Co-ordinator. The implementation of individual reform measures has been subject to a broad debate. Reforms are being politically harmonised within the Partnership for Development, which includes most opposition parties. The representatives of employers and workers are also actively involved in the process through the national Economic and Social Council. A draft new Social Agreement was initialled earlier this year, ensuring a satisfactory balance between the necessary reform measures and the interests of the social partners.

In the area of increasing the economy's competitiveness, a comprehensive tax reform was adopted already in the first year of implementing the reforms. The tax reform reduces the tax burden on labour and savings. Regarding the taxation of corporate profits, it broadens the tax base, increases the tax relief for research and development, and gradually reduces the tax rate. In co-operation with the corporate sector, the Government is carrying out a comprehensive programme of reducing the administrative burden and simplifying the business environment, along with reducing court backlogs. Following the successful launching of the 'one-stop-shop' system for sole proprietors, a similar system will also be introduced for companies this year that will shorten the time needed for establishing a business to just a few days. The proposed law on venture capital investment, which also provides for appropriate tax incentives, will significantly boost the activity and growth of small enterprises. The gradual withdrawal of the state from company ownership and the gradual liberalisation of network industries are contributing to stronger competition in the market. The Government has adopted a number of measures to boost the co-operation between the research sphere and the corporate sector in the areas of R&D and innovation. It has doubled the share of funding earmarked for technology projects in budgetary research expenditure. In co-operation with local communities, the supply of sites for foreign investment has been increasing. At the same time, the procedures for hiring foreign workers have been simplified, and financial incentives for foreign investors have been provided.

The first available data confirm that this package of measures was appropriately chosen. Amid the overall strong growth of the economy, the growth rates of employment and corporate investment rose as well, partly due to the reduced tax burden. The claims for R&D tax relief climbed substantially, reflecting the increase in the corporate sector's expenditure for this purpose. The number of patent applications and the hiring of researchers in the private sector have also been on the increase. Entrepreneurial activity is expanding and its structure is improving. In network industries, the strengthening of competition has been particularly evident in the area of telecommunications, while the liberalisation of the electricity market caused no major price leaps in the initial period.

In the first year of implementing the reforms, the Government adopted measures that provide better incentives for people's activity. The entitlement to unemployment benefits and financial social assistance was made more conditional on claimants' willingness to accept offered employment, while the indexation of social transfers and minimum wages is now tied solely to consumer price rises rather than to both inflation and average wage growth. This year, the Government has reached an agreement with the social partners regarding amendments to the



Employment Relationships Act, which represent a step towards introducing a flexicurity system. The main changes include increasing the internal flexibility of employment, broadening the legal bases for the use of flexible forms of employment, and improving the efficiency of giving notice, including by shortening periods of notice. At the same time, the Government modernised its active employment policy programmes and improved the functioning of the national employment service that also increasingly co-operates with private agencies. Further, the Government improved the legal bases for the prevention of undeclared work and provided for the performance of so-called small work. Regulation of the system of vocational qualifications and scholarships has enhanced the links between the labour market and the education system. These measures have led to a higher employment rate, which has remained above the European average for several years, and to the historically lowest unemployment rate. The structural problems in the labour market have also begun to be resolved. The long-term and youth unemployment rates are declining, while the employment rate of the elderly has started to rise.

For a country at Slovenia's development level it is also vital to increase infrastructural investment. The Government has raised investment in road infrastructure, and for the first time also in railway infrastructure on major European corridors. By bringing in the Public-Private Partnership Act, it opened up the possibility of a greater role for private capital. Preparations for a number of PPP projects, at both the national and local levels, are under way.

Structural reforms are taking place against a stable macroeconomic framework, supported by fiscal consolidation. The estimated deficit for 2007 (0.6% of GDP) is considerably lower than the reference value laid down in the stability programme (1.5% of GDP). The Government has been successful in implementing the guideline of cutting public spending as a share of GDP. However, due to the concurrent implementation of the tax reform, the lowering of the deficit has been somewhat slower than planned. In addition to the overall cuts in public spending, the Government is also gradually improving its structure by raising the expenditure on R&D, education, active employment policy, and horizontal state aid. The guidelines adopted in the Social Agreement that provide for decentralised wage negotiations, along with the already adopted agreements in the private and public sectors, ensure that wages will not rise faster than labour productivity and will thus not contribute to a decline in competitiveness or a rise in inflation. Thanks to the successful co-ordination of economic policies and the co-operation with non-governmental organisations and the corporate sector, the introduction of the euro did not have a major impact on inflation. In recent months inflation has risen somewhat, mostly due to rises in food prices. However, the Government estimates that this increase is transitory since all the key economic policies have remained restrictive and stabilising.

In implementing the reforms, the Government has also taken into consideration the recommendations put forward by the Council of the EU after it analysed national reform programmes. In this regard, the Government has this year already improved the functioning of labour market institutions that underpin the successful introduction of the flexicurity system. The results are visible particularly in the area of including young people in the labour market and in linking the labour market with the education system. The Government strengthened the functioning of the Government Office for Growth, the Slovenian Technology Agency, and other developmental institutions. It has also been raising public funds intended for R&D, albeit at a slower pace than planned. As a result, the delivery of objectives in this area will be delayed. Further, a new law on intellectual property is being drafted. The goal of reducing the time needed to set up a business will be reached in the autumn with the launching of the 'one-stop-shop system' for companies. Progress has been less satisfactory regarding the improvement of the available staff and legal possibilities for the operation of the national Competition Protection Office. The implementation of measures in the area of energy efficiency and climate change should also be reinforced. The Government has also failed to



adopt additional measures to enhance the long-term financial sustainability of the pension insurance system this year, mainly due to the difficulty of reaching a political and social consensus on this issue.

Despite the achievements accomplished thus far, several important challenges remain to be tackled in the last year of implementing the reforms. In the area of competitiveness, the main remaining tasks are to further reduce the administrative burden, which includes the setting of a medium-term objective and establishment of a system for measuring administrative costs; to boost competition and improve the operation of regulators, particularly in the areas of network industries and liberal professions; to increase R&D funds and their efficiency; and to overhaul the higher education system. The reform in the employment area will have to focus on further active measures for reducing structural problems, especially long-term unemployment and employment of the elderly and highly educated young people. Moreover, it will be necessary to additionally increase the transparency and the activating role of the social transfers system. With a view to preserving macroeconomic stability, the Government must continue with gradual fiscal consolidation in order to strengthen its long-term sustainability and counter-cyclical role.



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I. EXECUTIVE SUMMARY

The Report on the Implementation of the Reform Programme for Achieving the Lisbon Strategy Goals in Slovenia is the second annual overview of the realisation of the priority tasks, measures, and objectives of the reform programme, which was adopted in October 2005. The report is structured according to the priorities set out in Slovenia's Development Strategy and reproduced in the Reform Programme for Achieving the Lisbon Strategy Goals. The measures are partly backed by EU funding. In June 2007 the European Commission approved the National Strategic Reference Framework 2007-2013, which sets out the general national strategy aimed at speeding up convergence. It defines the priorities and the approximate annual allocation of funds, and includes a list of operational programmes.

Measures included in the reform programme comprise all Integrated Guidelines for Growth and Jobs and respond to the recommendations and points to watch that the European Commission has given Slovenia thus far.

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

In the middle of 2006, after having participated in the exchange rate mechanism ERM II for two years, Slovenia formally fulfilled all five Maastricht convergence criteria for admission to the Economic and Monetary Union (EMU). On 1 January 2007 Slovenia thus adopted the euro as the first country among the new EU member states. The main short-term macroeconomic policy objective of the Government and the Bank of Slovenia was thereby accomplished. In September 2006 the Government adopted seven new tax laws which will, combined with labour market measures (aimed especially at promoting activity) and the gradual abolition of the payroll tax, also have a positive effect on the growth of business investment (particularly in R&D) and employment in the next few years.

The preliminary estimate of budget implementation in 2007 indicates that fiscal consolidation has strengthened. As a result of the restrictive fiscal stance and strong performance of the economy, both general government expenditure and the deficit will decrease significantly this year. In 2005-2005, expenditure as a share of GDP fell by a total of 3 percentage points. Consequently, the deficit will narrow sizeably in 2007 to an estimated 0.6% of GDP. Aside from reducing public spending, Slovenia is also pursuing the goal of its developmental restructuring whereby part of general government expenditure is being redirected from current uses to developmental priorities.

Slovenia is part of the EU's internal market and has therefore introduced a number of good practices that contribute to the accurate and timely transposition of EU directives to the national legal order. By 30 April 2007 Slovenia failed to transpose 17 out of the total of 1628 directives, corresponding to a 1.0% transposition deficit. The consumer protection network was expanded in 2006 by way of establishing the European Consumer Centre in the non-governmental sector. The operation of this centre is partly financed by the EU. The protection of intellectual property has also been regulated. The relevant legislation, whereby the regulation of this area was improved and harmonised with the EU directives, was adopted in 2005 and 2006. In addition, a new law on the protection of intellectual property is being drafted.

Internationalisation of Slovenia's economy continued in 2006. The economy's internationalisation is mostly accomplished through foreign trade flows and less through foreign direct investment. The Public Agency for Entrepreneurship and Foreign Investments is setting up a network of Slovenian business missions abroad to advertise Slovenia as a suitable location for foreign investment. Activities in this field are also carried out through chambers of commerce, primarily by way of business meetings and contacts. Foreign investment is best promoted through increased investment aimed at improving the supply of



industrial zones and the systematic removal of administrative barriers to investment and doing business.

The adopted measures, including the establishment of the Public Agency for Entrepreneurship and Foreign Investments and the adoption of a basic methodology for preparing the Statement on the Removal of Administrative Barriers, have enabled the creation of a friendlier business environment and boosted entrepreneurial development. Following the establishment of the one-stop-shop (VEM) system for sole proprietors, a VEM system for companies will be launched early next year which will significantly reduce the time and costs of setting up a business. A number of activities were carried out in order to improve access to start-up capital. Last but not least, a draft law on venture capital companies was adopted to govern this area and to allow the supply of venture capital to increase.

The area of competition protection has largely been brought into line with the EU legislation. In resolving competition problems in individual sectors, the Competition Protection Office co-operates with the competent sectoral regulators which may, as part of their ex-ante control powers, regulate the market by applying specific measures aimed at creating competition and redressing any imbalances in a given sector. This allows the Office to effectively control restrictive agreements, the abuse of a dominant market position, and the concentration of firms.

Economic competitiveness also benefited from the effects of the gradual liberalisation of network industries. These effects were particularly evident in the area of telecommunications, where progress was made both in fixed telephony and in broadband Internet access. In line with the European directives, the electricity market was liberalised on 1 July 2007. In addition, a legal and functional separation of electricity distribution was carried out. The final liberalisation of cross-border transmission capacities, effective since 1 July 2007, has opened the way for foreign wholesale suppliers to enter the Slovenian market.

Given Slovenia's development level, boosting economic growth also entails substantial investment in transport infrastructure, particularly in railways and motorways, as well as investment in the education and information infrastructure.

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

Slovenia has continued to work towards building a knowledge-based society. It is carrying out the measures set out in the core development document on research and development. The planned level of public expenditure earmarked for R&D in the national budget until 2008 is rising. According to preliminary estimates, public investment in R&D currently already amounts to 0.71% of GDP. This amount includes EU funds. However, in order to achieve the set goal more funds will have to be earmarked for R&D investment in future budgets.

The education structure of the population is still improving, thanks mainly to the high participation of youth in education, which is above the EU average. Participation in lifelong learning has also been rising and is relatively high, but it should include more elderly and less educated people. At the beginning of 2007 a comprehensive lifelong learning strategy was put forward for public discussion, providing the basis for planning concrete policies in this area.

In the area of knowledge transfer to the corporate sector, the Young Researchers Programme has significantly contributed to lowering the average age of researchers in the country. Over the past three years, this example of good practice has been applied to the training of young researchers in the corporate sector for the corporate sector, which has been brought even closer to the needs of companies and upgraded by the obligation of young researchers to undergo training abroad. A complementary measure, which is already being carried out by the Ministry of the Economy, aims to enhance the mobility of experts. It promotes the hiring of

both domestic and foreign experts in the corporate sector, particularly in small and medium-sized enterprises. Further measures aimed at creating closer links between universities and the business sector are also provided for in the already adopted Scholarship Act and the new draft Resolution on the National Higher Education Programme 2007-2010.

A functional instrument for boosting the links between the business and research spheres is the network of Slovenian technology platforms that serves as a forum for active exchange of information and good practices between the corporate and scientific sectors.

The third development priority: an efficient and cheaper government

A number of measures aimed at increasing the efficiency of the government were carried out in the past year. The role of the Government Office for Growth was strengthened by the appointment of a minister without portfolio. The office assumed the role of monitoring the implementation of the Government's development policies and the consistency of their implementation. It was also entrusted with the task of keeping a single record of the Government's development policies.

Regarding the quality of regulation and simplification of legislation, Slovenia adopted the Programme of Measures Aimed at Reducing the Administrative Burden and the basic methodology for preparing the Statement on the Removal of Administrative Barriers and Participation of Interested Stakeholders. It also established an electronic public administration services portal, offering forms for all public administration institutions in one place. The register of companies and the judicial register have been electronically linked. Further, the methodological bases for the first set-up of the real estate register have been drawn up. These measures have reduced the costs of both the public administration and the citizens. The improvement in the business environment has also been underpinned by a further reduction of court backlogs and the shortening of the duration of procedures. However, no improvement has been observed in the area of enforcement of judgements, which is vital for the corporate sector, but this situation is expected to improve once electronic procedures have been set up.

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

Developments in the labour market are positive. In 2006 the employment rate rose to 66.6%, approaching the target mark of 70%, while the unemployment rate remained relatively low. The programmes aimed at increasing the employability of unemployed and employed persons represent a vital part of measures intended to boost employment. The effects of the tax reform on employment were backed by the legislative changes adopted in 2006 that made eligibility for unemployment benefits and financial social assistance more conditional on a claimant's readiness to accept employment that has been offered.

Important measures were adopted in the last few years in order to improve the employability of young people and facilitate their transition from the education process to the labour market. They include the reform of higher education with an emphasis on the Bologna Declaration, the establishment of the Fund for Development of Workers and Scholarships, and the adoption of the Scholarship Act.

Additional measures were adopted to enhance the efficiency of the Employment Service of Slovenia as the central job-brokerage institution by modernising its services and training employees for work with customers. In addition, the ESS also co-operates with private job agencies pursuant to the rules and instructions adopted by the competent ministry. In 2006 the ESS concluded special contracts with 21 job agencies for this purpose.

In the area of promoting the flexibility and adaptability of employment, draft amendments to the Employment Relationship Act were negotiated with the social partners and adopted. The amended law provides more efficient solutions that would guarantee the necessary security of



employment in a balanced way and motivate the internal flexibility of employees as well as the flexibility and adaptability of the labour market.

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

Further steps forward were taken in the area of spatial management. A new Spatial Planning Act, which simplifies some procedures for the preparation of spatial planning documents, was adopted. The real estate register, which is due to be set up in 2008, will also provide a basis for the implementation of active land policy measures.

Several measures were adopted to improve energy efficiency – granting subsidies to households for the use of energy-efficient heating appliances and providing loans to promote energy efficiency. The Ministry of the Environment and Spatial Planning is drafting amendments to the Environment Protection Act, including a provision on the establishment of a venture capital fund for high risk investments. Investment in environmental technologies is also carried out through the Eco-Fund (which provides loans on favourable terms) and by co-funding efficient energy use activities and promoting the use of renewable energy sources.

II. STRATEGIC FRAMEWORK

The implementation of reforms in Slovenia is part of a comprehensive strategic framework. Slovenia's Development Strategy, adopted in June 2005, is the overarching developmental document that sets out the vision and objectives of Slovenia's development and defines the key development guidelines for Slovenia's action in the forthcoming decade. The development goals are not only economic; they are aimed at an overall increase in the population's welfare and quality of living based on the principles of sustainable development.

Specific draft measures for the implementation of Slovenia's Development Strategy that were adopted by the Government of the Republic of Slovenia in autumn 2005 were based on the proposed outline of economic and social reforms for increasing the competitiveness of the Slovenian economy and on the Reform Programme for Achieving the Lisbon Strategy Goals. The National Strategic Reference Framework 2007-2013 was also harmonised and approved by the European Commission. It defines the strategy for faster convergence with the help of EU funds. In line with this framework, in November 2006 the Government adopted the Resolution on National Development Projects for 2007-2023, which provides the economy with a renewed impetus and is vital for delivering economic development goals since it makes for ambitious and coherent investment planning with several sectoral effects and puts a special emphasis on the so-called key large-scale projects.

Individual measures are subject to negotiations with the social partners (within the national Economic and Social Council) as well as other interested stakeholders (e.g. within the Sustainable Development Council). In July 2007, the social partners initialled the new Draft Social Agreement 2007-2009. In order to ensure broad political support for the reforms, most parliamentary parties in April 2006 signed an agreement called Partnership for Development, which provides for the harmonisation of key reform measures with non-governmental parties.

In addition to the key strategic documents, several national programmes were drawn up that elaborate the goals in greater detail and define specific measures for the achievement of these goals. They define various long-term tasks of the state. Some of the key programmes for the implementation of the Lisbon Strategy are the Programme of Measures to Promote Entrepreneurship and Competitiveness 2007-2013, the Resolution on the National Research and Development Programme 2006-2010, the Resolution on National Environmental Action Plan 2005-2012, the Active Employment Policy Programme 2007-2013, and others.

In January 2006, the Government Office for Growth took on the responsibility for co-ordinating the comprehensive planning of Slovenia's development and for co-ordinating and

monitoring the implementation of Slovenia's Development Strategy and the economic and social reforms aimed at increasing welfare in Slovenia. In addition, the Office provides support in the preparation of specific legislative changes and other measures for the realisation of reforms. Its role was further strengthened in May 2007 with the adoption of the Decree on Development Planning Documents and Procedures for the Preparation of the Central and Local Government Budgets. The Government Office for Growth was also assigned the co-ordination of measures underpinning sustainable development in order to support the integration of development policies, which is one of the five priorities of Slovenia's Development Strategy. The Minister at the Government Office for Growth was appointed the National Lisbon Co-ordinator, which enhanced political support for the realisation of the Lisbon Strategy in Slovenia.

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

On 1 January 2007 Slovenia adopted the euro as the first country among the new member states. After having formally complied with all five Maastricht convergence criteria for entry to the Economic and Monetary Union (EMU) in the middle of 2006, following the two-year participation in the exchange rate mechanism ERM II, Slovenia thus fulfilled the main short-term macroeconomic policy objective of the Government and the Bank of Slovenia. By maintaining the tolar's exchange rate stable at a level that prevented any deterioration of price competitiveness or any major external imbalance, the coherent mix of macroeconomic policies applied in the last three years has enabled the sustainable lowering of inflation and the improvement of public finance indicators.

The introduction of the euro was successful and did not cause any major increase in overall price levels, primarily thanks to the co-ordinated operation of macroeconomic policies and the adopted measures regarding dual pricing, the informal price watch, and consumer information about possible risks in the currency changeover process. According to estimates made by the IMAD and the Eurostat, the total effect of the euro changeover on prices in Slovenia totalled between 0.25 and 0.3 p.p. and was among the smallest in comparison with other euro area countries. Price increases attributable to the euro changeover were mainly observed in services, especially hotels and restaurants, which was expected in view of the experience of other countries.

Price stability remains an important goal of economic policies since it is vital for maintaining and improving the competitiveness of the Slovenian economy. Average inflation in the first seven months of 2007 totalled 2.7%, 0.2 p.p. more than in 2006, while year-on-year inflation rose from 2.8% in December 2006 to 3.8% in July 2007. The increase in consumer price witnessed this year is primarily attributable to external factors, which have had a relatively stronger effect in Slovenia than in other euro area countries. The relatively faster price growth in Slovenia in comparison with the euro area average observed over the last few years is largely attributable to the effects of the process of real convergence in the Slovenian economy. The additional acceleration in consumer price rises seen in the last four months appears to be related predominantly to external factors – higher prices of oil and food – which have had a stronger effect in Slovenia compared with euro area countries due to the specific structure of consumption and the relatively more rigid market in Slovenia. Based on available data, the acceleration of inflation cannot be attributed to the strong economic growth (6.5% in the first half of 2007, year on year) with sufficient certainty, since divergences from last year's price rises are small in most groups of the price index – only the groups of food and, to a smaller extent, recreation stand out notably. Given that economic policies (including fiscal

policy) have remained counter-inflationary and that wage developments have again not created any inflationary pressures this year, the faster price rises also cannot be attributed to changes in economic policies. Nevertheless, it is vital that the co-ordinated application of income, fiscal, and price policies ensures a stable macroeconomic framework which will prevent the transfer of higher price rises in some groups to other prices and which will be critical for curbing inflationary expectations. The main task in the area of fiscal policy is to further cut the shares of public spending and the structural deficit to the levels set by the medium-term objective, which will create greater leeway for fiscal policy to operate counter-cyclically in line with the provisions of the Stability and Growth Pact. In order to preserve macroeconomic stability, wage policy will have to ensure that the upswing in prices does not spill over fully to pay rises. Price policy should additionally support the counter-inflationary measures of fiscal and income policies by preserving the current administered prices policy. This will allow inflation to return to its equilibrium level between 2.5% and 3% already next year, which will be crucial to maintain or improve the price and cost competitiveness of the tradable sector.

Simplifying the tax system and making employment more attractive

An important measure in the area of fiscal policy intended to boost economic competitiveness and GDP growth and promote entrepreneurship has been the phased abolition of the payroll tax which began in 2006 and has had a positive effect particularly on business investment and employment. The payroll tax was cut by 20% in 2006 and by a further 40% in 2007. In 2008 it will be 70% lower; it is due to be completely abolished in 2009.

In September 2006 the Government brought in seven new tax laws which will, combined with the measures in the labour market (aimed especially at promoting activity), also have a positive effect on business investment (particularly in R&D) and employment in the next few years. Apart from simplifying the tax procedure, the laws make for the following main changes: (i) reducing the number of personal income tax brackets from five to three and cutting the marginal tax rate from 50% to 41%; (ii) retaining the schedular taxation of passive income (income from property) introduced in 2006 at a single final rate of 20%; and (iii) gradually reducing the corporate income tax rate from 25% to 20%, abolishing the general investment tax relief, extending the R&D tax relief, and providing additional incentives for investment in less developed regions. The amended personal income tax legislation that took effect in January 2007 resulted in faster growth of net wages in comparison with gross wages; nevertheless, the growth of gross wages remained at a similar level as in 2006. The new, less progressive tax legislation resulted in higher net rises particularly in the earnings of highly educated employees, while the average decrease in the tax burden attributable to the changes in the tax scale and the new level of the general relief is estimated to have totalled 8.8%. The average net wage rose by a nominal 7.8% in the first four months of the year, 2.3 p.p. more than the average gross wage. In 2007, changes in personal income tax will further reduce the tax burden on labour by approximately 0.5% of GDP and speed up GDP growth by around 0.3 p.p. Despite the broadening of the taxable base, the lower corporate income tax rates will reduce the tax burden by an estimated 0.3% of GDP by 2008. The extension of the tax relief for investment in R&D will also have a significant impact.

Increasing the flexibility of public finances and gradual elimination of the budget deficit

General government expenditure as a share of GDP will be cut substantially in 2007 (by 1.9 p.p.), which is more than planned in the adopted budget. After general government expenditure persisted at a level of 48% of GDP during the period of slower GDP growth (2001-2003), it embarked on a clear declining trend in the period of strong economic growth (2004-2006), which strengthened further in 2007. In 2006 it was 2 p.p. lower than in 2003, and dropped by another 1.9 p.p. in 2007. In 2008 and 2009, it is projected to dip by a further 3.1 p.p., based on estimates underlying the proposed changes to the 2008 budget and the proposed budget for 2009, which were adopted by the Government in September 2007.



General government expenditure will thus total 43.3% of GDP 2007. Meanwhile, general government revenue will amount to 42.8% of GDP in 2007 in accordance with the estimates mentioned above. As a result, general government deficit will decrease significantly, from 1.2% of GDP in 2006 to 0.6% of GDP in 2007.

The narrowing of government expenditure has largely been underpinned by the lower expenditure on social transfers to individuals and households (due to the gradual implementation of the pension reform and the changed system of indexing social transfers), expenditure on interest payments, and the cost of government operations (intermediate consumption and compensation of employees). The Government will continue to pursue a restrictive employment policy in the public sector. The simplification of procedures, removal of administrative barriers, and application of modern management practices will make it possible to streamline the hiring of new employees in the public sector, which will also allow the growth of the compensation of employees to lag behind GDP growth. In order to increase the public sector's efficiency, the Government will also introduce some more enticing forms of rewarding employees (performance at work, increased scope of work, market activities) and greater dependence of rewards on the achieved goals and results, and propose the necessary legislative changes. The decrease in overall expenditure has been matched by a decline in publicly financed investments, which will have to be counterbalanced by a greater role of public-private partnerships. While the appropriate legislative framework to this end has been adopted this year, no major PPP projects have taken place thus far. (See also Chapter III.C.3 – Developmental restructuring of public finances, p.29).

Adoption of a new social agreement

Following negotiations that lasted a year and a half, on 26 July 2007 the social partners initialled the Social Agreement 2007-2009 which was then signed on 2 October 2007. The proposed wage policy, which plays an important role in ensuring macroeconomic stability and boosting competitiveness, advises that stable and real wage growth be guaranteed in the private sector, which may take both inflation and productivity into account. Aside from this general guideline, wage formation is being significantly decentralised. According to the Agreement, the actual wage rises will be agreed in sectoral collective agreements, the Collective Agreement on the Wage Adjustment Mechanism, Reimbursement of Work-related Costs, and Holiday Allowances, and in company collective agreements. Due to the specific situation in companies, wage adjustment at the level of employers may diverge from the provisions of collective agreements. The Social Agreement also preserves the legal right to the minimum wage. Adopted at the end of 2006, the Act Regulating the Minimum Wage provides for an annual wage adjustment in August by the expected consumer price rise, which is adopted by the Government as a basis for preparing the national budget. However, the system does not include a safeguard clause for the event of inflation being higher than projected, such as that provided in the wage adjustment mechanisms for the public and private sectors. Moreover, it abolishes the additional adjustment by real GDP growth. This was motivated by the fact that the minimum wage has been rising faster than other wages, which has caused low-bracket gross wages to concentrate around the minimum wage. The Social Agreement also foresees the drafting of a new law on worker participation in company profits to be sped up. The Economic and Social Council should deliberate on the bill already this year.

After almost five years of bargaining, the Collective Agreement for the Public Sector was also initialled in July. The agreement incorporates the Agreement on the Base Wage Adjustment Mechanism and the Level of Expenditure Earmarked for the Elimination of Wage Disparities 2007-2009, which defines the adjustment mechanism for this period, taking into account the projected inflation. According to the adjustment mechanism for 2007, the general adjustment will total 1.3%, while a 0.8% increase is intended for the elimination of wage disparities. In 2008 and 2009, 50% of the estimated consumer price rise will be used for general indexation, while the other half will serve for the elimination of wage disparities. In all three years,

additional funds will be fixed as a percentage of the estimated overall increase in labour productivity and earmarked for the elimination of disparities. The additional increase will correspond to 14% of the estimated overall productivity growth in 2007, 30% in 2008, and 50% in 2009. Negotiations on the collective agreements for public sector activities and professions started in September. This marks the beginning of the final stage in the negotiations on the new system of salaries in the public sector. Earnings are due to start being disbursed in accordance with the new system at the beginning of 2008, while the elimination of disparities will be phased into quarters and completed in 2010. The agreement also includes a double safeguard clause, which allows the adjustments to be phased over a shorter period if macroeconomic trends are favourable, while the fourth adjustment may be postponed to September 2010 if the macroeconomic balance were to seriously deteriorate. The phased elimination of disparities will ensure that no macroeconomic imbalances occur despite the faster wage growth in the public sector. At the same time, it will result in more appropriate internal wage ratios in the public sector and create the right balance between the level and growth of wages in the public sector in comparison with the private sector.

In the medium term, such wage policy in the private and public sectors ensures macroeconomic stability and balance by adjusting the growth of the average nominal wage per employee to the growth of prices and labour productivity, taking into account structural changes in employment in terms of professional qualifications and other employment conditions. This definition is consistent with the Integrated Guidelines for Growth and Employment (IG 4 and IG 22).

Encouraging prolonged activity and promoting individual pension insurance schemes

According to the European Commission's assessment, Slovenia is one of the countries with a high risk to its long-term fiscal sustainability primarily on the grounds of the expected substantial deterioration in the fiscal perspective in 2005-2015.

The pension reform of 1999 introduced changes that have alleviated the pressure on public finances. Without these effects, the current and future fiscal positions would be significantly worse. Since 2006 the minimum pension base has been adjusted by the total wage growth coefficient in the previous period¹, which is a similar indexation mechanism to that used prior to 2000. This indexation will cause pension expenditure to increase in the long term, whereas in the medium term the expenditure of the national Pension and Disability Insurance Institute (ZPIZ) will stabilise at 13.2% of GDP², while the level of pensions in GDP will remain unchanged at 11.2% in 2005-2010. Taking into account demographic projections, the pension reform will ultimately result in a relative decrease in ageing-related budgetary expenditure until 2010, but this expenditure will start to rise thereafter, notably after 2020. Measures aimed at reducing these risks should therefore focus on ensuring the conditions for longer activity and encouraging individuals to remain active for a longer period, to enter the labour market as soon as possible, to take better care of their health, and to ease the burden on public health expenditure by changing their lifestyles. (See also Chapter III.D.1.2.2 Active ageing and measures addressing employment of the elderly, p. 32)

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

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

Following EU accession, the Slovenian market has become part of the EU common market where no internal borders exist. In order for the internal market to function effectively, it is

¹ Until 2005 the minimum pension base was adjusted by a coefficient that was lower than the wage growth coefficient in the previous period, yet never lower than the consumer price rise coefficient in the same previous period.

² This figure includes the total expenditure of the ZPIZ (pensions, allowances, and supplements), regardless of their nature (income-tested or non-income tested). Expenditure on income-tested benefits currently totals 11.2% of GDP.

necessary that EU directives are transposed into the national legislation accurately and in good time and that it is properly and consistently applied in practice. Slovenia has already introduced several best practices that contribute to the correct transposition of directives into national law. By 30 April 2007, 17 out of the total of 1,628 directives had still not been implemented and Slovenia's transposition deficit totalled 1.0%. Slovenia has thus already achieved the new objective adopted at the Brussels European Council in March 2007. The country now ranks 6th in the EU together with Germany, Estonia, Cyprus, and Malta.³

Last year saw an expansion of the consumer protection network. The non-governmental European Consumer Centre was established in 2006 and is being co-financed by the EU. Slovenia has thus become part of a network of 25 European Consumer Centres operating in EU member states. The European Consumer Centres primarily offer assistance to consumers in asserting consumer rights vis-à-vis the providers of goods or services from other EU countries and provide general information about buying goods and services in the internal market to make the market more accessible to consumers. Moreover, in 2006 Slovenia launched the ICSMS system to provide for consumer protection against hazardous products throughout the EU internal market. Together with 14 other EU countries and Norway, Slovenia participates in the EMARS project (Market Surveillance through Best Practice), aimed at encouraging the exchange of experience and opinions concerning the introduction of the General Product Safety Directive and market surveillance.

Strengthening the competitive advantages of the industrial base

Slovenia is well aware of the need to enhance the competitiveness of its industry, which is also evident from the main development documents. The National Research and Development Programme 2006-2010 and the Programme of Measures to Promote Entrepreneurship and Competitiveness 2007-2013 both point to the areas that hold particularly high potential for Slovenia: (i) information and communication technologies (ICT); (ii) advanced (new) synthetic metal and non-metal materials and nanotechnologies; (iii) complex systems and innovative technologies; (iv) technologies for a sustainable economy; and (v) health and life sciences. New forms of integration leading towards development and strategic planning (such as clusters, technology networks, research centres of excellence, and technology platforms) are being established, combining the most influential players from academic and business circles. Currently, 24 technology platforms, four technology networks, and 13 industrial clusters operate in Slovenia.

Protection of intellectual property

As regards the protection of intellectual property, in 2005 and 2006 Slovenia adopted legislation⁴ that contributes to better regulation of this area and to successful harmonisation with the EU directives. Moreover, implementing acts were adopted to regulate in more detail the procedures for implementing the EU regulations on supplementary protection certificates, Community designs and Community trademarks, and the procedures concerning the international registration of trademarks. A new decree defined the new amounts of compensation in cases of private and other individual reproductions of copyright and other protected works. In order to improve the situation in the area of intellectual property, the Slovenian Intellectual Property Office significantly intensified its activities aimed at raising public awareness about the significance of intellectual property, targeting in particular crafts and trades, small enterprises, as well as students and pupils, where the role of university incubators needs to be pointed out.

³Internal Market Scoreboard No 16 – July 2007

⁴ Namely, the Act Amending the Industrial Property Act, two acts amending the Copyright and Related Rights Act, the Act Amending the Topographies of Integrated Circuits Act, and the Act Amending the Employment Related Industrial Property Rights Act.



III.A.2.2. Encouraging internationalisation and promoting FDI

The internationalisation of the Slovenian economy is mostly accomplished through external trade flows and less through foreign direct investment (FDI). Compared with other EU countries, Slovenia has a higher import-export intensity of the economy and a lower intensity of inward and outward FDI. In 2000-2005, its inward and outward FDI as a share of GDP lagged behind the EU-25 average by more than 10 and more than 30 percentage points, respectively.⁵

Stimulating the internationalisation of companies

In August 2005 the Government adopted the Programme for Stimulating the Internationalisation of Companies for 2005-2009, which has already been launched. The implementation of the programme is further enhanced by the Government's approval of the programme of work and financial plan of the Public Agency for Entrepreneurship and Foreign Investments (PAEFI) for 2006 (See also Chapter III.A.3. Business environment and development of entrepreneurship, p. 18). Various offers for foreign buyers are promoted through the portal »Slovenia partner«, updated in 2006 together with the database of Slovenian exporters »SloExport«. Activities in this area are also being carried out in co-operation with chamber of commerce, particularly in the form of business meetings and contacts. The PAEFI also provides individual services to potential foreign buyers and the number of such services is constantly increasing⁶. In 2006 the PAEFI launched a network of Slovenian business missions abroad⁷ which offer quality and efficient services and provide assistance particularly to small and medium-sized enterprises (SMEs) in entering new markets, expanding exports, and investing. They present Slovenia as a suitable FDI location mostly by offering counselling and information to potential foreign investors.

The portal »Export Window« offers general reviews of individual foreign markets as well as information on foreign markets and business opportunities abroad. Following the upgrades and updates of 2006, the portal now offers access to a larger amount of up-to-date information and the possibility of active communication with the users. The information relates to 42 countries and is updated twice a year. Similar activities are continuing in 2007 and the interest of Slovenian companies in such services is rising. Since 2006, Slovenia has also been implementing the International Trade Management programme intended for young graduates from SMEs. Plans for the future include delegations to the countries hosting the PAEFI business missions abroad.

Increasing the inflow of development-boosting domestic and foreign investment

In August 2005, the Government adopted the Programme for the Promotion of Foreign Direct Investment in 2005-2009, followed by the Decree on financial incentives for foreign direct investment adopted in February 2007, which was notified as a state aid scheme at the European Commission for 2007-13.

The measures and activities focused in particular on: (i) improving the supply of building land and industrial zones; (ii) systematically removing administrative barriers to investment (iii) reducing initial costs of a start-up investment to enable businesses to advance to high/medium

⁵ At the end of 2005, inward FDI totalled EUR 5,980.1 m (21.9% of GDP) and is, according to the Bank of Slovenia, estimated to have risen to EUR 6,128.0 m at the end of 2006. Outward FDI totalled EUR 2,969.9 m at the end of 2005 and is estimated to have risen to EUR 3,241.5 m at the end of 2006. At the end of 2005, inward FDI (2,988) comprised 65.3% (1,951) of new investments, while 30.5% (910) were investments in existing enterprises. In terms of their value, the investments are mostly targeted at existing enterprises, recording a 58.5% share of foreign equity capital at the end of 2005. In 2005, the number of Slovenian companies with FDI amounted to 2,484.

⁶ An updating of both portals is planned for 2007.

⁷ The first four Slovenian business missions abroad were opened in Milan, Düsseldorf, Istanbul, and Bucharest. In 2007, four more missions are expected to be opened outside the EU.

technology and the creation of high-quality jobs; and (iv) launching an assertive marketing campaign demonstrating Slovenia as a suitable FDI location.

The supply of industrial sites has improved over the last few years. Municipalities are the principal investors in industrial sites. The 2004-2007 period saw the realisation of 21 projects in a total value of EUR 54.92 m; EUR 23.66 m⁸ thereof was financed from structural funds. Moreover, the PAEFI launched a GIS virtual map of potential Slovenian locations to be upgraded in the following years. The Resolution on National Projects 2007-2023 envisages the development of nine business centres focused on support infrastructure and concentration for the economic breakthrough of individual areas in Slovenia as a whole in the total amount of EUR 1,200 m⁹.

The regulatory burden on business and investment is gradually being reduced in line with the Programme of Measures for Reducing the Administrative Burden. The e-VEM¹⁰ system for sole proprietors was established in 2005, and a similar system for companies is scheduled for this year. In July 2006, Rules on procedures and the required documentation to obtain work permits were drawn up to apply to cases where the employment of a foreign national is not – due to the nature of the work – tied to the labour market; the new Rules reduce the number of documents required and the duration of the procedure to obtain work permits. According to the national Employment Service, in 2006 the average number of valid permits was 16.1% higher than in 2005; the number of work permits issued during the year was 38.2% higher than in the year before¹¹.

Financial incentives for foreign investment allocated on the basis of public tenders reduce the initial costs of a start-up investment. In the past years, public tenders for the promotion of FDI were issued by the Ministry of the Economy whereas in 2007 the tender was issued by the PAEFI in accordance with the above new regulation. EUR 5.60 m is allocated for such purposes in 2007. Based on openings hitherto, the response of foreign investors is better than in 2006.¹²

Activities in the area of assertive marketing of Slovenia as a suitable FDI location were focused on attracting high-tech projects, after-sale services for multinational corporations and regional management centres of multinational corporations. A new and updated brochure on Slovenia as a suitable FDI location was prepared in 2006, together with sector publications in English. Databases for foreign investors and the Internet portal are constantly being updated. The PAEFI¹³ organises visits of potential investors to Slovenia and provides advice and information on the business environment in Slovenia, the possible locations and potential partners.

⁸ Based on decisions by programme councils, EUR 23.24 m was allocated, which corresponds to 98.24% of the funds programmed in the EPD instrument 1.4.1 for 2004-2006.

⁹ The development of the nine business centres will be financed from private sources (possibly public-private partnerships) (EUR 659 m or 54.9%), EU funds (EUR 306 m or 25.5%), and from the national, municipal, and regional budgets (EUR 235 m or 19.6%).

¹⁰ The one-stop-shop system.

¹¹ In 2005 and 2006, the average number of valid work permits was 41,598 and 48,280, respectively. By 31 July 2007, this figure rose to 61,698.

¹² Based on the 2006 public tender, financial incentives were granted to nine companies and amounted to EUR 5.08 m in total; the companies undertook to generate 1,155 new jobs in the next three years. Based on the openings hitherto, the contracts awarded in 2007 total EUR 4.7 m and should lead to 849 new jobs in the next three years.

¹³ At the beginning of 2007, PAEFI launched direct marketing of Slovenia as a FDI location in the United Kingdom. This is a long-term project whose results can only be evaluated after a longer period. The PAEFI has also launched direct marketing activities in the USA and Canada. In addition, the PAEFI monitors and analyses Slovenia's competitive position as a FDI location.



III.A.2.3. Ensure open and competitive markets

III.A.2.3.1. Competition policy

(Point to watch given by the Council, see Appendix, p. 51)

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. Its legal competences include ex-post market control of restrictive agreements, the abuse of a dominant market position, and concentrations.

In dealing with problems concerning competition in individual sectors, the Competition Protection Office works closely with the relevant sectoral regulators whose ex-ante control competences include market regulation with various measures intended to create competition in individual sectors and eliminate imbalances. Telecommunications are regulated by an independent regulatory body, the Post and Electronic Communications Agency. By analysing the relevant markets and imposing additional obligations on operators with significant market power, the Agency is enhancing competition and providing for adequate price ratios in specific electronic communications markets. As regards energy, competition is assured by the Energy Agency which co-creates and controls appropriate conditions for opening up the electricity and natural gas markets. Moreover, it decides on the granting and withdrawal of licences and in disputes concerning access to networks, violations of the general supply conditions and system operations instructions, the status of a special consumer.

In the area of liberal professions, the Competition Protection Office has taken its first steps towards a more appropriate regulation of liberal professions – i.e. highly specialised professional services that are in line with the broad public interest – to be followed by adequate regulation of individual areas by the relevant ministries (See also Appendix, Reform of the Liberal Professions Sector, p. 51).

III.A.2.3.2. Privatisation

Advisory panels were appointed for four leading Slovenian companies (the Telekom, the Triglav Insurance Company, the NLB bank, and the NKBM bank) to prepare privatisation programmes for these firms. One of the most important transactions was the sale of the state-owned share in the Slovenian Steel Group in 2007. The shares of the Telekom were listed on the stock exchange in 2006 for the first time. At the end of August 2007, a public tender was issued for the sale of a 49.13% share to a strategic owner. Once the privatisation is completed, the state will maintain a 25% + 1 share, which should allow it to influence certain strategic decisions of the company. The state is currently selling its 49% share in the NKBM bank to be completed in November 2007 via an Initial Public Offer (IPO). The Government has also confirmed its intention to maintain at least a 25% + 1 share in the Triglav Insurance Company. Triglav PLC shares are expected to be listed on the stock exchange by the end of January 2008.

The withdrawal of the two parastatal funds KAD (capital fund) and SOD (restitution fund) from firm ownership is taking place gradually and in accordance with the programme of withdrawal of state control from companies that has been adopted by the Government. Time limits for sale have been determined for individual companies¹⁴, while no time limit has been set for 18 investments of strategic importance. The number of companies listed on the two funds' balance sheets decreased in 2004-2006 from 265 to 123 in the KAD and from 179 to 84 in the SOD. The number of strategic investments included in their portfolios is 18 in the SOD and 16 in the KAD. The withdrawal from non-marketable investments should take place by December 2008, from marketable investments by June 2008, while no withdrawal date has been set for strategic investments.

¹⁴ According to the programme, the time limit for investment in companies not listed on the stock exchange is 2.5 years; for companies listed on the stock exchange the time limit is 2 years.



The sale of ownership shares is being carried out in an active and transparent manner according to the principle of maximising the sale price. All interested parties are given the same possibilities since sales take place by means of public tenders or – in the case of a large number of bids – public auctions. The auctions may be attended by all interested parties but are closed to the public owing to the additional negotiations taking place therein.¹⁵

In 2007 Slovenia is planning to conclude the sale of at least one strategic investment, the SOD is planning to sell 50 investments, and the KAD 43 investments.

III.A.2.3.3. Public utilities and network industries

III.A.2.3.3.1. Electronic communications and postal services

In electronic communications, last year saw a continuation of the convergence among the existing networks for the transmission of sound, data, and broadcasting contents. Together with the parallel integration of services, this represents one of the most significant trends of the global development in electronic communications. In 2006, four operators provided a service combining fixed telephony (some of them VoIP), broadband Internet, and television.

A shift towards greater competition was recorded in fixed telephony (local calls) which only recently ceased to be a monopolistic market. In 2006, fixed telephony services were provided by four operators, although the market share of the leading operator still accounted for about 98%¹⁶. Overall, 12 operators provide national and international telephone services at a fixed location and have a limited impact on the market. In mobile telephony, the market share of the main operator decreased¹⁷ to 70.30% by the end of 2006. Five providers¹⁸ are currently operating in this market, with a new infrastructure operator set to join soon. In the area of broadband Internet access, there is competition between cable operators and xDSL technology providers (cable operators: 30%, xDSL operators: 70%). 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, whereby the share of the largest xDSL operator decreased from 89% to 76% in 2006. Another step towards improving competition was also taken in 2006 in the market of mobile broadband Internet access when the UMTS licence was awarded to two other operators in addition to the existing service provider.

Potential abuses of the dominant market position of Telekom Slovenia¹⁹ (See also Chapter III. A.2.3.2 Privatisation, p.12) have to be eliminated to make for 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.

¹⁵ As good managers, SOD and KAD constantly monitor the market situation and decide on the basis of analyses when to sell individual investments in order to achieve the highest prices. Their shares are always sold to the highest bidder.

¹⁶ Although in 2006 the market share of alternative operators rose by 1.85 percentage points, the share of the main operator was still 97.8%.

¹⁷ The market share of the main operator went down by 3 percentage points between the end of 2004 and the end of 2006.

¹⁸ Two of them are infrastructure operators (Mobitel and Simobil), one is a provider of services (Debitel), and the other two are virtual mobile operators (Izimobil, M-mobil).

¹⁹ The Telekom group comprises Telekom Slovenia PLC (fixed telephony services, Siol Internet), Mobitel PLC (mobile telephony services), DVO Ltd and Avtenta Ltd (infrastructure building and maintenance), and other subsidiaries providing electronic services.

The effects of liberalisation are gradually becoming evident in lower prices, although the decrease in the relative²⁰ prices of telecommunications services typical for the period after 2002 came to a halt in 2006. The main reason was the increase in the subscription fee and local call prices of the main operator of fixed telephony, which reflected the still weak market power of its competitors that, as a general rule, offer cheaper services. In other segments of telecommunication services, where the competition level is higher (mobile telephony and international calls in fixed telephony), prices also continued to go down in 2006.

Regulations in the area of electronic communications were updated by the Act Amending the Electronic Communications Act²¹, adopted in December 2006. The amendments 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 the administrative enforcement and the possibility to act on irregularities established in the operations of electronic communications and postal services providers.

Another important measure is to encourage the creation of alternative networks. Enterprises in state ownership (the Slovenian Motorway Construction 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 contribute to the appropriate use of excess capacities, including through the forming of strategic partnerships. The building of broadband electronic networks will be carried out as part of the project called »National Broadband Network«²² intended to provide access to broadband services and the Internet to the population.

III.A.2.3.3.2. Electricity and natural gas

No significant changes occurred in the structure of electricity markets. The decrease in the market share of the main electricity producer in 2005 (by 2.2 p.p. to 50.8%) was due to the lower production of hydro-electric power plants and the unfavourable weather conditions rather than being the result of increased competition in the market. The concentration of electricity producers in Slovenia was slightly below the EU average²³. The natural gas wholesale market was almost fully (99%) dominated by the national supplier. Competition is stronger in electricity and natural gas retail markets where no provider holds a dominant market position²⁴.

²⁰ Compared with the consumer price index.

²¹ The amended law intends to: (i) eliminate the shortcomings that became obvious during the implementation of the old law or the directives under the 2002 regulatory framework; (ii) enable the launching of new electronic networks and services; (iii) implement Directive 2006/24/EC 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/EC.

²² The National Broadband Network is one of the major projects under the Resolution on National Development Projects. The project aims in particular to create broadband networks in less developed, mostly rural regions, and supplement the fixed network by mobile network coverage depending on economic viability. According to the project, by the end of 2010 each inhabitant of Slovenia should be able to connect to the Worldwide Web at 512 kbit/s at least, while at least 90% of the population should be provided with a 2Mbit/s connection. The long-term objectives are to allow 90% of the population to have access to 'triple play' services and a connection speed of at least 20 Mbit/s by 2015, and to provide optical lines to their homes by 2020. The broadband network should be built gradually over the 2007-2023 period.

²³ In 2004, the share of the biggest producer in the EU (non-weighted average) was 62.6% (in Slovenia: 53.0%).

²⁴ 13 providers were operating in the electricity retail market in 2005; the shares of the first three were 34%, 24%, and 13%; in natural gas, the shares of the biggest providers in the medium consumer class were 23%, 17%, and 15%, respectively.

The prices of electricity are formed freely for both industry and households. Since 1999, industrial prices have been recording a downward trend compared to the EU average²⁵ which may be attributed to the market liberalisation of 2001 and the resulting greater competition. Moreover, an increasing number of consumers are deciding to select a different provider. Relative to the CPI, household electricity prices have also been decreasing since 2000 but have remained close to 80% of the EU average. No change in electricity prices has occurred since the formation of prices was liberalised.

In line with the EU electricity and gas directives, the energy sector was fully liberalised on 1 July 2007. At the same time, the last 25% of electricity consumers (around 700,000 households) were able to choose from among several suppliers. In natural gas, roughly 150,000 household consumers use 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.

The legal separation of electricity distribution companies was completed on 1 July 2007. A concession contract was signed by the Government and the electricity distribution system operator (SODO); a contract was also signed by distribution companies and the SODO for leasing and services. The SODO began to operate on 1 July 2007, thus completing the legal and functional separation in electricity distribution.

Gen Energija²⁶, an independent player in the wholesale market, has already been established. Together with Istrabenz – energy systems, the company established GEN-I to operate in national and foreign markets. So far it sells around 20% of Slovenian energy output from the nuclear plant, while the remaining 80% is still bound to medium-term contracts with the HSE. In addition, the Government has adopted a privatisation programme proposal that plans to merge the thermal power plant 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), which will also be joined by the thermal power plant Trbovlje. Since the opening of cross-border transmission capacities on 1 July 2007, the Slovenian market has been fully opened to foreign wholesale suppliers.

ELES (the national electricity transmission company) issued new Rules on the Distribution of Cross-border Transmission Capacities, defining auctions as the only form of distribution. These rules do not apply to Borzen (the Slovenian power exchange) as the organiser of such auctions. Talks between system operators and regulators from Italy, Slovenia, Austria, and France are currently underway concerning the manner of carrying out joint regional auctions. At the moment, auctions for the Slovenian part of cross-border transmission capacities are carried out by ELES itself; when the negotiations on joint auctions are concluded an auction company to be selected from among operators in the region will be in charge of the auctions.

The Slovenian Government has approved the proposal for an optimal 400 kV overhead power line from Cikovce to Hevitz, which has opened the way for the adoption of the 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.

The Resolution on National Development Projects 2007-2023 includes a number of new infrastructural projects. Some of them have already been launched, such as the building of new capacities of hydro-power (lower Sava) and extraction (Kozjak) plants in the total

²⁵ After having considerably lagged behind for some years, the prices of electricity exceeded the EU average in 1998 and 1999; in the middle of 2006, the Slovenian price (for medium-sized consumers) was 21.3% lower than the EU average (weighted average).

²⁶ ELES Gen, a company that owns the Slovenian half of the Krško nuclear 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 is called Gen Energija and has already begun operating independently in the market.

amount of EUR 518 m, the modernisation of the thermal power plant Šoštanj in the amount of EUR 602 m, and investments in renewable energy, efficient energy use, and a hydrogen economy in the total amount of EUR 3,908 m.

III.A.2.3.3.3. Transport policy

Transport policy is governed by the Resolution on the Transport Policy of the Republic of Slovenia, adopted in June 2006. It mainly focuses on the mobility, accessibility, environmental protection and safety, economic development, optimum use of resources, intermodality, interoperability, and a balance between transport modes. Activities in the area of public passenger road and railway transport include the setting up of an integrated system of public passenger transport, combined with the combined ticketing system²⁷, which is being designed gradually and is planned to be launched at the beginning of 2012.

In previous years, several laws on transport were adopted or amended. The new Road Transport Act adopted in December 2006 is harmonised with European legislation. Thus, it provides for the implementation of regulations on road passenger and freight transport and transposes the relevant directives into national law. A new action plan for the introduction of a free-flow electronic toll collection system was adopted in July 2007. By mid-2009, the toll collection system on tollways will be equipped with free-flow technology for heavy goods vehicles (over 3 tonnes in gross weight), and later on with microwave technology for other vehicles.

In relation to the Second Railway Package, 2007 saw the adoption of the Act Amending the Railway Transport Act and the Safety of Railway Transport Act. With the adoption of these laws, the national legislation has been harmonised with the EU regulations and enables cross-border provision of services, a higher level of operating safety, and non-discriminatory access to infrastructure by establishing independent institutions.

Furthermore, a new comprehensive law on harbours is being prepared. The purpose of the new organisation is to separate the management function from harbour services, define the powers, conditions, and manner of managing harbours, define the conditions to provide harbour services, and regulate the relations between the state and the existing providers of harbour services. The national air transport legislation is being harmonised with EU legislation in order to liberalise the commercial aspects of transport and ensure harmonisation of transport, technical, and safety regulations.

III.A.2.3.4. Expansion and improvement of infrastructure

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

Railway infrastructure

A new National Programme for the Development of Railway Infrastructure is being drafted, indicating all investment projects on railway infrastructure for the period 2007-2023. The document sets out the time limits for investment priorities and the values of individual

²⁷ Guidelines to carry out a public tender for combined ticketing have been prepared. The zone model of combined ticketing will be designed by February 2008, and a public tender to produce an economic analysis of the zone and tariff models is to be issued no later than in November 2007. The database for the timetable system will be completed by December 2008.



projects²⁸, and includes investments for which funds have been provided under the Act Regulating the Guarantee for the period 2006-2009.

In October 2006 the Government adopted the Resolution on National Development Projects 2007-2023, which includes the »Modernisation of the railway network« project. The latter aims to ensure that Slovenia stays competitive in this area since a deterioration of technical parameters and operating conditions would reduce competitive and employment opportunities in transport services and lead to lower competitiveness of other activities that use these services. The project of modernising the railway network refers to modernisation and new lines on Corridors V (Koper/Sežana - Hodoš) and X (Jesenice - Ljubljana - Dobova).

The first development priority of the Operational Programme of Environmental and Transport Infrastructure Development 2007-2013 (OP ETID) is railway infrastructure where the share from the Cohesion Fund is EUR 449.57 m (i.e. 65% of all funds allocated for transport). The main projects include the construction of a new Divača - Koper railway line and the modernisation of the existing line, introduction of the GSM-R system in the national railway network, the reconstruction, electrification, and renovation of the Pragersko - Hodoš line for velocities up to 160 km/h, the modernisation of level crossings, and the construction of underpasses at stations.

Road infrastructure

In 2006 the national road network comprised 5,823 km state roads. Works carried out on roads last year included routine maintenance, road management and safety, the regulation of traffic in populated and unpopulated areas, the restoration and reconstruction of road installations, and building of substitute roads. The construction of motorways continued with the aim of completing the main motorway cross on European Corridors V and X by the end of 2008. A total of 11.5 km of motorway and other road sections were put into operation, while construction continued on 73.4 km of motorways and other road sections. Several pre-construction works were carried out, together with final works on existing motorways.

Under the second development priority of the OP ETID, in 2007-2013 the Cohesion Fund will co-finance several motorway projects, while under the third development priority the projects – including the third development axis (Austria - Novo Mesto - Croatia) – will be co-financed from the European Regional Development Fund (ERDF).

Maritime infrastructure

Freight and passenger harbour transport has increased over the last few years. The national site development plan for the entire port area is being drafted and will enable the expansion of port capacities. Documentation for the construction of a new, 1,800 m long dry port (extension of the first and second piers and construction of the third pier) is being prepared. In addition, funds from the Cohesion Fund in the total amount of EUR 95.60 m have been requested for the building of dry ports.

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 provisions. Within activities for the renovation of the Ljubljana Airport, the first phase of construction of the new passenger terminal has been completed and the General Aviation Centre has been arranged. Procedures for reconstruction of the old passenger

²⁸ The proposed modernisation of the railway network is based on the main EU transport policies and includes the following objectives: efficient railway infrastructure and EU interconnection, and successful transfer of freight from roads to railway.



terminal and construction of a new one have been launched. Modernisation of infrastructure at the Maribor Airport is in progress.

Under the third development priority of the OP ETID, the following projects will be co-financed from the European Regional Development Fund (ERDF): modernisation of airport infrastructure at the Maribor Airport in the amount of EUR 9.48 m (the total investment is EUR 17.00 m) and modernisation of air traffic control systems in the amount of EUR 21.20 m (the total investment is EUR 52 m).

III.A.3. BUSINESS ENVIRONMENT AND DEVELOPMENT OF ENTREPRENEURSHIP (Point to watch given by the Council, see Appendix p. 52)

The level of entrepreneurial activity in Slovenia is low. In 2006 the rate of early-stage entrepreneurial activity rose for the second consecutive year, rebounding to a level already achieved in 2002.²⁹ In comparison with other EU countries, Slovenia ranks in the second half, namely 15th in terms of early-stage entrepreneurial activity and 16th in terms of total entrepreneurial activity. The main obstacles to entrepreneurship in Slovenia are access to alternative sources of finance and the regulatory framework for business, although the latter has been improving gradually. Moreover, payment indiscipline continues to be the biggest problem of Slovenian entrepreneurs.

The efficiency and quality of the early stages of the entrepreneurial process are improving gradually, as shown by the decreasing mortality rate of Slovenian enterprises and the growing ratio between persons taking up entrepreneurial activity when they see a business opportunity and those becoming entrepreneurs because of a lack of an adequate offer in the labour market. Compared to 2005, the mortality rate went down by 0.5 p.p. in 2006 to reach 1.6, the lowest value ever recorded. The ratio between opportunity- and necessity driven entrepreneurs increased by a tenth and totalled 8.6, which is also the highest value recorded thus far. The number of firms in the corporate sector increased in 2005-2006 by 3.2%³⁰.

The Programme of Measures to Stimulate Entrepreneurship and Competitiveness 2007-2013³¹, which was approved by the Slovenian Government in July 2006, serves as a clear guideline for a comprehensive and transparent design and implementation of measures to improve entrepreneurship and competitiveness and for a targeted use of budgetary and structural funds³². In 2007, the document was supplemented in order to allow a more transparent and simple implementation of the mechanisms by taking into account all regulations on state aid for the allocation of finance. Regarding the allocation of resources from structural funds in the period 2007-2013, the Government drew up the Operational Programme for Strengthening Development Potential (Competitiveness of Enterprises and Research Excellence, Promoting Entrepreneurship, and Economic Development Infrastructure in the total amount of EUR 558.71 m) and the Operational Programme for the Development of Human Resources (Fostering Entrepreneurship and Adaptability – Experts and Researchers for Corporate Competitiveness in the total amount of EUR 39.54 m). Moreover, the EC approved the Rural Development Programme 2007-2013 aimed at fostering entrepreneurship in rural areas. The two operational programmes complement the Programme of Measures and provide the basis for effective implementation of entrepreneurship and competitiveness policy as well as proper and efficient use of resources from structural funds.

²⁹ GEM 2006; Compared to 2005, the proportion of the population engaged in early-stage entrepreneurial activity slightly increased in 2006 and accounted for 4.63% of all employed persons aged 18-64 (just over 62,000 adult inhabitants of Slovenia).

³⁰ SORS, May 2007, temporary data; in 2006, the number of firms in activities C-K was 98,440.

³¹ The Programme of Measures 2007-2013 covers four main areas: (i) promoting entrepreneurship and a business-friendly environment; (ii) skills for business; (iii) development and innovation in industry; and (iv) helping small and medium-sized enterprises through equity and debt financing.

³² In 2006, 10 projects in the total amount of EUR 10.59 m were financed by the ERDF via a public tender for development investment projects in firms in the period 2006-2007, while a similar tender in 2007 will amount to EUR 40 m. The ERDF also financed two technological parks (Tehnopolis Celje and Primorska Technology Park in Nova Gorica) in the total amount of EUR 3 m.



In order to provide better conditions for the work of support institutions for entrepreneurship, the Public Agency for Entrepreneurship and Foreign Investments (PAEFI) began to operate in 2006 as the main implementing institution for entrepreneurship. PAEFI's objectives include the development of skills and establishment of a system of counselling and training for entrepreneurs and potential entrepreneurs, as well as the establishment of a national centre for competitiveness and innovation within the PAEFI at the beginning of 2008 to co-ordinate PAEFI's activities regarding a support environment for entrepreneurship and develop and implement the necessary support services. Slovenia will soon adopt a new Act Regulating Supportive Environment for Entrepreneurship aimed at regulating such a supportive environment in a more comprehensive and transparent way and leading to more active entrepreneurship and growth of SMEs. The Slovenian Technology Agency will be upgraded through the implementation of development, research and innovation programmes. The programmes implemented by the Slovenian Technology Agency (TIA) will be worth EUR 13 m in 2007 and EUR 44.6 m in 2008. The establishment of the Slovenian Human Resources Development and Scholarship Fund will help to implement mechanisms in the area of knowledge and development of human resources (see Chapter III. B.2.2 Flexible systems of education and training, p. 24). In 2007, the Commission initiative under the CIP resulted in the establishment of a Slovenian consortium³³ whose purpose is to design a network for providing and implementing comprehensive entrepreneurship and innovation supportive services.

An electronic one-stop-shop (e-VEM) system for individual private entrepreneurs was launched in 2005 and operates through 222 entry points and through an Internet entry point. The procedures conducted on the Internet or through e-VEM entry points are free of charge. A similar system for the registration of firms is soon to be completed and launched at the beginning of 2008. The time needed to set up a firm will be shortened to four days.

In order to improve access to start-up capital, several activities have been carried out and the relevant laws adopted. SMEs are supported through improved financial mechanisms of the Slovenian Enterprise Fund which in 2006 continued to provide quick loans to new entrepreneurs and introduced subsidies for setting up new, innovative firms included in university incubators and technology parks. In 2007 the Government adopted a draft law on venture capital companies, while the Corporate Income Tax Act introduced tax relief for venture capital investments in fast-growing and innovative SMEs through venture capital companies³⁴. 2008 will see the enactment of several status-related and tax solutions to promote the equity financing of Slovenian enterprises, which should lead to an increased supply of and demand for venture capital. In addition to legislative solutions, a public venture capital company will be established to operate according to the principle of public-private partnership and encourage private venture capital companies to enter young, growing, and innovative enterprises.

³³ The consortium comprises two existing Euro Info Centres, the Innovation Relay Centre, the Chamber of Craft, and the Chamber of Commerce and Industry of Slovenia.

³⁴ Venture capital companies with a registered seat in Slovenia.



III.B. THE SECOND DEVELOPMENT PRIORITY: EFFICIENT CREATION, TWO-WAY FLOW, AND USE OF KNOWLEDGE FOR ECONOMIC DEVELOPMENT AND QUALITY JOBS

III.B.1. RESEARCH, INNOVATION, AND TECHNOLOGY

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

(Point to watch given by the Council; see Appendix p.54)

Slovenia's main development document on research and development is the National Research and Development Programme (NRDP)³⁵ which operationalises the broadest objectives and policies in this area defined in national strategic documents into a comprehensive range of sub-goals and measures for their implementation. From the total of 60 measures included in the NRDP, 41 or two thirds are intended to support technological development and the corporate sector, and 14 or almost a quarter of the latter are directly aimed at boosting co-operation between the public research sphere and enterprises. Where reasonable and possible, the NRDP objectives are defined as specific target values. All measures include an indication of the responsible bodies and the deadlines for their implementation.

Significant sections of the NRDP are included in plans and documents for the utilisation of the EU's structural funds under the new financial perspective. Tax relief for corporate investment in R&D was introduced as part of the tax reform (by way of the Corporate Income Tax and the Decree concerning Regional Tax Incentive for R&D). Further, a new law on venture capital companies, which will provide the necessary legal basis for venture capital funds and public-private partnerships in the area of equity finance, is in the process of adoption. The Employment Related Industrial Property Rights Act, which was amended at the end of 2006, governs (among other things) inventions developed in public higher education institutions and public research institutes.

According to data from the European Patent Office³⁶, Slovenian applicants filed 91 European patent applications at the EPO in 2006 (45.5 per million inhabitants). This was the highest number of patent applications per million inhabitants among the new member states. Slovenia was also at the top among the new member states according to the total number of patent applications per million inhabitants (international, European, and national) filed in 2005 (185 applications per million inhabitants).

The Young Researchers Programme which has since its establishment in 1985 produced many doctors of science and significantly contributed to the lowering of the average age of researchers in the country. Over the past three years, this example of good practice has been applied to the training of young researchers in the corporate sector for the corporate sector, which has been brought even closer to the needs of companies and upgraded by the obligation of young researchers to undergo training abroad.

In Slovenia, a network of technology platforms, within which the sharing of information and good practices is well established, functions as an instrument of linking the corporate sector with the research sphere. It operates within the remit of the Chamber of Commerce and Industry with the support of the Ministry of Higher Education, Science, and Technology. Technology platforms are an EU development policy mechanism for meeting challenges and determining the strategic advantages and opportunities of technology sectors. All key players from the corporate sector to institutes, universities, public institutions, and the state participate in the platforms.

³⁵ The Resolution on the NRDP was adopted by the National Assembly in December 2005.

³⁶ European Patent Office, Annual Report 2006.

Increasing public expenditure on R&D by approximately 0.1% of GDP annually

Relative to the set targets, expenditure on research and development (R&D) had been rising too slowly until 2005. In 2002 and 2003, when Slovenia was deciding to set the target for R&D expenditure to be achieved by 2010 at 3% of GDP, the official data on the achieved level of R&D expenditure as a share of GDP were considerably higher than the most recent official statistical figures released in 2006. Although R&D expenditure as a share of GDP rose somewhat in 2004 and 2005 (to 1.49% of GDP in 2005) it was still lower than prior to 2003 (2002: 1.52% of GDP).

According to the latest statistical data, public funds³⁷ spent on research and development in 2005 totalled 0.52% of GDP. The current financial perspective provides for a gradual increase in the funds obtained from structural funds for R&D, which are planned to reach 0.20% of GDP by 2009. The planned amount of public expenditure on R&D relative to GDP (funds earmarked for this purpose in the national budget plus EU funds) is progressively rising until 2009.³⁸ 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. The relief was successfully notified in August 2007; data about its effects will thus be available in 2008. Given the expenditure earmarked for 2009 and the current pace of growth, the target public expenditure on R&D (1% of GDP) will be achieved somewhat later than planned.

Since the situation in Slovenia was slightly different at the time when Slovenia set the 3% of GDP target for R&D spending, it is possible that this goal will not be achieved by 2010. However, we are determined to spare no effort in trying to achieve this goal as soon as possible. Similarly as at the EU level, the adoption of political documents and commitments for higher investment in R&D in Slovenia has not yet been translated into actual delivery of results. This is a long-lasting process that requires the co-ordination and participation of several policies and players.

Gradually changing the structure of public investment in R&D

The original situation regarding the distribution of budgetary funds for R&D between science and technology was unfavourable – the proportions of investment in technology were clearly too small. The rise to 20% in 2006 indicates that the financing structure is changing in the desired direction (2005: 12%; 2004: 9%).

As regards the raising of the share of existing public funds for applied and developmental research (especially in the priority areas of research and technological development), the Slovenian Research Agency, which is responsible for scientific research, is relatively limited in raising the funding for the technology sector by the existing contractual obligations. A large proportion of the Agency's budget is fixed in five-year contracts running until 2008. By contrast, project financing makes it possible to rapidly adjust new tenders to the NRDP's objectives since the existing funds are released annually. A number of activities have been carried out in this way over the past three years.

Changes in tax and industrial policies and in the system of financing research

The amended Corporate Income Tax introduced tax relief for corporate investment in research and development³⁹, providing businesses with the possibility to claim a reduction of their

³⁷ Budgetary funds in a broader sense, i.e. including the national budget, municipal and regional budgets, and the EU budget.

³⁸ The levels from 2006 onwards include approximately 0.1% of funds from the EU.

³⁹ Since 1 January 2005, tax relief can also be claimed for investment in research equipment and for the salaries of newly hired doctors of science in the first year of their employment.



taxable base in the amount of 20% of the sum they invested in R&D⁴⁰ in a given tax period; the amount of tax relief cannot exceed the taxable base. This relief has been upgraded by a regional component, the so-called regional relief, which was successfully notified to the European Commission in August 2007. It will take a while before the effects of the implementation of tax relief on corporate investment in R&D become observable. We expect that tax relief on R&D investment, which is currently the only existing tax relief for businesses, will stimulate new R&D activities in the private sector.

Establishing a legislative and financial environment that will support the establishment and growth of high-technology and other innovative enterprises, particularly SMEs

Measures promoting small and medium-sized enterprises through equity and debt financing (loans, guarantees, donations) are implemented by the Slovenian Enterprise Fund (SEF) which provides financial instruments, taking into account the trends arising from the macroeconomic environment and market needs. (See also chapter III.A.3. Business Environment and Development of Entrepreneurship, p. 18 and the appendix Access to Finance for SMEs, p. 53)

In 2006 significant progress was made in the functioning of the national system of innovations, notably by increasing the efficiency of the Slovenian Technology Agency (TIA). This year the responsibility for most public tender calls for technological R&D projects that were previously within the remit of the competent ministry (Ministry of Higher Education, Science, and Technology – MHES) is being transferred to the TIA. The Agency and the Ministry are jointly preparing public tender calls and relevant documentation. The first two notices were published in the summer, while public tender calls financed from EU structural funds are due to be announced in the second half of the year. The TIA also publishes an annual public call for R&D projects of the Ministry of Defence. Further, a proposal for a public tender call for research projects financed by the Ministry of the Economy and planned to be implemented by the TIA is being prepared.

Based on the co-operation between the MHES, the SEF, and the TIA, a public call for providing credit for corporate R&D was published at the beginning of June. The TIA's responsibility in this call includes technology assessment and monitoring of projects.

III.B.1.2. Promoting the use of information and communication technologies (ICT) and the transition to the information society

Over the last three years, Slovenia has achieved significant progress in the access to and use of information and communication technologies. According to the percentage of Internet users among the population aged 16-74, which topped 50% in the first quarter of 2006, Slovenia only lagged 3 p.p. behind the EU average, whereas it exceeded the EU-25 average according to the share of households having Internet access. Several projects were carried out in 2006 to involve the population in ICT and the use of e-services.⁴¹ The proportion of households with broadband Internet access also rose substantially (34% in the first quarter of 2006; EU-25: 32%) thanks to the increase in competition among broadband access suppliers, which translated into a better supply and lower prices of these services (See also Chapter III. A.2.3.3.1, Electronic communication and postal services, p.13). Further, the accessibility of e-government increased appreciably (65% of basic public services are available in a fully electronic form; EU-25: 50%). In the area of providing e-contents in Slovenian, a project of cultural heritage digitalisation was carried out last year as part of a comprehensive project of setting up a national digital library. It included the digitalisation of and access to databases of scientific and cultural documents.

⁴⁰ Investment eligible for tax relief includes investment in internal R&D activities and the purchase of R&D services provided by other entities, including affiliated enterprises, or by other public or private research institutions.

⁴¹ In co-operation with the Ministry of Culture the establishment of 12 new e-libraries and 39 individual work stations providing users with access to the Internet has been co-financed in 2007.

In June 2007, the Government adopted the Strategy for the Development of Information Society in Slovenia – 'si2010'.⁴² The purpose of the strategy is to promote competitiveness and productivity, ensure balanced social and regional development, and improve the quality of living of society as a whole and of each individual through efficient use of information and communication technologies.

The use of ICT will remain a priority in the future⁴³, as indicated by the inclusion of ICT in the National Development Programme 2007-2013 and the National Strategic Reference Framework 2007-2013. The provision of broadband connections in less developed regions and the establishment of rapid links with educational, scientific, and cultural institutions will also be one of the main programmes in this area. The public call for tenders for the setting up of wireless public access points was completed in October 2006. It will contribute to a more even distribution of Internet access points across Slovenia (particularly in rural areas).

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

The education structure of the adult population in Slovenia has been gradually improving year by year. The share of the population with a tertiary education rose substantially in 2003-2006, approaching the EU-25 average. Better education tends to improve people's employment prospects, as evidenced by the higher employment rates of the tertiary educated in comparison with people with a secondary or lower education. Nevertheless, there is a certain disparity between the supply of and demand for certain profiles. Particularly higher educated workers of certain professions are in shortage.

Lifelong learning

The participation of the population in lifelong learning, which is a vital factor for improving the quality of human capital and labour market flexibility, is relatively high (SLO 2005: 15%; EU-25 2005: 10.1%). However, despite the high participation rate, the modest percentages of older and less educated people participating in education and training remain a significant problem. At the beginning of 2007, a comprehensive lifelong learning strategy was put forward for public discussion. Its aim is to provide all people with the opportunity for full development of their abilities. The strategy's main objective is to integrate all spheres of education and training into a coherent system with an emphasis on the following core areas: (i) learning in all circumstances and periods of life; (ii) raising awareness about the benefits of learning; (iii) raising awareness about the right to learning and the shared responsibility for it; (iv) customised learning for every individual; (v) incorporating the understanding of the importance of lifelong learning in curricula; and (vi) raising levels of all types of literacy.

Overhauling the system of vocational colleges and secondary technical and vocational education

Adopted in 2006, the Vocational and Technical Education Act brought significant progress in the area of promoting the development of human resources. The law introduces greater coherence between general, technical, and practical knowledge, and competence- (skills-) oriented education. Open curricula are another important novelty. The law also provides for

⁴² The si2010 Strategy strives to ensure the application of the general principles of operation such as security and privacy, interoperability and open standards, Internet copyrights, and inclusion and accessibility.

⁴³ Particular attention in such programmes will be devoted to promoting the development and building of a digitalised infrastructure for entry, storage, access, and use of digital contents, particularly in the sphere of cultural heritage (digital library, etc.). Further, there will be an accelerated introduction of electronic operations, development of e-services, and the promotion of the integration of development potential within the corporate sector and the research sphere with support for the establishment and operation of ICT technology platforms.



obligatory implementation of part of the educational programme in the direct work process, i.e. at the employer's premises or in an inter-company education centre.

Concrete projects were backed by priority goals of the Single Programming Document 2004-2006 and by the Operational Programme for the Promotion of Human Resources Development 2007-2013 in the subsequent period. Specific measures include an extensive curricular reform of vocational and technical education⁴⁴, the preparation of national curricula with clearly defined learning goals (competences to be acquired), overhauling the structure of qualifications, and increasing the scope of practical training. The financial perspective 2007-2013 provides additional funds for the improvement of the quality and scope of practical training in companies.

In 2007, new programmes are being introduced in 60 schools that had previously carried out teacher training programmes for development of pupils' key competences. Further, a model has been designed to assess and develop quality in vocational training with an emphasis on promoting self-evaluation. Quality monitoring indicators are currently being developed, including indicators for measuring the employability and performance of pupils after they finish school. Numerous projects aimed at reducing dropout rates and promoting individualisation of teaching have been carried out (funds were provided by the European Social Fund). In addition, three modules are being prepared to develop the crosscultural competence of pupils (a module for pupils involved in mobility projects, an additional module for technical language, and an advanced first foreign language module with a crosscultural dimension). Financial incentives for visiting teachers in companies are foreseen to be provided in 2008.

Reform of the higher education system and universities

The reform of higher education was launched in 2005. It mainly comprises measures relating to increasing the quality of studies, facilitating the employment of graduates, and changing higher education funding. The ratio of students to teaching staff has improved slightly but is still fairly high in comparison with other EU countries.⁴⁵ Seven new autonomous higher education institutions were established in 2005 and 2006.

In May 2007, the Government adopted the Resolution on the National Higher Education Programme 2007-2010 and submitted it to the National Assembly. The programme foresees deregulation in establishing public and private higher education institutions and programmes and promotion of creating new universities in regional hubs, which may serve as embryos for new universities. It also envisages the adjustment of higher education funding to the criteria of academic excellence, establishment of links with the corporate sector, performance of graduates in the market, and international co-operation. Further, the programme proposes the consideration of the possibility of establishing a system of vouchers and/or deferred tuition fees. Emphasis is also placed on ensuring the quality of higher education institutions and programmes, which must be subject to constant evaluation by students, academic staff (teachers, faculty assistants, researchers, experts), and independent expert bodies.

III.B.2.2. Flexible systems of education and training

June 2007 saw the adoption of the Scholarship Act, the first framework law that comprehensively governs scholarships. Its main purpose is to increase the number of scholarship recipients and company scholarships, link the needs of the business sector and local communities to the sphere of education and training, and regulate national scholarships more efficiently (transfer to social work centres). Limited co-financing, either by employers

⁴⁴ E.g. the open curriculum, where 20% of courses are defined by the school in co-operation with local community and social partners.

⁴⁵ In the 2003/2004 academic year, the ratio totalled 21.5 students per teacher, while the EU-19 average (data are only available for those member states that are also members of the OECD) was 15.7.

or through uniform regional scholarship schemes and local communities is foreseen in order to increase the number of company scholarships. The links between the education system and the corporate sector will increase through the activation of human resources by means of scholarships also by making qualified experts available for businesses by promoting enrolment in such education fields that boost economic development and improve their employability. The law also provides for a harmonised, more transparent, and simpler scheme of social transfers. In the latter part of 2006, the Government reorganised the existing public financial fund into the Slovenian Human Resources Development and Scholarship Fund to implement the human resources development policy. The fund will conduct the new scholarship policy relating to companies, regions, rewards, and exceptional achievements. In order to enable synergies between policies for human resources development, it is planned that the fund will also organise education and training (practical training – see the chapter on secondary vocational education; adult education; training of employees – active employment policy). The public financial fund is an important part of the flexicurity triangle.

The new law on scholarships also introduces awards for contributions to sustainable economic, social, or environmental development of society that is meeting present needs but do not put the needs of future generations at risk.

In Slovenia, a national Europass centre has been operational since May 2005 as part of the framework for more adequate evaluation of knowledge and experience. Further, the establishment of a uniform system of national vocational qualifications is under way. Vocational standards for all qualification levels within a professional field are being prepared. The national Expert Council for Vocational and Technical Education plays an important role in the preparation and approval of these standards.

The main changes related to linking the labour market with the education sphere include the amendments to the National Professional Qualifications Act, adopted in November 2006, which will give more weight to knowledge acquisition outside formal institutions. The amendments provide the following novelties: (i) positioning of the Slovenian qualification framework; (ii) credit-based valuation of vocational catalogues (certificates) in line with the European credit transfer system (ECTS) and their recognition in the education system (modules and recognition of non-formal and informal learning); (iii) better connections between the certificate system and the school system; (iv) providing possibilities to obtain level VII qualifications; (v) a partnership which no longer only includes trade unions and chambers but optionally also employer associations, professional associations, and NGOs; (vi) introducing systematic monitoring of the certificate system; and (vii) introducing horizontal and vertical transitions.

III.C. THE THIRD DEVELOPMENT PRIORITY: A MORE EFFICIENT AND CHEAPER GOVERNMENT

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

In January 2006, the Government of the Republic of Slovenia set up the Government Office for Growth that was charged with co-ordinating and monitoring implementation of Slovenia's Development Strategy and fostering economic and social reforms and development. For this purpose, the Office provides the ministries with all the required expert support and participates in the preparation of laws, regulations and administrative provisions required to implement SDS (Slovenia's Development Strategy) and the reforms. In April 2007 a minister without portfolio was appointed who is also the National Lisbon Co-ordinator. With this appointment, the role and recognisability of the Office was significantly strengthened. The Office also took over the management of the Council for Sustainable Development, i.e. an advisory body for the area of sustainable development in which economic, social, and environmental aspects are considered on a balanced basis. The Council is intended to achieve dialogue with civil society on all core issues of development. Its composition makes it

possible to implement the principle of partnership among the state, its social and regional partners, civil society organisations, and interest groups.

In May 2007, the Government adopted the Decree on the Documents of Development Planning Bases and Procedures for the Preparation of Central and Local Government Budgets, whose content gives the Office for Growth additional tasks. The Decree regulates the methods of preparing development documents and monitoring the implementation of the relevant policies proposed, adopted or implemented by the Government; preparing the budget memorandum and determining national development priorities; and preparing draft, amended, and supplemented budgets of central and local governments and other indirect budget users. The Decree entrusts the Office for Growth with the monitoring of the implementation and co-ordination of Government development policies and the administration of a single record of those policies.

Introducing a mandatory preliminary assessment of regulatory impacts and developing a methodology for assessing the impact on the economy

In 2006, the first steps were taken towards shaping a comprehensive policy for better regulation. The Government amended its rules of procedure to the effect that the proposers of regulations are obliged to carry out a preliminary regulatory impact assessment before submitting a bill. 2006 also saw the adoption of the basic methodology for the preparation of the Statement on the Removal of the Administrative Burdens and the Participation of Stakeholders, which observes the principles of good regulation more consistently. In addition, proposers of regulations must also assess the impact on the economy, environment, social conditions, and the budget. Within economic impacts, the area of administrative burdens was given particular weight⁴⁶. Progress was also made in involving stakeholders in the preparation of regulations. At the beginning of the year, the Government's normative programme was delivered to all non-governmental organisations, associations and chambers, which were asked to specify in which regulations they wished to actively participate. The ministries are obliged to involve the stakeholders that have voiced an interest in the preparation of relevant regulations. In addition, citizens and representatives of the corporate sector may also participate in the preparation of regulations via the web portal e-Democracy.

In order to implement the project of reducing administrative costs, a unified methodology for measuring those costs was adopted based on the model adopted by most European countries (SCM). Measurements began to be carried out in the field of the implemented measures (calculation of savings). The SCM methodology was used in the recently launched project of reducing the costs of safety at work. In addition to an annual programme of measures for the elimination of administrative burdens, which will be adopted for the third consecutive year, a new action programme will be adopted this year for a systematic reduction of administrative costs in priority fields by 25%.

Establishing central registers

In the area of e-administration, May 2006 saw the introduction of a new online service portal where forms of various public administration institutions are available to citizens in a single place. All public institutions are entitled to free use of a system for electronic delivery of documents to citizens (delivery of decrees and decisions in e-format to a secure mailbox). The system supports electronic payment of charges and other costs of online services, which may be used by all public sector institutions and all citizens.

⁴⁶ A special team at the Ministry of Public Administration is responsible for preventing the creation of new administrative burdens. For this purpose, 1000 regulations and various instructions for the implementation of legislation were examined in 2006, along with a further 800 in the first eight months (Jan.-Aug.) of 2007.

Electronic data exchanges between the Central Register of Population and other institutions have surged. The business and judicial registers will be technologically linked. Methodological bases have been worked out for the first establishment of a real estate register.

The e-renewal of vehicle licenses has been linked with the online renewal of car insurances. In 2007 citizens received pre-completed personal income tax forms, which will be abolished in 2008.

III.C.1.1. Quality of regulation and simplification of legislation

In 2007 the Government continued its activities in the field of eliminating administrative burdens and adopted its second annual programme of relevant measures. In addition to the 65 governmental measures whose realisation is mandatory for particular ministries, other measures are also being implemented on the basis of the systematic collection of proposals made by economic entities and citizens. Major measures were realised in the field of simplifying the acquisition of various permits (work permits, craft permits), primarily through the simplification of procedures by using information technology. A significant disburdening for economic entities was realised in the fields of personal data protection and public procurement.

The principle of transparency and clarity of legislation is consistently realised through the free public access to all published regulations and the consistent publication of final versions (codification of regulations) of laws and executive regulations.

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

April 2006 saw the adoption of the E-Administration Strategy until 2010, which emphasizes customer satisfaction, streamlining of administrative operations, and modern electronic services. A prototype information support was developed to monitor the measuring of how efficient e-administration is. Measurements of the efficiency of e-administration are being carried out. The results are analysed and various measures are being implemented on the basis of the outcomes, while progress in this field is also periodically examined. At the beginning of 2007, the implementation of the monthly quality barometer in 2006 was analysed; based on this, changes in the implementation of the barometer were conceptualised, which will further contribute to its better use in terms of greater customer orientation.

In partnership with the national Metrology Institute and the Faculty of Administration, at the beginning of 2007 the Ministry of Public Administration launched a project for the Development and Establishment of a System of Assessing Excellence in Public Administration 2007. The key objective of the project is to devise a system of external excellence assessment suited to administrative bodies and organisations.

III.C.1.2.1. Cheaper government

Joint public procurement significantly contributes to savings made within the public administration. They enable the achievement of better conditions with contractors, the streamlining of procedures and purchases, and their greater transparency. A joint procurement body and joint public contracts are also dealt with the relevant European directives. Through joint purchases of personal computers and monitors, office supplies, electricity and fuels, airline tickets, insurance services, uniform web sites, personal vehicles, and cellular telephone services, some EUR 4-6 m is saved annually. Naturally, it is only sensible to pool procurements in cases of the same or similar goods or services to be procured or the same bases for negotiations, resulting in economy-of-scale effects and direct budgetary savings.

The unification of the company and judicial registers of Slovenia will lead to streamlined operation and maintenance of the databases, as only one technologically advanced database

will be managed instead of two. Through the introduction of e-administration, its users (civil servants, citizens, and legal entities) have saved time and money due to the reformed processes that either result in faster decision-making or speed up the data flow due to the exchange of data among public administration institutions. E-administration provides institutions with generic tools for e-delivery, e-payment, a single filing system, and management of legislative procedures, whereby the development of e-solutions is centralised and development costs are only incurred once.

III.C.1.3. Public-private partnerships

The Public-Private Partnership Act was adopted at the end of 2006 and came into force in March 2007⁴⁷. In July 2007, the Government also adopted the Council for Public-Private Partnership Ordinance.

Within the Ministry of Finance, a department for public-private partnerships was set up to monitor, analyse, and promote all forms of co-operation between the public and private sectors. For the latter purpose, the department has already organised a seminar for representatives of local communities. The newly established unit is preparing a comprehensive overview of all concessions awarded as the most common form of PPP at both national and local levels, as well as an analysis of the granted public powers.

Particularly at the local level, the first responses are encouraging, and if appropriate support and consulting are provided, public-private partnerships may become the predominant form of financing major projects. Improvement of the investment programmes' quality and a cost-benefit analysis will also be required to deliver this goal.

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

In 2005 and 2006, the gradual decrease in the number of pending cases and the shortening of procedures continued. Significant progress was made in the area of land registry cases, where the number of pending cases at the end of 2006 decreased by no less than 33.4% over 2005, while the amount of resolved cases exceeded the amount of new cases by 15.2%. This reflects the success of the land register reform.

Further improvement of the situation is conditional on the effective implementation of the court backlog reduction programme. In the first year of implementing the 'Lukenda project', stress was laid on the preparation of new or amended legal solutions. 2007 saw the coming into force of the Act on Protection of the Right to Trial without Undue Delay, which allows citizens to claim damages for excessively long court procedures within the national legal system. In addition, two important procedural laws (the Criminal Procedure Act and the Civil Procedure Act) are due to be adopted that will boost the efficiency of procedures in Slovenian courts.

Further, activities aimed at improving the spatial and organisational conditions of the operation of courts are underway, along with the computerisation and the hiring of additional judges and judicial staff. Within its Resolution on the National Development Projects 2007-2023, the Government worked out a project for comprehensive modernisation of the judiciary by means of electronic operation and reorganisation of its back offices in which it will be vital to ensure that all judicial subsystems are integrated and that all three branches of power act in harmony.

⁴⁷ In the first half of 2007, the Ministry of Finance also prepared all the required implementing regulations under this Act – i.e., the Rules on Content and Mode of Keeping Records on Public-Private Partnership Projects and Awarded Contracts within Public-Private Partnership, and the Rules on the Content of the Eligibility of Execution of a Project according to the Model of Public-Private Partnership.

III.C.2. STATE AID

In the past two years, state aid in Slovenia has declined significantly in comparison with previous years. Measured as a share of GDP, it fell below 1% in 2005 for the first time and continued to decrease in 2006 (to 0.93% of GDP). A long-term falling trend is also observed in the level of state aid as a share of GDP, which dropped threefold between 1997 (when it totalled 2.76%) and 2006 (when it only totalled 0.93%). In compliance with the EU guidelines, aid was redirected from specific sectors towards horizontal objectives, which have a lesser impact on the distortion of competition and facilitate the economy's development.

Among particular categories of state aid in Slovenia, the aid allocated to agriculture and fisheries still predominated in 2004-2006 (2006: 31.97% of total aid), while it dropped by more than 50% over 2004, and by a further 13% over 2005. The prime reason for such a pronounced reduction is the changed presentation of aid in this sector. That is to say, aid given on the basis of the Common Agricultural Policy (CAP) has not been regarded as state aid since Slovenia joined the EU.

The average level of aid (excluding transport, agriculture, and fishing) in all EU member states totalled 0.42% of GDP in 2005, while in Slovenia it totalled 0.46% in 2005 and 0.48% in 2006. In the new EU-10 members, this share totalled 0.52% in 2005.

The structure of state aid is also gradually improving in Slovenia. Compared with the year before, the share of aid for horizontal objectives within total state aid rose by 14.93% (to 46.71%) in 2006. Like in 2005, regional aid still had the largest share within horizontal objectives (35.6%). It increased nearly fourfold to represent 16.61% of total state aid. The aid earmarked for SMEs (22.7% of aid for horizontal objectives) went up the most in the past year. Such growth of aid in both categories is mainly attributable to the substantially more pronounced distribution of aid according to the scheme of stimulating entrepreneurship and competitiveness, to which European funds and individual aid for the company Revoz' investment programme execution also contributed a share. The two areas are followed by aid for R&D (15.6%) and for employment (12.8%). Compared with 2005, all aid increased except for R&D and environmental protection.

After surging in 2004, the share of aid to particular sectors within total state aid dropped back to the previous level, i.e. from 31.50% in 2004 to 19.64% in 2005 and 21.33% in 2006. In the past five years, the highest share of this type of aid was recorded in 2004, mainly due to the transport sector where the restructuring of Slovenian Railways took place in 2003 and 2004.

III.C.3. DEVELOPMENT-ORIENTED RESTRUCTURING OF THE NATIONAL BUDGET

In addition to reducing general government expenditure, the Government is also pursuing the goal of the developmental restructuring of public funds or their partial redirection from the current purposes to development priorities: (i) increasing the expenditure on R&D to the target of 1% of GDP until 2010; (ii) increasing the total expenditure on higher education to the target 2% of GDP until 2010, with the share of public funds amounting to around two-thirds; and (iii) increasing public expenditure on active employment policy, trainings or lifelong learning, and scholarships and grants.

In the field of science and technological development, the allocated funds have been growing by more than 8% annually since 2004. They will thus rise from the EUR 163 m in 2004 to EUR 224 m in 2007, and are planned to total EUR 263 m in 2008, i.e. over 62% more than in 2004. According to a preliminary assessment, the public funds currently being invested in R&D already amount to 0.71% of GDP.



As regards the financing of higher education, the favourable trends seen in previous years were preserved in the 2007 and 2008 budgets. That is to say, if the current trend is preserved, the target level of financing, totalling 2% of GDP (with 1.3% of GDP provided by the public sector) can be achieved by the end of 2010. EUR 231 m was thus earmarked for higher education in 2006 after EUR 213 m was allocated to this purpose in 2005, while the figures for 2007 and 2008 will be EUR 248 m and EUR 276 m, respectively.

Funds for the Active Employment Policy programme are continually increasing so that the planned amounts of EUR 81 m for 2007 and EUR 113 m for 2008 will mean an increase of 10.1% in 2007 and 53% in 2008 relative to the realisation in 2004.

The 2007-2008 budget also embraces developmental orientations. Thus the amended 2007 budget and the draft 2008 budget are underpinned by a bigger amount rather than a mere redistribution. This means that, through decreasing budget (tax) revenue and expenditure, disburdening work, and additionally burdening consumption, and redirecting a proportion of public expenditure from the current purposes to the abovementioned development priorities, the Government is fostering the growth and competitiveness of the economy and thereby employment possibilities, while preserving the required level of social protection and improving environmental protection and the quality of life.

In 2005, the Government appointed an inter-ministerial working group to establish a results-oriented budget system. All budget users embraced the new approach to budget planning and clearly identified their short- and long-term objectives, which is a sound basis for reporting. Therefore a working group was established in August 2007 to prepare a system of indicators for the quality of public spending and monitor the achievement of the goals set by the budget users. The group's main tasks include: (i) prepare indicators for the quality of public spending and participate in the determination of budget users' objectives so as to ensure a connection between political priorities and the distribution of public funds; and (ii) monitor the achievement of the set goals and the related results, thereby introducing programme-based budget planning.

III.D. THE FOURTH DEVELOPMENT PRIORITY: A MODERN WELFARE 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

(See Appendix, p. 56)

The situation and trends in the labour market are relatively favourable. The employment rate in the 15-64 age group increased in 2005 and 2006, and the trend seen in the last three years continued into the first half of 2007, bringing Slovenia closer to the target employment rate of 70%. In 2006 the employment rate was 66.6%, above the EU average for the third year running. Compared with the EU-25 average, the share of women in employment is high (2006: 61.8%) and already exceeds the Lisbon target. The survey unemployment rate⁴⁸ was 6% in 2006, down 0.5 p.p. over the year before. The unemployment rate of women edged up (from 7% to 7.2% in 2006) whereas the share of unemployed men dropped sharply to 4.9% from 6.1%; both figures are below the average of the EU-25. Even though the situation is improving, the key labour market problems remain: low employment among older people and a high share of the long-term unemployed. In addition, it is becoming increasingly hard for

⁴⁸ The SORS survey on business trends shows that companies nevertheless fail to fully meet their demand for extra workers as they are increasingly reporting a lack of qualified staff and, more broadly, a lack of workers in general as the main reason hampering production. Employers report great difficulties in particular in finding construction and metal workers, as well as mechanics, machine operators, electricians, and health and catering staff. Companies are partially meeting their need for these workers by employing foreigners.

people with a tertiary education (in particular those with degrees in the social sciences) to find employment.

Programmes aimed at improving the employment prospects of the unemployed and the employed are an instrumental part of measures to raise employment. The Active Employment Policy programme contains four measures with individual activities, which represent the main areas for more targeted instruments and programmes of intervention in the labour market⁴⁹. The Active Employment Policy programme for 2007 has been prepared for a longer term, as it comprises measures for the period 2007-2013 and an implementation plan for 2007 and 2008.

Significant tax and social policy measures were adopted in 2006 with a view to increasing people's willingness to accept work and encouraging companies to hire new workers. At the end of 2005, the National Assembly passed a law that phases out the payroll tax (which will be fully abolished in 2009), which heavily distorts and hampers the employment of highly qualified experts in particular. The tax reform meanwhile reduced the progressivity of personal income tax, which will bolster the activity of highly skilled experts (See also Chapter III.A.I Simplifying the tax system and making work more attractive, p. 6). The effects of the tax reform on employment are augmented by legislative changes enacted last year, which make eligibility for unemployment benefits and financial social assistance more conditional on readiness to accept offered work (amendments to the Employment and Insurance against Unemployment Act and the Social Security Act). The National Assembly also passed the Act Regulating Adjustments of Transfers, which stipulates that all social transfers will only be adjusted to consumer price growth (no longer to wage growth). This will create extra incentives for the activity of unskilled people.

Taking account of the main structural problems in the labour market, in 2007 measures to improve the employment prospects of the unemployed and the employed are being directed at: (i) strengthening and developing know-how and competencies to improve employment prospects; (ii) intensifying counselling and motivating the unemployed to search for and accept work in order to improve career prospects; (iii) education and training programmes⁵⁰ for the unemployed and employed designed to accelerate the bridging of the gap between demand and supply in the labour market; (iv) introducing a reformed scholarship system for young people; (v) promoting new employment, activating and motivating experts to seek out and identify business potential; (vi) improving the flexibility of the labour market and introducing flexible forms of employment; (vii) developing special employment services and incentives for employment in the private and public sectors, and; (viii) promoting regional and inter-sectoral mobility.

III.D.1.2. Promoting a lifecycle approach to work

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

(Point to watch given by the Council, see Appendix, p. 57)

The employment of young people (aged 15-24) in Slovenia is growing, but it is still below the EU average. Hovering at around 30% in 2001-2003, the employment rate of young people rose to 35% in 2006 (EU-25: 37.3%). The unemployment rate of people aged below 25 was 13.9% in 2006, significantly below the average in the EU-25 (17.1%) and EU-15 (16%).

Important measures have been adopted over recent years to improve the employment prospects of young people and facilitate their transition from the education process to the

⁴⁹ The main measures: (i) counselling and assistance in finding work; (ii) training and education; (iii) promotion of employment and self-employment; and (iv) programmes for improving social inclusion plus an experimental programme.

⁵⁰ The programmes include formal, informal, and occasional education, the acquisition of national professional qualifications, in-service training, and other shorter forms of training.

labour market. The reform of higher education,⁵¹ with an emphasis on the Bologna Declaration, is a crucial step forward in improving the employment prospects of young people, also reducing the duration of studies, and improving graduation rates. The Human Resources and Scholarship Fund was established in 2006 to implement the scholarship policy and develop human resources. The Fund will also contribute to the implementation of instruments designed to improve collaboration between science and research institutions and the corporate sector. In carrying out the scholarship policy, the Fund will provide scholarships and scholarship schemes, student loans, and incentives for graduate and post-graduate students to complete their bachelor's, masters', and doctoral theses in the year intended for graduation after the final semester. In July 2007 the National Assembly also passed the Scholarship Act, which is intended to align employment prospects more closely with labour market needs and corporate sector, increase the number of scholarships, encourage the education of children from socially vulnerable families, and reduce the workload of secondary-school and university students in order to reduce the duration of education and studies and encourage enrolment in programmes which foster economic development and improve employment prospects.

In 2006 Slovenia adopted legislation introducing special benefits for employers who hire young people. Employers are eligible for a reimbursement of social security contributions if they hire unemployed persons younger than 26, first-time job-seekers whose occupation is in excess supply, or people under 28 who have been unemployed for 24 months. As a result of the measure, in December 2006 the Employment Service of Slovenia recorded a year-on-year drop in registered unemployment for persons below 25 years of age who have been unemployed for over 6 months, from 8.8% to 6.7% (from 8,143 to 5,282 persons).

Measures to promote the employability and employment of young people are carried out as part of the active employment policy, including through structural funds and the measure 'Training and Education'; the Employment Service, which has set ambitious goals in this field, plays an important part in the measure (See also Appendix, Brokerage in the labour market, p. 62). In the Active Employment Policy programme and the Operational Programme for Development of Human Resources 2007-2013, Slovenia set out optional special measures aimed at promoting the employment prospects and the training of young people. Great emphasis has been placed on programmes for the inclusion of young people in the labour market in accordance with the guidelines of the European Youth Pact. Since the unemployment of young people calls for an integrated approach and a combination of measures, there are plans for a project (strategy) on how to improve the situation in this area.⁵²

III.D.1.2.2. Active ageing and measures to address the employment issues of older workers (Council recommendation, see Appendix p. 59)

Raising the employment rate of older people (55-64 years) is one of the priorities in the Slovenian labour market. The figures show a slow yet positive increase: the employment rate increased from 30.7% in 2005 to 32.6% in 2006, which is however still below the EU-25 average (2006: 43.6%). The share of older women in work increased to 21% in 2006 (2005: 18.5%). According to the plans, the active ageing strategy is due to be completed by the end of 2007, its most important goal being for Slovenia to achieve the Lisbon Strategy target of a 50% average employment rate in the 55-64 age group by 2010.

Faced like most other developed European countries with demographic challenges which require changes and adjustments of the pension system, Slovenia is preparing measures to

⁵¹ Changes to the Higher Education Act stipulate a phase-in of first- and second-degree study programmes by the academic year 2009/2010 at the latest, which also means phasing out programmes adopted before this law was amended. In an effort to shorten the period of study, the year for graduation after the end of the final semester at the first and second levels will be abolished, and the diploma will have to be written during the last semester.

⁵² An initiative under the auspices of the Slovenian Student Union.

preserve the financial sustainability of the pension system over the coming decades. As a result of the pension reform of 1999, the average age of new old-age pension recipients has been increasing⁵³, from 56 years and 7 months in 1999 (the last before the reform) to 58 years and 11 months in 2006⁵⁴, which is however still low compared to the EU-25 (2005: 60 years and 11 months). In 2006 men retired on average at 60 years and 4 months and women at 57 years and 2 months, while the statutory retirement age was 63 years for men and 61 years for women. After 2004 the average retirement age increased mostly on account of declining retirement under special regulations, but it even decreased among men. The share of pensions in GDP declined between 2000 and 2006, from 11.41% to 10.63%.

The aim of long-term financial sustainability and stability is pursued in the pension system in compulsory as well as supplementary pension insurance. In compulsory insurance the primary objective is to increase the share of employed older people, which is being implemented via measures such as greater incentives for extending the activity period (the bonus-malus system), financial incentives for employers that employ older people, and the introduction of a system of partial retirement. Slovenia is also planning to raise awareness among people about the expected pension insurance rights.

Regarding supplementary pension insurance the primary aims are to increase participation in supplementary pension schemes and raise the level of premiums paid in private pension plans, giving individuals the opportunity to invest in the second (equity) pillar to compensate for lower pensions in the first pillar. Slovenia is drafting a special supplementary pension insurance act that will facilitate the growth and development of supplementary pension insurance.

Many active employment policy measures are also co-funded by the European Social Fund. The main aims of these measures are to boost the employment rate and employment prospects of older people. Activities include the promotion of the hiring of older people and exemption from social security contributions for employers who hire an unemployed person older than 55 years who has been registered with the Employment Service of Slovenia for over 12 months, or a registered unemployed person aged over 55 with an occupation that is in oversupply. The objective of the measure is to increase the employment rate among older people, the secondary goal being to improve the employability of target groups.

III.D.1.2.3. Modernisation of social security systems

Social security systems have been adjusted to contemporary challenges to a certain extent. Yet additional changes to social security systems are required due to the need for greater flexibility and diversification of the supply of services and other benefits in the social security system. In September 2006 the Government adopted the National Report on Social Security and Social Inclusion Strategies 2006-2008 with the aim of improving the efficiency of achieving the goals of the reformed Lisbon Strategy for Growth and Jobs.

Under the amendments to the Employment and Insurance against Unemployment Act, which entered into force in July 2006, financial assistance is no longer treated as an unemployment benefit. Entitlement to financial assistance for unemployment has thus been merged with financial social assistance, which has simplified procedures in that two similar benefits have been merged into one. Unemployed persons who have not managed to find a job after the expiry of their entitlement to financial assistance can claim financial social assistance only at centres for social work in accordance with social security regulations. Amendments to the Employment and Insurance against Unemployment Act as well as amendments to the Social Security Act adopted in September 2006 have brought in a system which obliges the recipients of financial social assistance to accept any job and temporary or occasional

⁵³ Monthly statistical overview (Pension and Disability Insurance Institute), February 2007.

⁵⁴ Similarly, the retirement age of disability pension recipients increased from 49 years and 9 months in 1999 to 52 years and 3 months in 2005.

humanitarian or similar work as defined in their employment plan. Databases of centres for social work and the Employment Service were linked up to ensure efficient implementation and active participation of recipients.

In October 2006 the National Assembly passed the Act Regulating Adjustments of Transfers to Individuals and Households, which harmonises the adjustment of social transfers. The law stipulates that social transfers must be adjusted once a year in line with consumer prices, except for pensions, which are still tied to wage growth. Preparations are also under way for the adoption of the Eligibility for Benefits from Public Funds Act, which is based on the reform of social transfers system and will pave the way for the creation of a register of benefits covered by public funds, a single access point for claiming and deciding on eligibility for social benefits, the unification of elements that affect decisions on social benefits, and a change in eligibility criteria for certain social benefits.

III.D.1.2.4. Equal opportunities

In 2005 Slovenia adopted the Resolution on the National Programme on Equal Opportunities for Women and Men 2005-2013, whose implementation is set down in the Periodic Plan for the implementation of this resolution for the period 2006-2007. The periodic plan defines the funding needed to carry out the tasks and activities, the time frame, and the manner in which individual activities are to be performed. A complete overview of measures and activities based on the periodic plan will be prepared at the end of 2007.

As part of the measure aimed at ensuring higher representation of women in active employment policy programmes and special programmes encouraging female employment, last year Slovenia carried out the project 'Assistance in the Self-employment of Long-term Unemployed Women', the biggest project in the framework of this measure. The project focuses on jobs at 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. New activities are planned for the future with a view to encouraging the employment of younger unemployed women, as the share of women among older unemployed people dropped significantly below the average, while the share of young unemployed women stands at around 75%.

III.D.1.2.5. Reconciliation of work and private life

Flexible forms of employment and work, and other types of assistance to young parents (shorter working hours, flexispace, work at home, participation of employees in planning the work schedule, help with childcare) go a long way towards enabling the reconciliation of work and private life. According to data from the SORS, 81% of employees can come to work at least one hour later due to family obligations or leave at least an hour earlier than regular working hours (for 51.3% this option is typical and for 29.6% more of an exception).

The Parental Protection and Family Benefit Act provides for the reconciliation of work and private life. An important novelty in this field is the 'Family-Friendly Enterprise' action, which is co-financed by EQUAL funds. The flexibility of employment has also been improved by new benefits introduced when the act was passed in May 2006, in particular the right to split parental leave between parents as per their agreement and the payment of social contributions in the amount of the difference between the minimum wage and full working time until the youngest child's sixth year of age. Draft amendments to the Employment Relationship Act also pursue the objective of reconciliation of work and private life by providing for the possibility of using annual leave during school holidays.



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

(Point to watch given by the Council, see Appendix, p.53)

The long-term unemployment rate dropped from 3.1% in 2005 to 2.9% in 2006, which is below the EU-25 average (2006: 3.6%) and undoubtedly a result of appropriate measures having been taken. Like most other EU member states, Slovenia has a higher long-term unemployment rate among women than among men. The female long-term unemployment rate increased by 0.2 p.p. (2006: 3.5%), but it is still below the EU-25 average (2006: 4.0%). Long-term unemployment is most common among women, older and less educated people, and people with major employment handicaps.

In the framework of the Active Employment Policy measures, people with low employment prospects participate in general counselling, providing information, vocational guidance, and employment assistance, which is designed to increase the intensity of assistance to individuals looking for work. One direct way in which jobs are created is public works, which are meant for social and work integration of people with the lowest employment prospects. Investment in the training of low-skilled workers is a supplementary objective for the Employment Service in 2007.

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

In the past the Employment Service funds were also used for the training and education of employees, as employers could obtain funding for the education of their employees to improve knowledge and education levels in their companies. In 2006 the unemployed participated in the formal education and national professional qualifications activities aimed at improving the employment prospects of the unemployed, raising education and qualification levels, and reducing occupational structural imbalances in the labour market, which involves state-approved education programmes.

III.D.1.3.2. Preventing discrimination in the labour market

The Equal Opportunities Office⁵⁵ has had an Equal Opportunities Advocate since 2003 and an Advocate for the Principle of Equality since 2005. The advocates are primarily tasked with detecting discrimination and raising awareness about discrimination in the general public and among potential victims and violators. A total of 43 cases of alleged discrimination were investigated in 2006, and 32 until 1 July 2007. (See also Chapter III.D.1.2.4 Equal opportunities, p.34)

In November 2006 the National Assembly passed the Roma Community in Slovenia Act which gives the Roma community, a special ethnic community, special protection known as positive discrimination. It also governs the employment of the Roma.

⁵⁵ In the framework of activities defined in the periodic plan, the Office for Equal Opportunities carried out in 2006, or is still carrying out, the following activities: (i) free telephone counselling for people experiencing unequal treatment based on gender; (ii) investigation of alleged discrimination by the Equal Opportunities Advocate and the Advocate of the Principle of Equality; and (iii) the organisation of panels, provision of information, awareness-raising.

III.D.1.3.3. The situation of disabled persons in the labour market

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.⁵⁶ According to estimates,⁵⁷ in 2006 the share of disabled persons in the workforce was 6.6% and the unemployment rate of disabled persons was 17% (77% of all unemployed disabled persons have the status of a person with a work-related disability). 2006 saw the start of the operational implementation of the Occupational Rehabilitation and Employment of Disabled Persons Act, which has served as the basis for establishing employment centres providing sheltered employment for the severely disabled and support employment for disabled persons in a regular working environment. This has created new opportunities for the employment of disabled persons who had previously remained outside the job system due to grave difficulties and obstacles to employment.

A quota system for the employment of disabled persons was enacted in 2006, introducing regular monitoring of employed disabled persons as per activity and employer, and appropriate incentives or financial disincentives for employers. The effects have been positive, as the number of employed disabled persons rose by 48% year-on-year in 2006 and a similar trend was recorded in the first five months of 2007.

III.D.1.4. Identifying labour market needs

III.D.1.4.1. Labour market brokerage, functioning and modernisation of the ESS and agencies (Council recommendation, see Appendix, p. 62)

The Employment Service of Slovenia provides individual and group services (provision of information, counselling) to unemployed people with a view to accelerating employment and improving employment prospects through employment programmes. One of the key tools it uses is the employment plan⁵⁸, which also makes it possible to monitor the activity of the unemployed. To improve the employment prospects of the unemployed the ESS has obtained an ISO certificate of quality for three regional offices divisions and the head office. The certificate was again confirmed in the first half of 2006.

The activity of employment brokerage and efforts to modernise the ESS have received an important boost from the New Forms of Service Provision project. In its drive to modernise itself, in April 2005 the ESS started providing additional electronic services⁵⁹ for the unemployed, employers, and the institutions carrying out employment programmes. Electronic services such as the use of SMS messages and emails have also improved the efficiency of employment brokerage. Furthermore, new interactive web applications for a collection of job-seekers' CVs and job matching, with appropriate online solutions, are nearing completion. As part of its employment brokerage activities the ESS is also providing and improving the transparency of information on vacancies by integrating it in broader support services for job searching, including through participation in the EURES system. The

⁵⁶ Broader development of social entrepreneurship is an objective of the Operational Programme for Human Resources Development 2007-2013. Through a public tender, the Government Office for Local Self-Government and Regional Policy encouraged projects and the European Social Fund co-funding will facilitate the implementation to enable the inclusion of other groups with low employment prospects in these projects.

⁵⁷ An estimate of the Ministry of Labour, Family, and Social Affairs based on data on the recipients of disability pensions, recipients of disability benefits aged under 18, and disabled persons in the labour market.

⁵⁸ The Employment Service designs an employment plan for over 90% of the newly registered unemployed within a period of two months after they have registered as unemployed. All the newly registered unemployed are included in special information and motivation seminars.

⁵⁹ For the unemployed (ordering of certificates from the Employment Service's records), for the employers (job matching, dissemination of statutory copyright data, annual employment plans, calls for company scholarships), 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).

training of counsellors and the performance incentives have been supplemented with numerous novelties based on a reformed method of work with the unemployed.⁶⁰

To raise the efficiency of employment brokerage, the ESS is working together with private job agencies in accordance with the terms and conditions confirmed by the competent ministry. Such contracts were signed with 21 private job agencies in 2006. In 2007 co-operation with private agencies will continue to intensify, as all concessionaires will be informed about the terms and conditions for signing a contract with the ESS. Information on the ESS web site as well as the flow of information will also be improved.

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

Significant progress has been made in recent years in removing obstacles to worker mobility across Europe and activities until the end of 2007 have been adopted. Unnecessary administrative obstacles to the employment of foreigners were eliminated under the amendments to the Employment and Work of Aliens Act, which also has a new chapter regulating the employment of EU, EEA and Swiss citizens. After consultations with the social partners and the completion of an analysis of the labour market, in May 2006 the Slovenian Government adopted a decree abolishing the enforcement of the principle of reciprocity in the free movement of workers, which means that the employment of EU citizens is now completely free in Slovenia, including for citizens of Romania and Bulgaria, which joined the EU on 1 January 2007.

Appropriate measures for selective immigration and the promotion of the repatriation of emigrant experts will be set out in the Strategy of Economic Migrations, which the competent ministries and the Government will draw up this year.

III.D.1.4.3. Undeclared work and employment

In December 2006 the National Assembly amended the Prevention of Illegal Work and Employment Act, which regulates activities that according to law can be carried out legally; it does not deal with activities that cannot be performed legally. The amendments allow short-term unpaid work by family members of entrepreneurs and owners of companies or private institutes. Another important novelty is the institution of 'small work', which provides the legal basis for the small work of persons who are not full-time employees, registered sole proprietors, or recipients of pensions. Small work may not exceed 20 hours per week or 40 hours per month and payment may not exceed half of the statutory minimum wage.

Efforts to curb illegal work and employment are underpinned by appropriate legislative changes (amendments to the Prevention of Illegal Work and Employment Act and the 2005 Act Amending Catering Act) as well as the tax reform of 2006. The absolute number of detected violations of the Prevention of Illegal Work and Employment Act has been falling since 2003 as the share of violations falling under illegal work, as well as the share of legal persons and sole traders violating the provisions of the law, have been declining.

⁶⁰ This was based on the preparation and implementation of training for providers and the introduction of computer support in order to accelerate the participation of the unemployed in active job searching and their transition to employment, and to provide assistance tailored to the customers. Collaboration with the employers focused on improving the quality of information for job matching, where new services play an important part.



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

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

(Council recommendation, see Appendix, p. 63)

The adaptability of the labour market, as measured by the share of temporary and part-time employment in total employment, increased in 2006 as the trend of the past ten years continued. The share of temporary employment in total employment increased faster than in the EU-25 and is above the EU average⁶¹. There is a clear age segregation in the Slovenian labour market, which is much more flexible when it comes to young people.

Changes to employment relationship regulations follow the flexicurity approach, which is being adopted as a model in European employment policy. Implementing this concept required certain changes to the labour legislation and the draft amendments to the Employment Relationship Act, which were adopted by the Government in July 2007, provide efficient solutions to ensure appropriate security of employment in a balanced way while promoting the internal flexibility of employees as well as flexibility and adaptability of the labour market. The improved flexibility provided by the amendments to the Employment Relationship Act is underpinned by intensive investment in training and education as the preconditions for competitiveness and greater productivity of individuals in the labour market (the Human Resources and Scholarship Fund). The key changes facilitating a gradual reform of the labour market include: improving the internal flexibility of employment by enabling employment according to the type of work; expanding the legal basis for the use of flexible forms of employment; devising a clearer and more efficient regulation of giving notice, including by shortening the period of notice and regulating the right to severance pay in the event that the employee continues to be employed by another employer; and additional incentives for the reconciliation of work and private life.

Participation in Active Employment Policy programmes activates the unemployed and gives them an incentive to acquire motivation, the missing know-how, skills, and experience. It also improves their job prospects and equips them to be better able to adjust to a greater labour market flexibility. By taking part in the Active Employment Policy measures the unemployed are eligible for activity and transport allowances and hence do not receive financial compensation (cash assistance) when taking part in long-term programmes. 2007 also saw the launch of the special activity called Promotion of New Employment of the Long-term Unemployed Recipients of Social Assistance.

III.D.2.2. Health and safety at work

The National Programme on Health and Safety at Work was adopted in December 2003 and an inter-departmentally coordinated programme of implementing activities and measures is currently being drafted. The measures are designed to make health and safety at work an integral part of the economy and to contribute to social justice and inclusion. Practical workshops for risk assessment in work with chemicals have been prepared and presentation campaigns for safe work in construction and regarding workplace noise have been organised. Furthermore, the campaign 'Ease Your Burden' and the competition for awards to companies 'Best Practice in Health and Safety at Work 2007' are being carried out in 2007.

⁶¹ It doubled in 1996-2006 and increased even after the entry into force of the new Employment Relationship Act (2003) which reduced job security and introduced stricter rules for the use of fixed-term employment. The distribution of all persons in fixed-term employment by income quintiles shows that fixed-term work is not limited to poorly paid jobs. The use of part-time employment grew as well, but it is still well below the EU-25 average.

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

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

The provision of appropriate land for industrial and housing construction mainly falls within the authority of local communities. In 2006, the total area of new housing facilities planned according to the issued building permits increased for the fifth consecutive year. The Spatial Planning Act, adopted this year, has simplified the procedures for preparing spatial documents and oriented the construction of housing facilities to the existing settlements so as to make better use of the existing underused or unused building land. Two instruments were established to stimulate the local communities to ensure a sufficient volume of building land equipped with public utilities: the building land development fee collected by the municipalities, and the building land development agreement. Within the new financial perspective, funds for equipping building land with utilities can also be acquired within the Operational Programme for Strengthening Regional Development Potential. In addition, the Building Land Spatial Measures Act, which is currently being prepared, will eliminate the deficiencies of the existing spatial measures implemented in compliance with the spatial documents stipulated by the Spatial Management Act, and establish new measures.

The provision of appropriate housing facilities⁶² is important not only as concerns the housing policy in the strict sense, but also with regard to the implementation of the national family and demographic policy objectives, while it also significantly impacts on the economy and workforce mobility. 2006 was the first year that young families could apply for a grant to assist them in acquiring their own housing by either building a house or purchasing an apartment. 176 of the submitted applications were approved. In 2007, the National Housing Saving Scheme Act was amended to the effect that more families will be eligible to apply for such grants. The Act improved the overall availability of housing facilities for purchase or profit rent. In the 2007 and 2008 budgets, EUR 6 m is earmarked for the modified system of subsidised purchase, building, reconstruction, or change of the intended use of buildings. In 2007 and 2008, a respective 2250 and 4500 will be eligible for such subsidies.

Another basis to be used in the implementation of active land policy measures (the recording and market activation of building land plots) will be the real estate register⁶³ to be established in 2008. Through comprehensive measures of several policies, i.e. housing, tax, and spatial development policies, it will be possible to start the activation of building land plots. The data in the land cadastre, the cadastre of buildings and the land registry are gradually being appropriately organised, while data in all records are still several months old. The real estate inventory has been brought to a close, providing the basis for improving the data on buildings, housing facilities, and commercial and industrial immovables. The data from the core real estate registers are available online and information solutions will start to be prepared to make the data available in a single place.

III.E.2. ENVIRONMENTAL PROTECTION POLICY

(Point to watch given by the Council, see Appendix, p. 65)

In November 2005, the National Assembly adopted the Resolution on the National Environmental Protection Programme⁶⁴. The core objectives of the programme covering the

⁶²Various additional activities were carried out to speed up the building of non-profit and affordable market-rate rental housing units for young families. After several years of sluggish activity, the Housing Fund of the RS thus received a capital injection of EUR 12.5 m which will suffice for the acquisition of some 200 new non-profit apartments.

⁶³ It will include data on the specific land uses submitted by the self-governing local communities, including data on land plots intended to build on.

⁶⁴ The environment is governed by three framework laws, i.e. the Environmental Protection Act, the Waters Act and the Nature Conservation Act.

period up to 2012 are an overall improvement of the environment and the quality of life, along with the protection of natural sources.

The Resolution on the National Energy Programme, whose long-term objectives include a higher energy efficiency and bigger consumption of renewable energy sources, was adopted already in 2004. The chief measures being implemented are: (i) informing, educating, and training energy consumers, investors, and other target groups; (ii) providing energy counselling for local residents; (iii) promoting the provision of counselling services in the public and private sectors; and (iv) promoting investments in greater energy efficiency and renewable energy sources.

Efficient energy use and renewable energy sources

Slovenia has a relatively high energy intensity; according to the latest internationally comparable data it used 60.7% more energy to generate the same volume of GDP than the EU member states on average in 2004, although its energy consumption was still lower than in the EU-10 (except in Cyprus and Malta). Another factor of high energy intensity is the structure of the Slovenian economy with a high share of energy-intensive industries compared with other EU countries. Since the significant deterioration of the situation in 2001, energy intensity has continued to expand, but at a slower pace (by 1.3% in 2005); in the past five years, by a mere 0.6% annually on average.

The share of renewable energy sources (RES) in the primary energy balance, like the share of electricity produced from RES, has been declining on average⁶⁵. The main obstacle to faster development of electricity production from RES is the too low feed-in tariffs. The second obstacle is the too short guaranteed purchase period ensured by the current legislation (10 years), followed by administrative obstacles⁶⁶. Although the share of RES is also influenced by climate conditions and thereby the hydro-electric output⁶⁷, its increase is additionally hampered by the fact that the energy consumption projected in the longer term strongly exceeds the growth of its production from RES.

The implementation of measures for achieving the energy policy's environmental goals is promoted through: (i) public grants or soft loans for investments; (ii) attractive feed-in tariffs for electricity produced from RES or in combined heat and electricity production from high-efficiency fossil fuels; (iii) exemptions from paying the CO₂ tax if certain measures are carried out; and (iv) exemptions from paying the excise duty on biofuels.

The 2002-2006 period saw a continuous gradual rise in the amount of public financial incentives given to households⁶⁸ for investing in energy efficiency (EE) and RES use. In 2006, the Ministry of the Environment and Spatial Planning implemented a programme of financial incentives for higher EE in residential buildings and for RES (including wood biomass) in an estimated amount of EUR 8.3 m, out of which EUR 1.9 m were resources from the national budget. Final energy savings and the increase in heat production from renewable energy sources are estimated at 28,693 MWH per year, and the reduction of CO₂ emissions at 8,915 tons per year. An important additional measure is energy counselling for local

⁶⁵ It was lower in 2005 (when it totalled 10.7%) than the year before, and a falling trend is also seen compared with 2000, as in this period, when primary energy consumption grew by 2.9% on average, the growth of RES use only amounted to 0.6%. The share of electricity produced from RES dropped from 31.7% in 2000 to 24.2% in 2005: the high growth of electricity consumption (3.8% on average) highly exceeded the growth of its production from RES (1.8%). While the electricity consumption growth slowed down in 2005 (to 1.6%), it has rebounded strongly since 2003 in manufacturing and construction.

⁶⁶ Report of Slovenia to the European Commission on the Implementation of Directive 2001/77/ES (Ministry of the Economy), 2006.

⁶⁷ Currently the hydro-electric power plant Blanca on the Sava is being built, while the biggest Drava river HEP plant, Zlatoličje, is being renovated.

⁶⁸ In 2005 and 2006 alone, no less than 1,500 households, i.e. 0.2% of all households in Slovenia, received such financial assistance for the renovation of heating systems.



residents⁶⁹, raising the residents' level of knowledge and awareness concerning rational energy management and the use of RES.

Between June 2004 and December 2006, eight wood biomass remote-heating projects were financed within the GEF project. For the purpose of implementing these projects, the firms received EUR 1.98 m as the Republic of Slovenia's capital contributions and EUR 1.98 m as grants within the Ministry of the Environment and Spatial Planning. Most projects also received soft loans from the Environmental Fund of the RS.

The Environmental Fund of the RS helps finance environmental investments that are mainly intended to reduce greenhouse gas emissions⁷⁰. In addition to its other tasks, the Fund also plans to develop the more risky investment forms to be able to support the development and marketing of environmental technologies; draft amendments to the Environmental Protection Act are underway to make this possible. According to those amendments, the Fund will be able to invest its financial resources as capital contributions in companies, by which it will acquire a stake or shares and thus direct the company's activity towards achieving environmental protection goals. Such capital contributions are projected to foster the carrying out of the actions envisaged in the Environmental Technologies Action Plan (ETAP) to improve market conditions. Once this instrument is established, approximately EUR 21 m is already planned to be invested in projects in certain priority fields⁷¹ that are crucial for sustainable development and particularly for achieving the goals of Slovenia's environmental and energy policies.

Greenhouse gas emissions and the maintenance and improvement of ambient air quality

In 2005, greenhouse gas emissions rose again. Under the Kyoto Protocol, Slovenia undertook to reduce GHG emissions by 8% in 2008-2012 (compared with 1986), but after their decline seen in 2003, the GHG emissions went up again (by 1.6% in 2004, and by 2% in 2005). As regards the structure of the emissions, those from transport have increased the most in the whole period since 1986 (more than twice; transport is responsible for the majority of this type of emissions⁷²), while emissions from industry have declined.

In December 2006, the Government adopted the Operational Programme for the Reduction of Greenhouse Gas Emissions for the Period up to 2012⁷³, whose basic orientation is the inclusion in the GHG emission allowance trading scheme and consistent implementation of the EU *acquis* in all segments impacting on the relevant emissions. It was found that, as

⁶⁹ It started in 1993 and is being implemented through a network of counselling offices. At the end of 2006, there were 35 such offices in Slovenia, employing some 65 energy counsellors. The services are free of charge for residents. The network was also involved in other activities such as assistance to residents in preparing investments so as to be eligible to apply for subsidies or loans for investing in EE and RES. The offices are maintained by municipalities on the basis of an agreement concluded with the competent ministry.

⁷⁰ In 2006, it allocated EUR 10 m as soft loans for modern environmental technologies (the production of biogas on a pig farm, the construction of a sun power plant on the roof of a residential house, the building or renovation of minor remote heating systems, etc.).

⁷¹ The priority fields include: (i) wood biomass remote heating systems; (ii) production of biogas on animal farms and from other organic waste, and its use for electricity production and other energy uses; (iii) photovoltaic systems for electricity production; (iv) better energy efficiency in construction; (v) investments in innovative environmental technologies.

⁷² The growth of freight transport has been strongly ahead of economic growth, especially after Slovenia joined the EU, and the share of road freight transport in total freight transport already exceeded the EU average in 2005. However, data on road freight transport do not include transport by foreign road carriers (transit traffic), which has also been on a strong upward trend since Slovenia joined the EU. In addition to goods transport, personal road transport has also been growing, which is the case in the entire EU. However, in Slovenia those trends are even more pronounced which is partly due to the transport policy that mainly invests in the construction of the highway network while neglecting other road infrastructure and railways as well as the development of public passenger transport. On the other hand, Slovenia with its position at the junction of important traffic routes is exposed to intense transit traffic, which has a significant share particularly in goods transport.

⁷³ Its main measures relate to the following areas: (i) electricity and heat production; (ii) industry and construction; (iii) transport; (iv) agriculture; (v) general energy consumption; (vi) waste; and (vii) industrial processes and the use of solvents and coatings.



regards fossil fuel consumption in the public sector, the promotion of public passenger transport, and the purchases of emission reductions outside Slovenia, legal and fiscal instruments for achieving the Kyoto objectives have not been developed. One of the Programme's key activities will be to regularly monitor and co-ordinate its own implementation. In addition, October 2006 saw the adoption of the National Allocation Plan for Emission Allowances 2008-2012, on the basis of which the operators of installations that had acquired permits to emit greenhouse gases were allocated the amount of gases they are allowed to emit. The total volume of the allowances was allocated on the basis of past emissions (70%) and benchmarking (30%).

By adopting the Operational Programme for Complying with the National Emission Ceilings for Atmospheric Pollutants in January 2007, Slovenia fulfilled the environment-related obligations laid down in Directive 2001/81/EC.

Public participation in decision-making and promotion of public awareness and knowledge concerning the environment

In June 2007, the Government delegated the management of the Sustainable Development Council to the Government Office for Growth, thereby establishing a more efficient organisation of work relating to sustainable development issues. The Council regularly considers cohesion policy operational programmes, Slovenia's contribution to the European Commission's report on the progress made in implementing the reformed EU sustainable development strategy, stakeholders' initiatives (such as Plan B for Slovenia), and the major sectoral strategic and programme documents.

Through public releases, the public is invited to participate in decision-making on environmental issues during the preparation of spatial documents, environmental protection regulations, forest management plans, and other programmes and plans for which a comprehensive environmental impact assessment procedure is to be carried out.

Since non-governmental organisations play an important role in environmental awareness-raising and education, the Ministry of the Environment and Spatial Planning earmarked EUR 175,000 to co-finance their programmes in 2006-2007. In the EE and RES area, 27 projects covering information-related, educational, awareness-raising, and promotional activities were approved to be co-financed in the amount of EUR 70,000.

On the basis of proposals drafted by the Working Group on Sustainable Development of Education, the Ministry of Education and Sport has adopted the Education Guidelines for Sustainable Development from Pre-school to University Education. The Guidelines emphasise the significance of education for sustainable development and present the possibilities for implementing sustainable development in formal, non-formal, and occasional learning.

III.E.3. REGIONAL DEVELOPMENT

More balanced regional development is to be implemented on a broad scale – from establishing regions, strengthening the polycentric system and regional development programming, to the preservation of population density, appropriate transport infrastructure, and strengthening of local economies.

Establishing regions with specific powers and sufficient resources (according to the principle of fiscal decentralisation) to promote their own development

In June 2006, the amended Constitution enabled the initiation of procedures for the establishment of regions in Slovenia, while in June 2007 a legislative procedure was launched to adopt appropriate legislation in this area (i.e. the Regions Act, the Financing of Regions

Act, and the Regional Elections Act). The draft laws provide a basis for a functional and fiscal decentralisation, the establishment of regions, election of their bodies, and the beginning of their operations on 1 January 2009. The regions will all be constituted at the same time and will have the same legal status and the same tasks to perform. With the appropriate amendments to the Constitution, regions were given the legal status of self-governing local communities. The procedure for determining the regions will start in autumn 2007.

The end of 2006 saw the adoption of the new Financing of Municipalities Act, which enables municipal residents to satisfy their shared needs and interests on a more equal basis. The system of decentralised general government revenue from personal income tax and other taxes provides the municipalities with a pre-determined and stable financing source in line with the trend of their performance costs. The law ensures complete financial autonomy of municipalities in financing those tasks, programmes, and projects that they autonomously establish by their own regulations and decisions.

Fostering the development of a polycentric urban system with strong regional centres, and promoting regional economies with technology parks and business incubators

Based on the Promotion of Balanced Regional Development Act (2005), the so-called development regions were established in order to interconnect municipalities for development purposes. Regional development programmes 2007-2013 and their 2007-2009 implementation plans have been adopted in the 12 development regions. The goal is to achieve sustainable development by involving partners and to determine priority regional projects through which regions would respond to the challenges of the future.

In the 2005-2006 period, the implementation of regional development programmes was supported by resources from the national budget (so-called direct regional incentives) earmarked for priority regional projects, such as the building of industrial zones and business incubators, and the design of technology parks in those regional centres (Ljubljana, Celje, Nova Gorica, Koper) where there are higher education programmes and appropriate innovation capacities. The building of industrial zones was also supported by EU resources as part of implementation of the Single Programming Document 2004-2006. Through cohesion policy implementation, goals related to the development of entrepreneurship and competitiveness were successfully combined with regional development goals already in this period.

The new financial perspective 2007-2013 is an opportunity to upgrade the existing measures as more funds will be available, and the Operational Programme for Strengthening Regional Development Potential has already been prepared. Some of the resources within the development of regions priority have been allocated to final users directly on the basis of decisions adopted by regional councils, i.e. according to the subsidiary principle. For the period of seven years, those funds total EUR 586 m and have been earmarked to be used in the implementation of regional development programmes, taking into account the individual regions' development deficiency index. 75% of the resources will thus go to the eight development regions within the cohesion region Eastern Slovenia, and the remaining 25% to the four development regions within the cohesion region Western Slovenia.

The polycentrism and local self-government development that Slovenia has seen thus far have had the most favourable effect on the development of municipal centres, while less attention has been paid to the regional level, which has left certain regions without a distinctive centre. Within the preparation of the National Development Programme 2007-2013 and the Government's Resolution on National Development Projects until 2023, the project 'Development Network of Slovenia' was launched. This is a network of regional economic centres (consisting of business incubators, technology parks, and industrial zones) that will, in co-operation with each other and in connection with knowledge and development, be able to offer services to the corporate sector. This development infrastructure also includes the

establishment of higher education centres that will follow the development opportunities of Slovenia and of the regional development centres' economies. Attention is also being paid to the development of those services – related to lifelong learning and the labour market – that enable people to generate higher value added and adapt to the market.

IV. LINKING THE REFORM PROGRAMME WITH COHESION POLICY

The conceptual framework for the state's development in the period of the next EU financial perspective (2007-2013) is Slovenia's Development Strategy (adopted in 2005). The development priority tasks and objectives are being delivered including by implementing the cohesion policy, i.e. the National Strategic Reference Framework 2007-2013, which Slovenia has aligned with the EU, and individual operational programmes introduced on its basis.

Cohesion policy in Slovenia is co-ordinated by the Government Office for Local Self-Government and Regional Policy⁷⁴, which will continue to administer all operational programmes in the next programme period. Within this framework, the Office also ensures that individual measures are integrated with the Lisbon Strategy and the reform programme guidelines.

The National Strategic Reference Framework 2007-2013

In June 2007, the European Commission approved the National Strategic Reference Framework (NSRF) 2007-2013, which defines Slovenia's global strategy for achieving a faster convergence and includes priority tasks, provisional annual allocation of funding, and a list of operational programmes. In general, the NSRF is oriented towards improving the welfare of the Republic of Slovenia's citizens by promoting economic growth, creating new jobs and strengthening the human capital, and ensuring balanced development, particularly among regions. On one hand, this orientation defines welfare as the global target, while on the other, it lays particular stress on the promotion of economic growth and job creation, i.e. the core Lisbon Strategy goals, and balanced development. Further, the co-financed activities will be implemented according to the principle of intergenerational solidarity and sustainable development, i.e. the principle that the needs of current generations should be met in a way that does not limit the future generations' possibilities to have their needs met at least to an equal extent.

In the NSRF, Slovenia determines the use of the EUR 4.2 bn (including funding for the implementation of Objective No. 3 – European Territorial Co-operation) that it will receive from the EU in the seven-year period. These resources will provide Slovenia with the lacking amount of development incentives that will allow it to rank itself among the most developed European countries. Slovenia will mainly achieve the NSRF goals through the implementation of three operational programmes for the period 2007-2013: the operational programme for Strengthening Regional Development Potential (RD OP); the Human Resource Development operational programme (HRD OP); and the operational programme for Environmental and Transport Infrastructure Development (ETID OP). Slovenia will indicatively earmark over 60% of all the available resources for Lisbon-related expenditure, which means not only strengthened endeavours to achieve the Lisbon goals but also one of the higher shares among the recipients of cohesion policy funding.

Operational programmes for the period 2007-2013

*The Operational Programme for Strengthening Regional Development Potential 2007-2013*⁷⁵: the Programme aims at an innovative, dynamic, and open Slovenia with well-developed

⁷⁴ Its functions include the administration of the Single Programming Document 2004-2006 and implementation of the Cohesion Fund, national co-ordination of the Interreg Initiative, and administration of the Neighbourhood Programme Slovenia/Hungary/Croatia.

⁷⁵ The Programme was signed by the European Commission and the Republic of Slovenia on 27 August 2007.

regions and a competitive knowledge-based economy. Therefore, it is primarily directed at increasing the competitiveness of the Slovenian economy in terms of achieving the Lisbon goals, i.e. at promoting entrepreneurship, innovation, and technological advances. Activities to be financed within the RD OP will be determined both on the basis of excellence (national industrial policy) and bottom-up, i.e. based on regional initiatives and efforts to reduce regional differences. One of the Programme's core objectives will be the creation of new jobs, particularly through promoting innovation – and thus the success of firms – by utilising the natural and cultural potentials and through developing tourism, which can also create jobs in the more remote areas. The following table presents the indicative distribution of funding among the four development priorities within which the planned activities, in addition to technical assistance, will be financed.

Table 1: Structure of RD OP development priorities

European Regional Development Fund Operational Programme (ERDF OP) <i>Level of development priorities</i>	ERDF resources; EUR	%
TOTAL	1,709,749,522	100
1. Competitiveness and research excellence	402,133,645	23.5
2. Economic development infrastructure	396,934,393	23.2
3. Integration of natural and cultural potential	263,235,116	15.4
4. Development of regions	619,442,634	36.2
5. Technical assistance	28,003,734	1.6

Source: National Strategic Reference Framework 2007-2013, 18 June 2007.

Key: ERDF – European Regional Development Fund.

To a large extent, the RD OP directly supports the priority measures laid down in the Reform Programme for the Implementation of the Lisbon Strategy in Slovenia. The following items fall within the Lisbon-related programmes: (i) the entire 'Competitiveness and research excellence' development priority; (ii) the entire 'Economic development infrastructure' priority; (iii) at least around 50% of the 'Integration of natural and cultural potential' priority, i.e. the part related to the generation of new jobs by facilitating entrepreneurship in the private sector; and (iv) around 40% of the 'Development of regions' priority.

The Operational Programme 'Environmental and Transport Infrastructure Development':⁷⁶ the Programme will be financed by the Cohesion Fund and, to a lesser extent, by the European Regional Development Fund. Its aim of ensuring infrastructure in the area of environment and transport is related to the promotion of economic development and the creation of jobs as well as to the promotion of sustainable development and to ensuring a high quality of life for Slovenia's citizens. In this perspective, the ETID OP also includes activities promoting sustainable energy consumption. The following table presents the Programme's development priorities with the indicative allocation of resources.

⁷⁶ It was signed by the European Commission and the Republic of Slovenia on 27 August 2007.



Table 2: Structure of ETID OP development priorities

European Cohesion Fund Operational Programme (CF OP); <i>Level of development priorities</i>	ERDF resources; EUR	CF resources; EUR	TOTAL resources; EUR	%
TOTAL	224,029,886	1,411,569,858	1,635,599,744	100.0
1. Railway infrastructure		449,567,581	449,567,581	27.5
2. Road and maritime infrastructure - CF		241,370,738	241,370,738	14.8
<i>Roads</i>		206,840,911	206,840,911	
<i>Maritime infrastructure</i>		34,529,827	34,529,827	
3. Transport infrastructure – ERDF	224,029,886		224,029,886	13.7
4. Urban waste management		205,568,426	205,568,426	12.6
5. Environmental protection – waters		325,483,339	325,483,339	19.9
<i>Discharge and treatment of urban waste water</i>		102,784,212	102,784,212	
<i>Drinking water supply</i>		148,466,085	148,466,085	
<i>Reduction of damage caused by water</i>		74,233,042	74,233,042	
6. Sustainable energy consumption		159,886,553	159,886,553	9.8
7. Technical assistance		29,693,221	29,693,221	1.8

Source: National Strategic Reference Framework 2007-2013, 18 June 2007.

Key: ERDF – European Regional Development Fund; CF – Cohesion Fund.

The ETID OP directly supports priority measures of the Reform Programme for the Implementation of the Lisbon Strategy in Slovenia. The entire development priorities (one) ‘Railway infrastructure - CF’, (two) ‘Road and maritime infrastructure’ and (six) ‘Sustainable energy consumption’ fall within the Lisbon-related programmes. Within the third priority, only the aviation part does.

The Human Resource Development Operational Programme 2007-2013: the Programme is oriented towards strengthening human capital, creating new jobs, promoting employment and employability, promoting innovation and thus economic competitiveness by investing in the development of researchers and other appropriate human resources, lifelong learning, and guaranteeing social inclusion and equal opportunities, while special weight is also given to increased efficiency of the public sector’s operations. In the delivery of those objectives, particular attention will be paid to the provision of those instruments and interventions that suit local and regional needs, to which the implementation structure will also be adapted. Clearly, considering the nature of the ESF OP’s activities, the available resources will be directed to the most poorly developed geographical areas, especially those with high unemployment rates, meaning that the Programme will also directly contribute to decreased regional differences. However, it is not to be overlooked that appropriate stress will also have to be laid on making use of opportunities in the territories, target groups, and instruments that promote competitiveness among the more successful or those with great potential.

The following table presents the development priorities in this area along with the indicative allocation of funding.

Table 3: Structure of ESF OP development priorities

European Social Fund Operational Programme (ESF OP); <i>Level of development priorities</i>	ESF resources; EUR	%
TOTAL	755,699,370	100.0
1. Promotion of entrepreneurship and adaptability	262,114,965	34.7
2. Promotion of employability of job-seekers and the inactive	140,018,678	18.5
3. Human resource development and lifelong learning	164,661,965	21.8
4. Equal opportunities and the promotion of social inclusion	63,848,517	8.4
5. Institutional and administrative capacity	97,051,506	12.8
6. Technical assistance	28,003,739	3.7

Source: National Strategic Reference Framework 2007-2013, 18 June 2007.

Key: ESF – European Social Fund.

The ESF OP directly supports measures of the Reform Programme for the Implementation of the Lisbon Strategy in Slovenia. The entire development priorities from one to four fall within the Lisbon-related programmes, while within the fifth priority ('Institutional and administrative capacity') this is only the case with the 'Modernisation and strengthening of labour market institutions' part.

The Resolution on National Development Projects 2007-2023

In November 2006, the Government adopted the Resolution on National Development Projects 2007-2023, which presents the major development investment projects in this period. These are projects whose implementation will congregate the development initiatives and resources on the national and regional levels and therewith achieve developmental breakthroughs for the state as a whole. The aim of the Resolution is to clearly set the priority national development projects in the 2007-2023 period in order to ensure faster achievement of the goals of Slovenia's Development Strategy and the National Development Programme.

The projects whose financial value exceeds EUR 50 m, whose effects transcend regional boundaries, and which achieve cross-sectoral effects by converging the tasks and objectives of several sectors were included in the Resolution's selection of development investment projects. Thus, the key areas to which the Resolution's central projects belong are: (i) the development network of Slovenia; (ii) the integration of natural and cultural potential; (iii) efficient environmental management and sustainable energy; (iv) mobility to support economic development; and (v) institutional and administrative capacity.

The majority of projects will be launched at the beginning of the 2007-2013 financial perspective, while the planned resources of EUR 23,920 m for all projects are relatively evenly distributed across the entire time period until 2023 to ensure the sustainability of public financial flows. An important point to mention is that the relative share of private investment will increase in the second period of the projects' duration to ultimately total EUR 14,724 m, i.e. 61.6% of the entire planned financing packet. A particular rise in private investment is projected in transport infrastructure, while common investment in major projects by the public and private sectors will gradually grow in all areas once the Public-Private Partnership Act is adopted and comes into force.

Given the simultaneity and coherence of preparing the National Development Programme, the National Strategic Reference Framework, and their related operational programmes for the absorption of the funding available within the EU cohesion envelope for Slovenia, the planned absorption of the EU resources is co-ordinated and predictable.

Table 4: Development projects' inclusion in the key development priorities of Slovenia's Development Strategy

The key SDS priorities which the projects support	National development projects
1. A competitive economy and faster economic growth	Economic centres The national broadband network Major tourist infrastructure projects (the Slovenian Adriatic Island, the Megalaxia Entertainment Park, the Goriška Tourist Centre) Major sports infrastructure projects (the Planica Nordic Centre, the Leon Štukelj Sports and Business Park, the integration of the Karst's natural and cultural potential)
2. Efficient creation, two-way flow, and use of knowledge for economic development and quality jobs	The Jože Plečnik National and University Library Higher education centres (Polytechnic of Ljubljana and University Clinical Centre of Maribor)
3. An efficient and cheaper government	e-Health Care e-Judiciary
4. A modern welfare state and higher employment	A fund for human resource development and a scholarships scheme The new Clinical Centre of Ljubljana A network of medical emergency centres
5. Integration of measures for sustainable development	Sustainable mobility Modernisation of the railway network Modernisation of the national road network on priority development axes Additional highway programme Sustainable energy and the economy of hydrogen Modernisation of electricity transmission network The building of new energy facilities (HE Spodnja Sava, TEŠ 6, NEK II. Agregat, ČHE Kozjak) Gas storage facility

Source: Resolution on National Development Projects 2007-2013, October 2007.

APPENDICES

APPENDIX 1 – Response to the recommendations and points to watch given by the Council

In December 2006 the European Commission presented its Annual Progress Report regarding the Lisbon Strategy, which includes an assessment of the progress made by member states in implementing their National Reform Programmes. In its assessment of Slovenia's progress, the Commission focuses on measures in the area of entrepreneurship, better regulation, reducing the share of state aid in GDP, the liberalisation of the energy market, and the legislation adopted in the area of employment.

Based on the report, the Council adopted two recommendations for Slovenia:

- *Further measures aimed at improving the pension reform and promoting active ageing in order to raise the employment rate of the elderly*
 - The reform of the pension system, which was enacted in 1999 and took effect in 2000, is delivering positive outcomes. Slovenia's current and future fiscal positions would be much worse without these effects.
 - The new draft version of amendments to the Pension and Disability Insurance Act has been prepared but the proposal has not yet been discussed by the Government or the Economic and Social Council.
 - Further, a new active ageing strategy is being drafted and is due to be finalised by the end of 2007 with the inclusion of changes to the pension system.

- *Enhancing employment services to support the move towards more flexible working and contractual arrangements and the already increased conditionality of unemployment benefits, and offering services at an earlier stage of unemployment*
 - As part of its job-brokering activities, the Employment Service of Slovenia (ESS) provides and upgrades information about new openings by incorporating this information into broader job-search services available on its website.
 - New services were introduced as part of the project 'New Forms of Service Provision in the ESS' and additional training of ESS employees for work with customers was carried out.
 - To make its job-brokering service more efficient, the ESS also co-operates with private job agencies in line with the rules and instructions adopted by the competent ministry; in 2006, the ESS concluded special contracts with 21 agencies for this purpose.

The main areas that required further attention according to the Commission were:

- Strengthening the role of the Government Office for Growth and the Slovenian Technology Agency
 - The role and recognisability of the Government Office for Growth were strengthened significantly by the appointment of a minister without portfolio. The office was entrusted with the task of monitoring the implementation of the Government's development policies and the consistency of their implementation. It also keeps a single record of the Government's development policies.
 - The Slovenian Technology Agency was given a greater role by assuming the responsibility for most tender notices for entrepreneurial R&D projects that were previously put out by the Ministry.
- *Boosting competition (notably in regulated professions) and the effectiveness of the Competition Protection Office*
 - The Competition Protection Office is an autonomous institution with appropriate powers to control restrictive agreements, the abuse of a dominant

- position, and the concentration of companies. Legislative reform aimed at greater transparency and uniformity of procedures is being prepared.
- In 2006 several activities were carried out regarding the regulation of liberal professions (e.g. the number of notaries was raised). Regulated professions are subject to regulation by the competent ministries, while the Competition Protection Office ensures that no irregularities occur.
 - *Strengthening the legal framework for the protection of intellectual property*
 - The following intellectual property regulations were adopted: the Act Amending the Industrial Property Act, the Act Amending the Copyright and Related Rights Act, and the Act Amending the Act on the Protection of Topographies of Semiconductor Circuits.
 - In order to improve the situation in this area, the Intellectual Property Office has significantly strengthened its activities aimed at raising public awareness about the significance of intellectual property.
 - Shortening start-up times for businesses and reducing related costs
 - An electronic one-stop-shop portal (e-VEM) for sole proprietors was set up in July 2005, which enables the registration of sole proprietors at a single access point (231 access points).
 - An e-VEM system for companies is currently being set up and is due to be operative early 2008. Once in place, the system will significantly reduce the time and costs of setting up a business.
 - Setting concrete and realistic targets for R&D investment
 - Public funds for R&D are rising, albeit at a slower pace than planned. As a result, the delivery of objectives in this area will be delayed.
 - 2006 saw the adoption of important tax measures (corporate income tax) whose first effects are already visible.
 - Strengthening the link between the education system and the labour market
 - A new law on awarding scholarships has been adopted. Its aim is to stimulate employability in accordance with the needs of the labour market and the corporate sector. A Human Resources and Scholarship Fund was established in 2006 to carry out certain special measures.
 - Specific measures that will improve the adaptability to the corporate sector's needs include an extensive curricular reform of vocational and technical education and a continuation of the comprehensive reform of universities.
 - Reducing the segmentation and integrating young people into the labour market
 - The goal of the ESS for 2007 is to reduce the number of young uneducated unemployed persons (by 1,000 to approximately 4,200) and the number of young first-time job-seekers with a tertiary education by 300 (to 1,500).
 - In 2006, the Government provided legal benefits for employers who hire young employees. In order to reduce segmentation and enable faster integration of young people into the labour market, a number of other measures are being implemented as part of the active employment policy. Due to the discrepancy between supply and demand in the labour market, in 2006 the Ministry of Labour, Family and Social Affairs, in co-operation with the Ministry of Higher Education, Science and Technology, began to promote fields that offer better employment prospects after the completion of studies.
 - Better promotion of environmental technologies and energy efficiency
 - Subsidies to households for the use of energy-efficient heating appliances; loans promoting energy efficiency.
 - The Ministry of the Environment and Spatial Planning is drafting amendments to the Environment Protection Act, including a provision on the establishment of a venture capital fund for energy efficient investments. The Ministry is also investing in environmental technologies through the Eco-Fund (providing loans on favourable terms) and by co-funding efficient energy use and promoting the use of renewable energy sources.



Below we present Slovenia's detailed proposals in response to the recommendations and points to watch put forward by the Council, along with additional explanations in selected areas. The proposals may transcend the scope of the recommendations with the aim of providing a comprehensive overview of the situation and measures in a given area. The measures regarding the strengthening of the Government Office for Growth and the Slovenian Technology Agency and the legal framework for the protection of intellectual property are described in the main text.

APPENDIX 2 – Explanatory notes

COMPETITION POLICY

For the most part, competition protection in Slovenia is aligned with the EU acquis. The national Competition Protection Office is a functionally independent institution with appropriate statutory powers that is authorised to exercise ex-post control of the market as regards restrictive agreements, the abuse of a dominant position, and the concentration of companies.

In functional terms, the Office is authorised to autonomously carry out investigative procedures and take final decisions. In addition, it has been empowered to impose sanctions. Most procedures still deal with the assessment of mergers but the structure of cases handled is changing. Greater emphasis will thus be gradually placed on the assessment of more complex infringements of anti-trust legislation, such as cartel agreements and abuses of a dominant position.

Table 5: Proceedings before Competition Protection Office 2005-2007

Year	Decisions issued	Concentrations	Abuse of a monopoly position	Restrictive agreements
2005	59	54	3	2
2006	53	47	1	4
2007 *	30	28	1	2

Source: Competition Protection Office, August, 2007

*until 18 July 2007

Regarding normative regulations, the Prevention of Restriction of Competition Act has been amended to ensure the most urgent procedural changes to the effect of a partial modernisation of the procedure, a changed definition of a legal infringement, and a prolongation of the period of limitation, which is all expected to result in a higher efficiency of the issued decisions. New legislation is being prepared to make the procedures carried out by the Office more transparent and uniform, which should also improve the consistency with the prevailing legislation in other areas⁷⁷, make the Office's investigative powers more appropriate, and ensure more efficient sanctions and control over mergers. The coming into force of the new Minor Offences Act has also given the Office the power to impose the sanction of a minimum fine, although the stipulated sanctions diverge markedly from the prevailing sanctions in most EU countries. Given the new powers and competence of the Office, one of the first priorities remains to increase its administrative and hence financial capacity⁷⁸.

Reform of the liberal professions sector

In 2006, the competent Slovenian ministries met with the European Commission to learn about the anti-trust legal aspects of profession-specific restrictions, of their negative effects on the national and European economies, and of possibilities of their abolition. In line with the decisions adopted by the Competition Protection Office and competent ministries at the

⁷⁷ The General Administrative Procedure Act, the Takeovers Act, the Securities Market Act, and the Minor Offences Act.

⁷⁸ Given the Office's current absorption capacity, five additional employees could be recruited every six months, but the realisation of this target strongly depends on the Government's staff policy guidelines and priorities.

consultation, the Office monitors the situation in the areas of national legislation and profession-specific regulations, and, *ex officio*, issues opinions on draft legislative amendments, proposes both new legislative amendments and changes of professional associations' rules, and keeps the European Commission informed of the current situation in the liberal professions in the Republic of Slovenia.

Within the Ministry of the Environment and Spatial Planning, changes in the area of architecture and engineering are currently being prepared to be included in the Architectural and Engineering Services Act planned to be adopted in 2007. As concerns attorneys and notaries, the Act Amending the Notaries Act has already been adopted, and the number of notary positions has been increased. Amendments to the Attorneys Act and the Attorneys' Price List are also underway. As regards pharmacies, in May 2007 the Office submitted to the competent Ministry of Health its views and warnings concerning the profession-specific restrictions within the pharmacies sector by commenting on certain articles of the Pharmacies Act.

BUSINESS ENVIRONMENT AND DEVELOPMENT OF ENTREPRENEURSHIP

Improving the business environment and reducing the regulatory burden on business

The e-VEM project (online One-Stop-Shop) for individual private entrepreneurs was established in 2005 and has over 222 access points and online access points. All procedures that the users carry out online or at a VEM access point are free of charge. The e-VEM portal can also be used to obtain a craft permit. From July 2005 the number of entries of individual private entrepreneurs in the business register has been growing at an average monthly rate of 26%. The introduction of the system has cut the registration procedure for individual private entrepreneurs to one day, which will produce overall savings estimated at EUR 1.5 m.

The e-VEM project for companies is nearing completion; the launch of all procedures for the registration and operation of companies through VEM access points is scheduled for the beginning of 2008. The competent authorities have carried out all procedures to change the regulations to allow the realisation of all objectives of the project. All registration and disclosure procedures will be free of charge⁷⁹. The time needed to set up a company will be cut to four days, which includes registration and the actual start of operation.

Among the 222 access points in Slovenia, 38 local access points VEM operate under the cooperation of PAEFI.⁸⁰ They provide comprehensive support and consulting services for potential entrepreneurs and existing enterprises, including registration procedures and change of status. In 2006, the local VEM support network enabled the establishment of 2000 new enterprises, which received complete support services (checking the business idea, preparation of business plans, consulting in the initial phases of business operations).

An improvement in the principle 'Think Small First' was achieved in 2006 as well. The interests of the Chamber of Craft of Slovenia compiled in the Demands of Slovenian Craft and Entrepreneurship 2006 were, in close co-operation between the representatives of enterprises and the Government taken into account to a great extent.⁸¹

Promoting entrepreneurial development and innovation

⁷⁹ All information about company registration (when the business and companies' registers are amalgamated) will be public and accessible online for all users free of charge.

⁸⁰ All of the 32 VEM points are properly equipped to provide such services. They are co-ordinated by the PAEFI and are being upgraded for the registration of other companies at a single point, which is due to be completed in 2008.

⁸¹ Out of 120 demands, 56 were realised, partially realised, or in the process of realisation over the last year.



Numerous activities were under way last year which promoted the development of innovation and co-operation between education and industry. As part of the promotion of entrepreneurship, the first series of promotional and educational shows on entrepreneurship was aired on television in the 2006/2007 season. Seven innovative enterprises received start-up capital in the total amount of EUR 2 m and five university incubators were awarded EUR 1.77 m for enhanced transfer of know-how from education and research institutions to business and industry, and for the promotion of new, technologically advanced products and services.

In 2007 funds of the European Social Fund in the amount of EUR 3 m will be disbursed for mobility of staff from knowledge institutions to industry, and from large enterprises to SMEs. This will allow Slovenian companies to hire the best staff from Slovenia and abroad. The Resolution on National Development Projects 2007-2023 envisages the development of nine business hubs focused on providing support infrastructure and a critical mass enabling the economic breakthrough of individual regions and Slovenia as a whole.

Training for entrepreneurship

The introduction of entrepreneurship in the school curriculum continued apace in 2006 and specific action plans for individual education levels are currently being prepared. At the university students are joining in international entrepreneurial networks, while in secondary schools business camps are organised in a bid to nurture entrepreneurial understanding and culture. Plans are also under way for workshops promoting vocational programmes for occupations in shortage and occupations of the future.

Also in 2007 intensive entrepreneurial workshops are being organised for prospective entrepreneurs and enterprises already in operation, and models are being developed for ongoing support to special target groups (entrepreneurs younger than 35).

Access to finance for small and medium-sized companies

In 2005, the Slovenian Enterprise Fund (SEF) published five public calls to provide funds for SMEs. In the same year, the Fund provided funds on favourable conditions to 246 SMEs in the total amount of EUR 29.29 m, including 80 directly subsidised loans, six indirect loans for newly established enterprises, and 26 microcredits for small enterprises. The Fund participated in 57 projects as a guarantor for subsidised capital loans and co-financed 77 projects with direct subsidies.

The Slovenian Enterprise Fund upgraded the financial mechanisms for supporting SMEs in 2006 and is now making preparations for the establishment of a Public Venture Capital Firm. To improve access to start-up capital, the SEF in 2006 continued to grant loans to fledgling entrepreneurs and introduced subsidies for the launch of new innovative firms at university and business incubators and technology parks. Start-ups receive EUR 25,000 and they remain eligible for subsidies for two more years provided they invest in research and development. In 2006 the SEF disbursed EUR 34.19 m in funds on favourable conditions to 296 SMEs. In 71 projects the SEF acted as a guarantor for banking investment loans and in the remaining projects as a direct creditor for directly subsidised loans. The banks adjusted crediting to the needs of SMEs, offering below-market interest rates for loans secured with a SEF guarantee.

By the end of September 2007, the SEF tendered out a total of EUR 68.87 m of funds on favourable conditions for investments by SMEs. The SEF's guarantees for banking loans intended for investment and guarantees for the leasing of new technological equipment are designed to encourage the banking and leasing sector to provide ongoing support for development investments of SMEs. The SEF continues to provide start-up capital with direct loans to start-ups and subsidies for the launch of innovative companies in incubators and technology parks. Subsidies for technological and tourism investment by SMEs are



meanwhile part of the ongoing promotion of investment targeted at increasing value added per employee. In addition, the Fund is trying to increase co-operation with regional (guarantee) schemes for the promotion of investment in SMEs and will therefore continue the pilot project of post-guarantees for regional guarantee schemes.

In 2007 the Government adopted the Venture Capital Companies Act and introduced individual tax breaks for investment by venture capital firms⁸² in fast-growing SMEs. The purpose of the law is to define the legal status of venture capital firms in such a way as allow them to pool funds and invest them as venture capital in enterprises. A venture capital firm must invest at least 50% of its funds in SMEs after the first year of its operation, and a further 30% in private equity financing or loans to companies in which it has invested venture capital.

2008 will see the implementation of statutory as well as tax solutions for the promotion of equity financing of companies in Slovenia, which is expected to boost the supply of, and demand for, venture capital. Along with the legislative solutions, the government will establish a public venture capital firm which will on the basis of public-private partnership induce private venture capital firms to take up stakes in young, fast-growing innovative companies.

A public procurement portal established by the Ministry of Finance became operational in June 2007. In addition to reducing of administrative burden and modernising operations, it provides access to all information at a single point, and contributes to the lowering of costs and shortening of the time period for submitting tenders. All announcements on the portal are available free of charge and facilitate access to public procurement information, particularly for SMEs.

RESEARCH, DEVELOPMENT AND INNOVATION

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

In 2002 and 2003, when Slovenia set the objective to spend 3% of GDP on R&D by 2010, the official figures on gross domestic spending on research and development as a share of GDP were much higher than the figures in the latest official statistical data for 2006. One reason for the inconsistency is a revision of the data on GDP in the 2003-2005 period⁸³. Another reason is the divide between the first statistical estimates for 2003 and 2004 and the final data obtained from statistical research of R&D.⁸⁴ According to the latest official data, the share of gross domestic expenditure on R&D for 2003 and 2004 decreased compared to previous years, standing at 1.32% and 1.45%, respectively.

Table 6: Gross domestic expenditure on R&D as a % of GDP

GERD as a % of GDP	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
	1.33	1.31	1.37	1.41	1.43	1.55	1.52	1.32	1.45	1.49

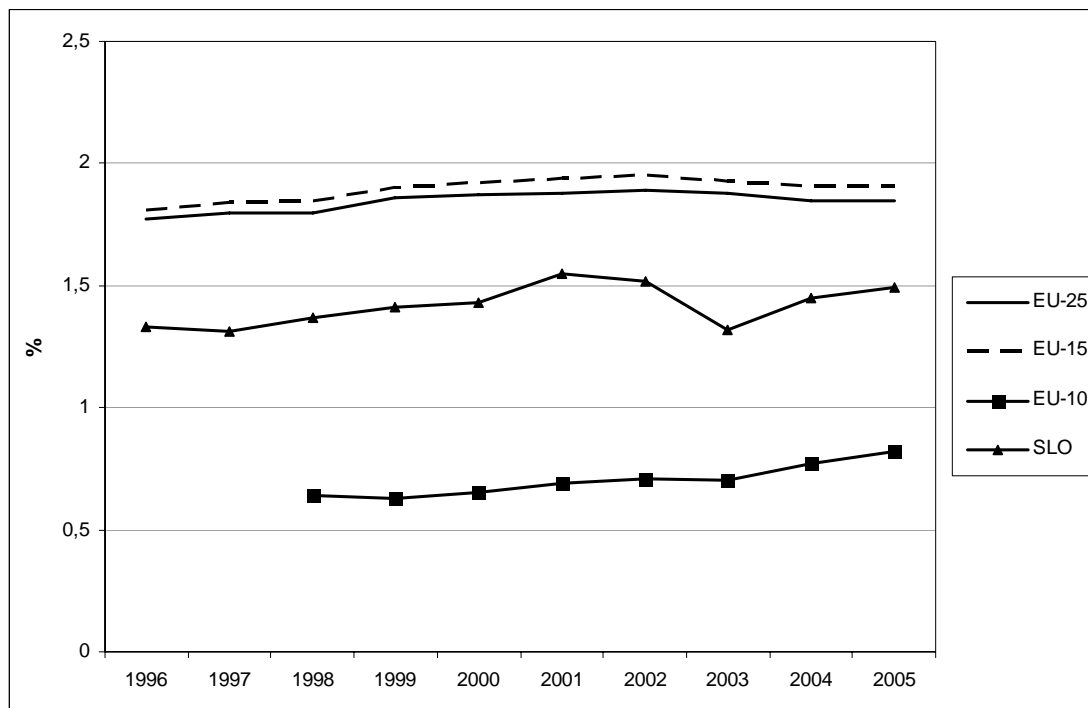
Source: Eurostat, SORS, September 2007

⁸² Venture capital firms established in Slovenia.

⁸³ 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.

⁸⁴ Until recently, only the estimates of the Statistical Office were available for 2003 and 2004 and they were based – in accordance with an agreement made at Eurostat – on the extrapolation of the average annual rate of real GERD (gross expenditure on R&D) 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 where their dynamics change, which is what occurred in Slovenia.

Figure 1: Gross domestic expenditure on R&D as a % of GDP for Slovenia, EU-25, EU-15, and EU-10, 1996-2005



Source: Eurostat, SORS, September 2007

According to the latest statistical data, public expenditure⁸⁵ or financing R&D in Slovenia in 2005 accounted for 0.52% 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.

The planned share of public expenditure on R&D in GDP (both from the national budget and EU funds) by 2009 is gradually increasing. The shares from 2006 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 broader relief was only introduced in 2006, evidence of its effects will be available in 2008. Expenditure on R&D is distributed among various departments and good co-ordination is necessary for the efficient use of such funds.

Gradually changing the structure of public expenditure on R&D

The baseline situation regarding the distribution of public funds for R&D between science and technology is unfavourable – the share of expenditure on technology was decidedly too low and accounted for 9% in 2004 and 12% in 2005. The 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 contractual obligations already assumed in previous tenders. In fact, until 2008 a large part of the

⁸⁵ 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.

Agency's⁸⁶ 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; in the future socio-economic relevance will also be considered in line with 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 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': the themes being put up for tender correspond to the NRDP priority areas and are defined in more specific terms by a priority task force comprising the heads of R&D at 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 they represent a new quality as all newly-financed basic projects were directed at research themes aligned with the corporate sector. In 2006 two public tenders for target research programmes were carried out: 'Knowledge for Security and Peace 2006-2010' (EUR 12.6 m until 2008) and 'Slovenian competitiveness 2006-2013' (EUR 10.9 m until 2008); in 2007 a new tender was completed for 'Knowledge for Security and Peace 2006-2010' (EUR 6.9m until 2009). The target research programmes thus combine Slovenia's scientific, defence and economic potentials.

EMPLOYMENT

Horizontal goals and measures in the field of employment

Within the Lisbon Strategy, Slovenia has set up ambitious goals to increase employment by 2010. To achieve these goals, intermediate goals will first have to be achieved by 2008:

1. *Achieving full employment*: (i) increase the employment rate to 67% by 2008; (ii) lower the survey unemployment rate to 5.5% by 2008; (iii) keep the female employment rate at least two percentage points above the EU-15 average and in two years achieve the EU-15 average for the male employment rate; (iv) lift the employment rate of older people to 35% by 2008; and (v) by 2008 create the conditions for the first employment of young people with a university or higher level of education within six months after they finish their studies.
2. *Improving the quality of jobs and labour productivity*: (i) raise the number of high-quality jobs; (ii) improve the adaptability of companies by enabling greater adaptability in terms of the number of jobs while at the same time providing a high level of labour market security; (iii) eliminate the disparities between the education system and labour market needs; (iv) encourage life-long learning and improve the possibilities of access to education and training, especially for less qualified and older workers in sectors undergoing restructuring; and (v) stimulate private investment in the knowledge and training of employees.
3. *Strengthening social and territorial cohesion*: (i) reduce regional differences in employment, unemployment, and productivity; (ii) prevent labour market exclusion and strengthen social inclusion, especially for vulnerable groups of people, such as the disabled, national minorities, and other groups.

The programmes of increasing the employability of unemployed and employed persons represent an important part of measures to raise employment. The active employment policy

⁸⁶ 37% of the entire budget and 67% of all expenditure on R&D in the Agency's budget until 2008.



programme covers four measures with specific activities representing basic areas for more precise instruments or programmes aimed at labour market intervention⁸⁷.

Table 7: The implementation of active employment policy measures in 2006

Measure	Number of newly included persons				Funds spent as % of funds intended
	Plan	Total realisation	Realisation by the ESF	Total realisation in %	
Measure 1: Vocational guidance and assistance in job-seeking	861,500	1,221,708	/	141.81	80%
Measure 2: Education and training	48,700	47,027	23,320	96.56	60%
Measure 3: Employment incentives	6,600	6,601	2,489	100.02	92%
Measure 4: Direct job creation	5,500	5,011	285	91.11	85%
TOTAL	922,800*	1,280,347**	26,094	138.75	/

Source: Employment Service of Slovenia, calculations by the Ministry of Labour, Family, and Social Affairs, September 2007

Note:

* The fifth experimental programme anticipated the inclusion of 500 persons, however, it was not implemented.

** The number includes all services and activities, including the telephone calls of unemployed persons at the Employment Service of Slovenia.

In 2005 and 2006 the projects of non-market employment programmes were implemented and the following results were achieved: in total 77 persons were employed – 21 in 2005 and 56 in 2006. As the plan was to employ 105 persons, 73% of the planned employment was realised.

In 2007 the active employment policy programme was prepared for a longer period. It covers measures for the 2007–2013 period and implementation plans for 2007 and 2008. In 2007 and 2008 active employment policy programmes anticipate 243,085 newly included persons and 46,726 exits into employment: (i) the measure Counselling and Assistance in Job Seeking anticipates 143,811 new inclusions; (ii) the measure Education and Training anticipates 73,004 new inclusions (and an estimated 21,901 exits into employment); (iii) the measure Stimulating Employment and Self-Employment anticipates 19,046 new inclusions and just as many exits into employment; and (iv) Programmes for Increasing Social Inclusion anticipate 7,224 new inclusions and 5,779 exits into employment (in 2007-2008).⁸⁸

Integration of young people in the labour market

In the active employment policy programme for 2006 young people were defined as persons with low employment prospects and as such a priority group for inclusion in active employment policy measures with the intention to eliminate structural labour market problems. In 2006, activities for young people were co-financed by the integral budget of the Republic of Slovenia and by the European Social Fund (ESF).

In 2006 the active employment policy structural funds measure 'Education and Training' – where young people have the priority – included 45,823 persons, while in 2007–2008 it

⁸⁷ (i) Counselling and assistance in job-seeking; (ii) Education and training; (iii) Stimulating employment and self-employment; and (iv) Programmes for increasing social inclusion; additionally, an experimental programme.

⁸⁸ According to the planned data from the implementation plan for 2007-2008 of the Active Employment Policy Programme 2007-2013, which was adopted by the Government of the Republic of Slovenia in November 2006.

should include 73,004 persons. Between January and April 2007 the measure included 3,699 new persons. Within the measure, several sub-activities took place which included formal education, courses, lectures, seminars, and other training programmes for acquiring additional or improving existing knowledge and skills. Additional sub-activities are: (i) project learning for young people as an encouragement for young people to return to education or find a job and raising the general education level; (ii) institutional education, so that a lack of knowledge and skills would no longer be an obstacle for a person's employment and professional development. In 2006, 3,121 first-time job-seekers represented 94.9% of all new inclusions; (iii) in-service training and integrated employment programmes co-financed by the integral budget and the European Social Fund (ESF). In 2006, 5,500 first-time job-seekers were included in this sub-activity, which accounted for 93% of all new inclusions, while 1,101 person aged under 25 represent 30% of all new inclusions; and (iv) formal education.

For 2007 the Employment Service of Slovenia set two goals: to reduce the number of young uneducated unemployed persons by 1,000 (to around 4,200) and to reduce the number of young first-time job-seekers with a university education by 300 (to 1,500). The structure of young unemployed persons under 26 years of age and first-time job-seekers changed in 2006; the share of first-time job-seekers fell from 25.0% in 2005 to 22.0% in 2006, while the share of young unemployed persons aged under 26 fell from 24.6% in 2005 to 19.4% in 2006.⁸⁹

The reduction of the share of young uneducated people is largely the result of successful activities aimed at motivating and counselling for education which concluded with the participation in the Programme 10,000 (in the 2006/2007 academic year 3,403 unemployed persons were included in the programme). In the first three months of the year, 4,208 unemployed persons were provided with individual vocational counselling; half of them were 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).

In 2007 the activities aimed at encouraging young people to enter the labour market for the first time are being co-financed by the ESF. It is expected that some 500 unemployed persons will be included in the programme.

To reduce the share of young unemployed persons, the Employment Service of Slovenia is carrying out the following activities in 2007: (i) within six months of registering as unemployed, young unemployed persons 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 persons without a vocational education to train for professions that are in short supply in the labour market, which will be provided through the participation of the career orientation department, and will provide around 15,500 services for the purpose of a more adequate planning of employment goals and greater activity in finding solutions to problems that hamper unemployed persons in finding employment. There will also be group-based motivation and provision of information in co-operation with the social partners, in particular employers; and (iii) for young people with higher education new group-based forms of work will continue to be developed and we will co-operate with career advisers at higher education institutions.

Within the Direct Job Creation measure, a sub-activity of local employment programmes – public works was carried out, aimed at increasing the labour and social inclusion of target groups of the unemployed. In 2006 the sub-activity included 1,020 young persons, 21 aged under 18 and 999 aged under 26.

⁸⁹ In both cases the share among all registered unemployed persons.

Due to a growing disparity between the supply of and demand for certain occupations of young people and the resulting unemployment, in 2006 the Ministry of Labour, Family, and Social Affairs in co-operation with the Ministry of Higher Education started promoting study programmes with better employment opportunities after studies are concluded.

Within the Experimental Programmes measure, in 2006 the Employment Service of Slovenia implemented a sub-activity Counselling Service for Successful Labour Market Entry, whose aim is to activate people's personal potential for an appropriate response to the labour market and active job searching. By developing the relationship of the included person vis-à-vis the labour market, it also contributes to employment socialisation of young unemployed persons. In 2006 this sub-activity included 200 people, of whom 100 were first-time job-seekers immediately after they had registered as unemployed in the register of the Employment Service. 20% of unemployed persons were employed immediately after the workshop.

With a view to implementing some special measures, in 2006 Slovenia established the Fund for Human Resource Development and Awarding Scholarships. The project of setting up this fund is one of the most important projects in the Resolution of National Development Projects 2007-2023. This is a public financial fund established with the intention to award funds for investing in human resources for greater employability, a competitive position, knowledge transfer, and the linking of the education system with labour market needs. Within the framework of the policy of awarding scholarships the fund will implement: (i) the co-financing of scholarships and scholarship schemes; (ii) educational loans; and (iii) other instruments confirmed in the fund's annual plan. By 2023, the planned financial resources for the fund amount to EUR 694 m (EUR 139 m from the EU – the European Social Fund). According to preliminary estimates, over 13,000 persons (in 17 years over 200,000 persons) will be included ever year.

Active ageing and employment of older people

Within the framework of the priority measure Developing Integrated Programmes for Employing Older People, new employment of older people is being stimulated as a sub-activity of the active employment policy for 2006, which is co-financed 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 not sought in the labour market. The objective of the measure is to increase the employment rate among older people, with the secondary goal being to improve the employability of people from the target group.

The activity Promotion of New Employment of Older People commenced in the second half of 2005. A total of 353 people were included by the end of 2006. The activity was repeated in 2007 and the inclusion of 240 people (from the 2004–2006 Single Programming Document) is anticipated. Between 2005 and the end of 2006 the activity Co-financing Costs of Stimulating Entrepreneurship included 3,416 persons. In 2007, ESF funds are planned to cover the inclusion of 760 people.

Older people are also included in local employment programmes – public works. One of the target groups of the public works programme in 2006 were persons over 50. In 2006, 1,339 unemployed persons over 50 were included in public works programmes, which was 28.4% of all persons (4,726) included in public works in 2006.

Having low employment prospects, older unemployed persons also have priority when participating in other active employment policy measures such as 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).

Within the Operative Programme of Human Resource Development in the new programming period (2007–2013), special programmes for eliminating labour market and employment discrimination will be implemented along with measures intended for the employment of older people.

Active ageing strategy

Due to its characteristics and development variables, the active ageing strategy is a living document that is being changed and amended, and due to the inclusion of measures related to European funds (Operative Programme of Human Resource Development) it is planned for the 2007–2013 period. In 2006 the Ministry of Labour, Family, and Social Affairs started preparing the national active ageing strategy, which represents an action plan of active ageing in the field of labour market and employment as well as a supplement to the »Strategy for the Protection of Older People by 2010«, which was adopted by the Government in September 2006 as the umbrella strategy enabling the preservation of solidarity and co-existence among older, middle-aged, and younger generations and quality ageing and care of the rapidly growing older generation. The target population of the active ageing strategy are people aged over 45. The most important goal of the active ageing strategy is to approach the Lisbon Strategy objective of a 50% average employment rate for older people (aged 55-64) by 2010. The strategy should be finished by the end of 2007. In 2006 the Employment Service of Slovenia started preparing a study on the employment of older people, which is still underway. The purpose of the study is to prepare the strategy of informing the general public and thus changing their prejudice and attitudes regarding older unemployed persons.

Long-term sustainability of the pension system

The pension system reform, which was enacted in 1999 and took effect in 2000, is yielding positive results. Without it the current and future fiscal positions would be considerably worse. The key changes in the pension reform of 1999 for the fiscal sustainability, part of which is being gradually enforced, are: (i) gradual raising of the full retirement age (to 61 years for women and 63 years for men). Retirement before this age results in a lower pension, while retirement after this age results in a higher pension. In the transition period until 2013 for women who will have a sufficiently long insurance period (which is being prolonged from 35 to 38 years) despite not yet reaching the full retirement age, the age at which the amount of the pension will not be reduced will be gradually increased from 53 years in 1999 to 58 years in 2014 and will thus become the same as for men. Other conditions under which insured persons can retire before reaching their full retirement age no longer exist. In this way the possibility of early retirement has been practically eliminated; (ii) a gradual lowering of total accrual rates as a result of the decrease in the annual accrual rate from 2.0% to 1.5% from 2000 onwards; (iii) a gradual prolongation of the reference period for calculating the pension from 10 to 18 best successive years of insurance; and (iv) a decrease in the annual indexations of pensions for old retired persons due to the levelling of their pensions with newly retired persons who have worse retirement conditions.

The beneficial effects of the measures were also visible in 2006; 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 continuing rise in the average retirement age since the start of the pension reform (2 years and 4 months between 1999 and 2006), the relatively steady and balanced number of pensioners (up 1.2% from 2005) and workers (up 1.5% from 2005), and the preservation of the ratio between workers and pensioners at the 2004 level (1.7:1). In 2006 the share of pensions in GDP remained roughly the same as in 2005 (10.62%).

Due to the urgency of changing and adjusting the pension system to the current demographic situation, Slovenia, like most other developed European countries, is preparing measures with which it will be possible to preserve the financial sustainability of the pension system in the forthcoming decades. This year the responsible expert group has already prepared draft

amendments to the Pension and Disability Insurance Act, but the proposal has not yet been presented to the social partners or discussed by the Government and the National Assembly.

The proposal covers measures that will increase or retain the current share of active insured persons, prolong the active period of each individual, and keep the appropriate ratio between the active and the retired population due to the adjustment of the system to the ageing population and other unfavourable demographic trends.

The proposal envisages a simplification of the existing bonus-malus system, which would stimulate active insured persons even more to stay employed after fulfilling the conditions to retire. According to the proposal, the decision of every person to stay employed should be stimulated with the possibility of flexible regulation of partial retirement for a minimum of two to a maximum of eight hours. The aim of supplementing the institute of voluntary entry into compulsory insurance is to eliminate the selective nature of access to this form of insurance, which was at first mostly intended for the socially most vulnerable persons. The proposed liberalisation of conditions for voluntary inclusion in compulsory insurance should provide for insurance and entitlement to benefits from the pension insurance system also for people performing occasional work who, according to the present system, cannot be included in pension insurance. In terms of greater flexibility of employing older people, benefits in the form of partial exemption from paying contributions are proposed for employers who would employ older people or keep them employed.

Active and protective measures for unemployed and inactive persons and creation of new jobs

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 directly created is public works, which are meant for the social and labour inclusion of people with the lowest employment prospects. A total of 4,726 people with the lowest prospects to find regular employment were included in public works programmes in 2006. Persons with low employment prospects are a priority target group of the active employment policy and all activities are intended for them, including activities representing subsidies and public works.

Investing in the training of unskilled workers is an additional goal of the Employment Service. For 2007 the goal is to reduce the number of uneducated unemployed persons by 4,000 (to around 26,800). In May 2007 the Employment Service's register of unemployed persons contained 27,669 persons without professional or vocational education.

To adapt the labour force to the current needs of the labour market, activities are aimed at the training and education of unemployed and employed persons, whereby special emphasis is placed on the promotion of programmes of education and training for occupations in shortage. In 2006, unemployed persons were included in the activity Formal Education, which is aimed at increasing the employability of unemployed persons, raising educational and qualification levels, and lowering the vocational structural disparity in the labour market and covers certified education programmes. The activity was primarily intended for unemployed persons without a professional or vocational education and unemployed persons with a professional or vocational education who cannot find employment in the relevant profession field and have been registered as unemployed for more than six months. In 2006, 1,347 persons were newly included (the 2005/2006 academic year).

Unemployed persons were also included in the activity of National Vocational Qualifications, which provides the participants with a public certificate of national vocational qualifications; these certificates prove the acquired professional knowledge and skills (professional or vocational qualifications) necessary to perform a certain occupation or individual duties within an occupation at a specific level. The aims are to increase the employability of unemployed persons, to improve their qualifications, and to reduce structural disparities in the



labour market. In 2007 the activity of acquiring national vocational qualifications and the activity of formal education continue to be implemented.

Job brokering in the labour market

Major support for the activity of job brokering and modernising the services of the national Employment Service involves the new services developed within the ESS' New Forms of Service Provision project. In this way the Employment Service of Slovenia has improved the information for unemployed persons about job vacancies by providing direct information about relevant job vacancies according to employment goals and by checking the interest for specific employment by SMS messages during the second half of 2006, and in May 2007 also via e-mail, which should increase the quality of job broking. The development of a new Internet service, which enables access to job vacancies via mobile terminal equipment (palm computers, GSM) with appropriate web browsers, is drawing to an end. The development of new web applications for collecting job seekers' CVs and job vacancies, which enable interactive links, is also in the final stage. Within this framework a web service for the transmission of data on job vacancies for the media, employment agencies, and other users has been developed as well as a web service for entities reporting to the Employment Service about the implementation of active employment policy measures and a web service for transmitting data on job vacancies for the exchange of data with public employment services in EU member states.

In the area of employment brokerage, the Employment Service also ensures 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 EURES⁹⁰ portal, it is contributing to the transparency of the labour market and a 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.

In its effort to modernise itself, in April 2005 the Employment Service of Slovenia started providing additional electronic services⁹¹ for the unemployed, employers, and institutions carrying out employment programmes. The modernisation also provided other electronic services to improve the efficiency of employment brokerage (e.g. SMS).

The Employment Service of Slovenia provides individual and group services (provision of information, counselling) to unemployed persons with a view to accelerating employment and improving employment prospects through active labour market policy programmes. One of the key tools it uses is the employment plan⁹², which also makes it possible to monitor the activity of the unemployed. To improve the co-operation with employers and provide assistance in meeting their needs, 1,376 visits to employers were carried out in 2005 and 2,459 in 2006. In conjunction with employers' associations and individual employers, in 2006 the Employment Service carried 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 employers and unemployed persons, training of unemployed persons). A total of 722 workers from other EU member states were referred directly to

⁹⁰ 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.

⁹¹ For unemployed persons (ordering certificates from the Employment Service records), for employers (job matching, dissemination of copyright data as required by law, annual employment plans, announcement of sponsorships), for 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).

⁹² 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.

Slovenian employers under the EURES system and 804 job-seekers from Slovenia were directly referred to other EU member states. At the same time, 19,084 counselling sessions on the free movement of labour were carried out, of which 4,405 were for employers. Another way in which the Employment Service is addressing labour market shortages is by issuing work permits and including the unemployed in active employment policy measures.

Within training and motivating employment counsellors, the Employment Service introduced novelties in serving clients on the basis of the modernised doctrine of working with unemployed persons within the following training programmes: (i) all employees of regional employment offices attended a one-day training course where they learned about the substantial changes based on the modernised doctrine; (ii) employment counsellors were trained for implementing the modernised information and motivation seminar for all persons newly registered as unemployed and for implementing group work with unemployed persons for preparing individual employment plans; (iii) training for classifying clients for providing further services at registration was implemented; and (iv) for all ESS employees training on the use of applied support in providing services was implemented and within this also on the use of new services (job brokering, informing by SMS messages and e-mails). The focus was put on introducing the new doctrine of work into practice, namely the preparation and implementation of training for service providers, IT support to more rapidly include unemployed persons in active job-seeking and a more rapid transition into employment, and providing assistance to clients depending on their needs. In the field of working with employers, the main orientation was to improve job brokering, where an important role is played by the use of the new service, informing and verifying the motivation of unemployed persons for specific employment by SMS messages via e-mail. In 2006 the first phase of serving clients according to the modernised doctrine of working with unemployed persons and employers was introduced.

In the labour market the activity of private job-brokering agencies is on the increase, which shows the rising need for more flexible forms of employment. One of the activities of such agencies is providing workers for other employers, which the agencies do by providing the employees employed by them on the basis of a special contract⁹³ to other employers. In addition to performing this activity, the agencies are engaged in providing temporary and occasional work for pupils and students, preparing employment plans, implementing active employment policy measures, and employment and job brokering. Many of these agencies are engaged in activities of job brokering and employing workers, in which employment has been growing in recent years; however, the extent of such employment is still small. Most of the employees are provided for manufacturing and production industries.

In 2007 the Ministry of Labour, Family, and Social Affairs adopted the Order on the Amount of Payments to Agencies for Job Brokerage to an Unemployed Person, in which the new amount of payment for job brokerage was determined. A job brokering agency that provides employment to a person who has been registered as unemployed for at least three months is provided payment for every job brokerage if the unemployed person concludes an employment contract. The amendment to the Employment and Insurance against Unemployment Act introduced many changes in the field of concessions since organisations and employers that provide employees to other employers will not need concession contracts but will have to be entered in the Register of Job Brokering Agencies before they start operating.

Labour market flexibility and mobility

With the changed employment relationships, the flexicurity approach is pursued as a model taken up by the European employment policy. To implement this concept, certain changes in

⁹³ Companies decide on such a form of temporary employment when the workload is greater due to seasonal needs, when more employees are absent, etc., since as a rule due to their extensive human resource databases the agencies can rapidly provide additional workers and thus rapidly respond to market changes.

labour legislation were necessary. The amendment to the Employment Relationships Act provides efficient solutions that motivate the internal flexibility of employees and labour market flexibility and provide for appropriate security of employment in a balanced way.

The main emphases of the measures are:

- *Greater internal mobility*; the possibility to employ a worker for a job or a certain type of work is more clearly regulated. In this way a more flexible employment relationship is provided since the work of employees can be adjusted depending on the needs of the work process.
- *Expanding the possibility of temporary employment*; expansion of the possibilities for temporary employment is proposed in cases when no candidate fulfils the required conditions for performing work, if there is a need to replace an absent worker, and in cases of employing management workers and employment for project work.
- *Enforcing the proportionality of rights in part-time employment*; the principle of the proportionality of the rights of part-time employees is more clearly provided, depending on working hours for which the employee is employed by the employer. The rights to receive pay for annual leave and a retirement bonus are pointed out.
- *Giving notice*; in connection with giving notice, changes are proposed that will provide a clearer regulation and more appropriate protection of workers.
- *Offering employment with another employer*; of special importance is the amendment which provides that in the case of giving notice to an employee the Employment Service or the employer can offer an employment contract with another employer already during the notice period on the condition that the offered employment is appropriate and permanent and that the other employer commits to take into account the seniority at the previous employer in case of a minimum notice period and the right to severance pay.
- *Shortening of the notice period*; it is proposed that notice periods in case of business reasons and reasons of incompetence be harmonised with the provisions of the Employment Relationships Act for giving notice for incompetence, which means a shortening of giving notice in the case of business reasons.
- *Decrease of severance costs*; employers' costs related to dismissing staff are reduced together with the proposed shortening of the notice period. As regards the costs that are the burden of the employer on account of paid severance to surplus workers, other solutions have to be emphasised which in practice can contribute to the reduction of employers' burden for paying severance. These solutions mostly refer to providing the possibility of greater internal mobility of employees, motivation of employers for training and retraining of employees, the possibility of reassignment of employees who were given notice at another employer, a greater possibility of temporary employment, and more flexible security against giving notice for older employees.
- *Reconciliation of work and family life*; additional mechanisms for easier reconciliation of work and family life are being set up for possible adjustment of working hours to the needs of workers who are parents if the work process allows, by regulating the right of workers with school children to use at least one week of leave during school vacation, and expanded and more clearly determined special protection from giving notice to employees who are parents.
- *Remuneration for work*; a clearer regulation of the right to wage compensation for employees; the profit sharing of employees should be regulated by a special act; the regulation of the payment for trainees should also apply to cases when the employment contract is concluded for the purpose of job traineeships or retraining.

ENVIRONMENTAL PROTECTION POLICY

Energy Efficiency and Renewable Sources

Particular programmes relating to environmental protection and sustainable energy use have already been or will shortly be prepared: the Operational Programme for Environmental and Transport Infrastructure Development, the Operational Programme for Energy Efficiency, and the Operational Programme for the Utilisation of Wood Biomass for Energy Purposes.

The Operational Programme of Environmental and Transport Infrastructure Development encompasses the Sustainable Energy Programme, i.e. one of the major national projects set out in the Resolution on National Development Projects 2007-2023. The Programme focuses on three main investment areas: (i) energy efficiency rehabilitation and sustainable construction of buildings in the public sector; (ii) greater efficiency of electricity use in all sectors; and (iii) modern distributed (local) systems for energy supply, particularly those that use renewable energy sources and those that co-generate heat and electricity. The above priorities are planned to be facilitated with demonstrative and model projects as well as intense awareness-raising, informing, training, and energy counselling. It is estimated that the resources available for the Sustainable Energy Programme will suffice to meet 40% of the targets arising from the planning documents and directives that are in force in the area of energy efficiency and renewable sources. The Programme will be co-financed from the Cohesion Fund in the amount of EUR 159.88 m (85%), while the remaining EUR 28.2 m (15%) will be provided in the national budget.

In November 2006, the Act Amending the Energy Act was adopted, transposing the Directive on Energy Performance of Buildings into national legislation. In addition, Slovenia also participated in the project of a joint action regarding the transposition of the energy-efficiency directive organised by the European Commission within the 'Intelligent Energy – Europe' programme. In line with Directive 2006/32/EC on Energy End-use Efficiency and Energy Services⁹⁴, a draft Operational Programme for Energy Efficiency 2006-2016 has thus been prepared and is planned to be adopted in the autumn of 2007. Further, the Operational Programme for the Utilisation of Wood Biomass for Energy Purposes 2007-2013 (OP ENLES)⁹⁵ has been drafted and is currently in the phase of inter-ministerial co-ordination. The Programme aims at increased use of wood biomass in the production of heat and electricity. It also includes so-called horizontal programmes, covering education and training; quality assurance in the preparation and implementation of projects and the appropriateness of wood biomass; and research, technological development, and the development of entrepreneurship.

As regards the management of the negative impacts of energy production on the environment – considering all the environmental strategies and regulations – the following targets have been set out in the National Energy Programme:

- Improve the efficiency of energy use – by 2010 over the base year of 2004: (i) in industry and the service sector: by 10%; (ii) in buildings: by 10%; (iii) in the public sector: by 15%; and (iv) in transport: by 10%.
- Double the amount of electricity from co-generation from 800 GWh recorded in 2000 to 1,600 GWh by 2010.
- Increase the share of RES in the primary energy balance from the 8.8% recorded in 2001 to 12% by 2010: (i) in space heating: from the 22% recorded in 2002 to 25% by 2010; (ii) in electricity production: from the 32% recorded in 2002 to 33.6% by 2010; and (iii) in transportation: up to 2% share of biofuels by the end of 2010.

⁹⁴ According to this Directive, each EU member state must achieve the cumulative final energy savings of 9% in 2008-2018. In doing so, it must demonstrate above-average results in the public sector, which should serve as a model for the others.

⁹⁵ The estimated value of investments within the OP ENLES totals EUR 201 m, out of which EUR 67 will be granted from the national budget. The Programme is scheduled to be adopted by the Government in the autumn of 2007.

At the 2007 spring European Council summit, Slovenia also affirmed the target of achieving a 20% share of renewable energy sources in total energy consumption in the EU by 2020, and the minimum target of 10% for the share of biofuels in the total petrol and diesel consumption in transportation within the EU by 2020.

Reduction of greenhouse gas emissions; maintenance and improvement of ambient air quality

In December 2006, the Slovenian Government adopted the Operational Programme for the Reduction of Greenhouse Gas Emissions by 2012. Given the main sources of greenhouse gases in Slovenia, the Programme's measures for reducing emissions within individual sectors are the following:

- Electricity and heat production: (i) renovate thermal power plants; (ii) broaden the extent of combined production of heat and power in district heating systems through technological modernisation and fuel substitution; (iii) increase the production of electricity from renewable sources by renovating and building hydro power plants, and utilising biomass and wind energy; and (iv) promote trade with GHG emission allowances by allocating fewer rights than planned by energy companies.
- Industry and construction: (i) decrease energy intensity in industry through various market mechanisms (excise duties, environmental tax on air pollution with CO₂, financial incentives and soft loans for investments, voluntary programmes such as 'GreenLight' and 'MotorChallenge', the EMAS and ISO 14001 certificates, introduction of energy management practices) and regulations (adaptation to the best techniques available); (ii) promote co-generation of electricity and heat by guaranteeing fixed electricity feed-in tariffs; (iii) increase the share of renewable energy sources and fuel substitution through financial incentives, soft loans, and GHG emission allowances trade; and (iv) promote trade with GHG emission allowances.
- General energy consumption: (i) improve the energy performance of buildings and of cooling and heating systems with subsidies for investment (Sector for Energy Efficiency and Renewable Sources Activities, MESP) and soft loans (Environmental Fund of the RS), and in the public sector also with guaranteed energy performance savings contracts and green public procurements; (ii) boost the use of RES and the rate of substituting high carbon content fuels with low carbon content fuels in households and in the service sector for the heating and preparation of sanitary hot water; (iii) promote combined heat and power production and electricity production from renewable sources in buildings of general use, residential areas, farms, landfills, wastewater treatment plants; and (iv) increase the energy efficiency of electricity use in households, public buildings, and service industries.
- Transport: (i) gradually reduce specific emissions (kg CO₂/km) from new cars (an obligation of car manufacturers); (ii) promote public passenger transport: cross-finance public passenger transport and develop appropriate infrastructure for public passenger transport; (iii) intensify the redirection of transit traffic from roads to railways, modernise the railway network; (iv) substitute fossil fuels with biofuels: to a minimum share of 1.2% in 2006, 2% in 2007, 3% in 2008, 4% in 2009, and 5% in 2010; and (v) purchase emission reductions outside the RS, particularly for emissions from the transit of heavy-duty vehicles over Slovenia.
- Industrial processes, use of solvents and coatings: (i) close down Electrolysis B in Talum; (ii) reduce the leakage of cooling substances from cooling, refrigerating, and air-conditioning devices and remove cooling substances from discarded devices; and (iii) trade with GHG emission allowances.
- Waste: promote (i) degasification and incineration, the use of landfill gas or its utilisation for energy purposes; (ii) the separation of waste fractions and their recycling; (iii) composting; and (iv) separate collection of organic kitchen waste to produce biofuel from it, and the production of biodiesel from waste cooking oils and fats.



- Agriculture: (i) promote the production of biogas from animal excrement and outdoor cattle breeding; and (ii) ensure economical fertilisation of agricultural crops with nitrogen.
- Carbon sinks in forests: in Slovenian forests, 3.4 to 4.4 times more CO₂ is accumulated than the allocated quota of sinks under the Kyoto Protocol currently allows. If we wish to maintain the recognised CO₂ sinks due to the accumulation of growing wood stock, at least 10% to 15% of the wood increment should continue to be annually accumulated in Slovenian forests in the future. Given that demand for wood is continually growing, it can be expected that the intensity of tree-fellings will increase in the future.

In October 2006 the Government adopted the National Plan for the Allocation of Emission Coupons for the 2008-2012 period⁹⁶, on whose basis emission coupons will be allocated to certain operators of installations that by 1 January 2006 had acquired GHG emissions permits and operating permits in accordance with the regulations on the construction of buildings, i.e. 95 installations emitting GHG.

The global amount of emission allowances to be allocated to operators in the 2008-2012 period totals 41,494,687 tCO₂ (1 emission allowance = 1 ton CO₂) or 8,298,937 tCO₂ annually on average, out of which 5,817,000 tCO₂ will be allocated to thermal power plants, 205,853 tCO₂ to heating plants, and 2,144,596 tCO₂ to industry. 1.6% (i.e. 657,442 tCO₂) of the total amount of emission allowances has been set aside for new installations. The total amount of emission allowances allocated will be allocated to the operators of installations free of charge.

In January 2007 the Government adopted the Operational Programme for Complying with the National Emission Ceilings for Atmospheric Pollutants (a revision of the 2005 programme), thereby fulfilling its obligations to achieve environmental objectives according to Directive 2001/81/EC. To reduce the negative impacts on the environment, Slovenia must achieve the emission ceilings prescribed by the NEC ordinance by 2010. The adopted Operational Programme includes a set of measures aimed at achieving this target by 2010.⁹⁷

Environmental awareness-raising and education

As regards environmental awareness-raising and education, it is particularly non-governmental organisations that play an important role. In 2006-2007, EUR 175,000 was earmarked for the co-financing of their programmes. In the area of efficient energy use and renewable energy sources, 27 projects covering the dissemination of information and educational, awareness-raising, and promotional activities were approved to be co-financed in the amount of EUR 70,000. The selected projects are aimed at: motivating commercial companies to introduce energy management practices and modern energy technologies, promoting EEU and RES in public buildings and local communities, promoting economical driving as part of road transport, and disseminating information, educating, and raising awareness on EEU and RES in schools.

In addition, the Ministry itself performs certain programmes and projects intended to raise environmental awareness such as: (i) the Eco-Schools Programme (EUR 12,581 annually); (ii) the website 'Slovenia is reducing CO₂ levels' (set up in 2006); (iii) the publication 'You have the power. Now show wisdom. On climate change' (published in December 2006, republished in March 2007); (iv) the publication 'Recommendations of the Minister on the preparation of municipal environmental protection programmes' (March 2007); (v) the

⁹⁶ The European Commission approved the content of the Plan by a Decision issued on 5 February 2007. In May 2007 the Ordinance on the National Plan for the Allocation of Emission Coupons for the 2008-2012 period thus entered into force in Slovenia; it was amended in July 2007.

⁹⁷ The set of measures includes: the desulphurisation of smoke gases in the Trbovlje Thermal Power Plant, reduction of the sulphur content in liquid fuels, adaptation of industry to the best techniques available, reduction of road transit traffic growth, and others.

bulletin 'Be efficient with energy'; (vi) the Government's website containing information on the MESP's calls for applications and programmes relating to EEU and RES, as well as a large quantity of information (energy library) on the EEU and RES measures, on energy technologies and energy management, and on regulations and programmes in Slovenia and the EU.

APPENDIX 3 – Public Debate in 2007 (Consultation with interested stakeholders)

The Government decided to organise a public debate on the Reform Programme for Achieving the Lisbon Strategy Goals before its final adoption. 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 and Economic Council, and at the session of the Sustainable Development Council in September 2007. The document was presented by the National Coordinator for the Lisbon Strategy, Dr. Žiga Turk, minister without portfolio at the Government Office for Growth. He presented the status and the content of the document and highlighted key future challenges for Slovenia. 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, Family, Social Policy and the Disabled discussed the draft Report on the Implementation of the Reform Programme for Achieving the Lisbon Strategy Goals.

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, ongoing activities and activities awaiting realisation. Further, they were happy to learn that this year the government would submit the draft Implementation Report to the committees on time, i.e. before sending it to the European Commission. This would allow the committees to actively participate in drafting the final version of the text. Nevertheless, they believe that certain chapters are not sufficiently critical, and that the Report should focus on areas where progress has been weak. Above all, the Government should pay attention when adopting legislative acts which worsen the financial situation for the poorest segments of the population.

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

- the problem of inflation and consequently the decrease in the real value of wages. They also raised the issue of the potential wage/price spiral;
- the issue of the long-term sustainability of public finances related to the pension reform. In this context, the Government should consider the ways of ensuring sufficient flexibility allowing for transition and working arrangements for extended possibility of work, particularly for older workers;
- insufficient market regulation (the overly passive role of the Competition Protection Office and other sector regulators) which, in their opinion, hinders competition and consequently raises prices;
- the slow privatisation and withdrawal of the state from the economy. Some representatives highlighted the need for selective withdrawal of the state as successful companies should remain Slovenian-owned;
- insufficient emphasis on knowledge in the Report as it is an important factor in reaching the set objectives of the Lisbon Strategy. The desire for increased competition in this field should not reduce quality;
- linking the education sphere and the corporate sector
- the issue of the legislation which governs social transfers to households and the possible problems that might arise from its adoption. According to a representative of the



Employment and Social Protection Committee, social transfers are particularly important for people with low income;

- the issue of modern welfare state and the threat of rising poverty levels;
- overly segmented labour market, which is very flexible in some areas (student work) and highly rigid in others (fixed-term contracts);
- the issue of employment of young employees and their integration in the labour market.

Economic and Social Council

The social partners were acquainted with the Implementation report at the September session of the Economic and Social Council and agreed that the document presented a realistic overview of implementation of the Lisbon programme. The trade unions repeated that active participation of all social partners is necessary in drafting future Reports. The fact that trade unions and employers are actively engaged in the process through the Economic and Social Council was emphasised.

An important achievement in the cooperation of social partners (employers and trade unions) was achieved with the signing of the new Social Agreement 2007-2009. Social partners see the chapter on wages as the most important chapter of the agreement. Wages will increase in real terms until 2009. Inflation and productivity will be taken into account in wage negotiations.

The trade unions highlighted several key issues in the Report:

- they expressed disagreement with the finding that the euro has not influenced price rises. In addition, wages did not follow the increased inflation;
- the Social Agreement is an important achievement; however, this is not visible enough or fully reflected in the Report;
- trade unions were actively involved in social dialogue; they prepared numerous proposals and opposed certain proposals brought forward by the Government which is not reflected in the Report (e.g. opposition of trade unions to the first draft tax reform);
- the Act Regulating the Minimum Wage needs to be amended in agreement with all social partners;
- they gave a positive assessment of the promotion of adaptability and mobility of the labour market, particularly in the view of the new Employment Relationship act;
- the existing Pension Reform adopted in 1999 is producing good results and should not be amended without the participation of the social partners. They emphasised that the incentives for extended possibilities of work should be positive rather than negative. In addition, the announced amendments to the Pension Reform have not been forwarded to social partners yet;
- the workers' interest in privatisation of large and strategically important companies in Slovenia should be taken into account;
- the truthfulness of data on the active employment policy funds is questionable;
- employability of young workers is justifiably highlighted in view of the solutions proposed by the signed Social Agreement. In this context, young workers are at a disadvantage due to the increase of short-term employment (e.g. self-employment). The level of fixed-term employment is too high and negatively affects the labour market.

Employers, on the other hand, endorsed the report and expressed the view that certain changes announced in the reform programme were being delivered at too sluggish a pace. Representatives of the Chamber of Commerce and Industry emphasised that they had prepared their own programme of achieving the goals of the Reform Programme in March 2006. The employers also stressed the lack of visibility of the new Social Agreement adopted by all social partners.



The main points raised by employers were:

- measures and activities of the Government in the field of reducing administrative burdens and improving the functioning of support institutions are commendable but not sufficient for the growth of SMEs. Appropriate financial support should be provided particularly in the form of venture capital to boost growth and development of enterprises;
- high prices of land plots and a limited supply of suitable industrial centres present an important hindrance for the development of entrepreneurship;
- progress has been made in the area of taxation; however, little has been achieved for the micro enterprise sector. In addition, a few representatives of different chambers highlighted the abolition of tax relief for investment;
- the agreement on and adoption of the Employment Relationship Act is not enough for a more effective labour regulation. The new focuses on the internal mobility of workers within an enterprise, which does not ensure sufficient flexibility and will make no difference for small enterprises;
- efforts of civil society and the Government regarding consumer protection are moving in the right direction.

The representatives of the unemployed highlighted the issue of the unemployed, who are not captured in official registers, as well as undeclared work, which, in his opinion, remains an important issue in Slovenia.

Sustainable Development Council

The Sustainable Development Council is the government's main consulting body for sustainable development and is intended as a forum for dialogue with civil society on all key development issues. The Report on the Implementation of the Reform Programme was presented to the Council at its September session, headed by the Minister at the Government Office for Growth since April 2007. Employment was the main topic of the discussion. They emphasised the issue of gender equality in the labour market and employment of women which are still present in Slovenia. In addition, the number of workers employed in the civil society sector in Slovenia is lower than in other countries, and that the Report should be more critical with regard to this issue.

Representatives of municipalities emphasised again that municipalities were important partners in achieving the Lisbon Strategy goals and the implementation of the programme at the micro level.



APPENDIX 4 – Structural indicators

Table 7: Lisbon process structural indicators (14) – Slovenia's profile and changes compared to the year before

LISBON PROCESS STRUCTURAL INDICATORS (14) – SLOVENIA'S PROFILE AND CHANGES COMPARED TO THE YEAR BEFORE		
	SLOVENIA IS ABOVE 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, 2006 (SLO: 66.6%, EU-25: 64.7%, EU-15: 66%) ❖ Long-term unemployment rate, 2006 (SLO: 2.9%; EU-25: 3.6%, EU-15: 3.1%) ❖ Business investment⁹⁸, 2006 (SLO: 25.8% of GDP; EU-25: 17.4% of GDP, EU-15: 17.4% of GDP) ❖ At-risk-of-poverty rate after social transfers⁹⁹, 2005 (SLO: 12%, EU-25: 16%) 	<ul style="list-style-type: none"> ❖ GDP per capita in PPS, 2006 (EU-25=100) (SLO: 83.6, EU-15: 107.8) ❖ Labour productivity in PPS, 2006 (EU-25=100) (SLO: 80.4, EU-15: 106.3) ❖ Employment rate of older workers, 2006 (SLO: 32.6%; EU-25: 43.6%, EU-15: 45.3%) ❖ Gross domestic expenditure on R&D, 2005 (SLO: 1.49% of GDP; EU-25: 1.85% of GDP, EU-15: 1.91% of GDP) ❖ Energy intensity of the economy,¹⁰⁰ 2005 (SLO: 320.48 kgoe/1000 EUR; EU-25: 204.89 kgoe/1000 EUR, EU-15: 184.85 kgoe/1000 EUR)
DETERIORATION (FROM THE YEAR BEFORE)	<ul style="list-style-type: none"> ❖ Youth education level,¹⁰¹ 2006 (SLO: 89.4%; EU-25: 77.7%, EU-15: 74.8%) ❖ Comparative price levels, 2006 (EU-25=100) (SLO: 74.9, EU-15: 103.7) 	<ul style="list-style-type: none"> ❖ Greenhouse gas emissions, 2004 (1990=100) (SLO: 99.2, EU-25: 92.7, EU-15: 99.1) ❖ Volume of freight transport relative to GDP, 2004 (1995=100) (SLO: 111.0, EU-25: 104.6, EU-15: 104.9)

Source of data: Eurostat, New Cronos Database, September 2007.

Note: data for Slovenia on the regional variation in employment rates are unavailable. The table does not include data for the EU-27 due to incomplete data and because Bulgaria and Romania were not EU members in 2006.

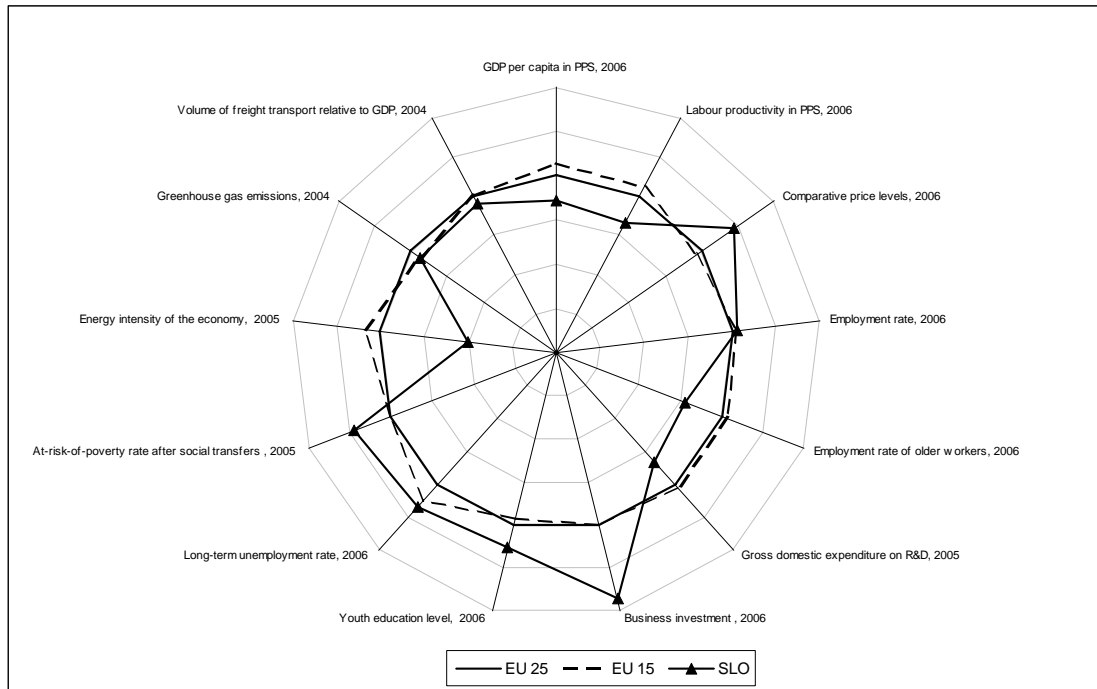
⁹⁸ The share of GDP allocated for investment by the private sector. Data for the EU-25 and the EU-15 are for 2005.

⁹⁹ In 2005 Slovenia first used a new methodology for data from 2004 (EU-SILC), which is not comparable with the previous methodology. Therefore, there is a break in the series in 2005.

¹⁰⁰ Data for the EU-25 are for 2004.

¹⁰¹ The share of the population aged 20 to 24 with at least a secondary education.

Figure 2: Lisbon process structural indicators – Slovenia's relative position in comparison with the EU-25, EU-15, and EU-10



Source of data: Eurostat, New Cronos Database, September 2007.

Note: the scale is relative; more means better. Data for Slovenia on the regional variation in employment rates is unavailable.