



REPUBLIC OF SLOVENIA

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

Ljubljana, October 2005

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I. SLOVENIA'S STRATEGIC CHALLENGES

EU membership has placed Slovenia within a new institutional and development framework whereby the conditions and methods for achieving its national development have changed fundamentally. Slovenia as an EU member has to reconsider its strategic position within a broader global framework. It must identify its existing weaknesses and development opportunities and respond to them with an appropriate strategy. Slovenia must find ways to achieve its national goals in a sustainable way and in line with the common European regulations, policies and strategies, primarily the revised Lisbon Strategy. We must find answers to the questions of how to speed up Slovenia's economic development within the EU, ensure higher employment and social security, improve the environment, preserve nature and use the natural resources in a sustainable way.

The answers to these questions have been provided by Slovenia's Development Strategy (SDS), a document adopted by the Government of the Republic of Slovenia in June 2005, setting out the vision and priorities of Slovenia's development. At the forefront of the new Strategy is the overall welfare of each individual. The SDS therefore focuses not only on economic issues but also on social, environmental, political, legal and cultural matters. Due to such a prioritisation of the objectives, the SDS also serves as Slovenia's strategy of sustainable development. At the same time, it integrates the Lisbon goals within the national setting, bearing in mind Slovenia's specific development opportunities and setbacks.

The SDS was adopted on the basis of a broad consensus and comprehensive public debate that involved public stakeholders. In 2005, several public discussions on the draft SDS were organised within individual organisations (consultations held by the President of the Republic, the Sustainable Development Council, the Economic and Social Council, the Chamber of Crafts, the Chamber of Commerce and Industry, non-governmental and regional organisations).

After adoption of the SDS the government established the Committee for Reforms, a task force comprising some 150 experts from universities, enterprises and the civil service, and commissioned it to put forth specific measures for implementation of the SDS in the areas of competition, higher economic growth and employment. The Committee submitted the first draft of the proposed economic and social reforms aimed at raising the competitiveness of the Slovenian economy in October 2005. The objectives and measures of the Reform Programme for Achieving the Lisbon Strategy Goals in Slovenia are consistent with the SDS and incorporate the Committee for Reforms proposals¹.

In the transition period, Slovenia achieved stable economic growth while it avoided major macroeconomic imbalances and maintained comparatively good results in its social development. The chief drawbacks of the development seen so far include an overregulated economy, weak entrepreneurial development and the economy's low level of innovativeness, the modest efficiency of investment in research and development, a too rigid labour market and an insufficiently stimulative system of social transfers. In order for Slovenia to achieve the Lisbon Strategy objectives, it must therefore carry out structural reforms that will strengthen the competitiveness of its economy and raise its employment levels.

The Reform Programme for Achieving the Lisbon Strategy Goals is the government's response to these challenges, setting out measures aimed at stimulating the economy's restructuring and liberalising the economy even further, and measures aimed at boosting

¹ The effects of the proposed comprehensive reform programme on economic growth are expected to yield positive effects already in 2007, albeit they cannot be quantified at this point. The estimated effects of the reforms after 2007 will, however, be considered in the preparation of projections for 2008 and the Convergence Programme 2005.



economic growth and employment. By the end of 2005, the Reform Programme will be debated publicly in the National Assembly and in the Economic and Social Council. If deemed necessary, the Programme will consequently be amended by incorporating the outcomes of the debate.

II. DEVELOPMENT OBJECTIVES AND PRIORITIES

The main objectives of Slovenia's Development Strategy are the following: (i) exceed the average level of the EU's economic development (measured as GDP per capita in PPP) and increase employment in line with the Lisbon Strategy goals in the next ten years; (ii) improve the quality of living and the welfare of each individual, measured by the indicators of human development, health, social risks and social cohesion; (iii) enforce the sustainability principle as the fundamental quality criterion in all areas of development, including the goal of sustained population growth; and (iv) to develop into a globally recognisable and renowned country through a characteristic development pattern, cultural identity and active engagement in the international community.

In order for Slovenia to achieve these ambitious goals it needs to prepare and deliver sweeping structural reforms and upgrade its existing development pattern. The SDS defines five development priorities for the achievement of these objectives.

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

- foster entrepreneurial development and increase competitiveness
- increase inflows of development-promoting domestic and foreign investment
- support the economy's internationalisation
- increase the competitiveness of services
- successful participation in the exchange rate mechanism ERM II and adoption of the euro.

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

- raise economic efficiency and the level of investment in research and technological development
- improve the quality of education and encourage lifelong learning.

The third development priority: an efficient and less costly state

- increase the institutional competitiveness and efficiency of the state
- restructure public finance to enhance their developmental role
- ensure a better operation of the judicial system.

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

- improve labour market flexibility
- modernise social protection systems
- reduce social exclusion and poverty risk.

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

- sustained population growth
- balanced regional development
- ensure optimal health conditions



- improve spatial management
- integrate environmental standards with sectoral policies and consumption patterns
- develop the national identity and culture.

III. MEASURES FOR IMPLEMENTING THE LISBON STRATEGY IN SLOVENIA

Measures aimed at achieving the Lisbon Strategy goals are divided according to the five development priorities defined in Slovenia's Development Strategy. They cover all Integrated Guidelines for growth and employment while they also respond to EU recommendations given to Slovenia so far. The links between the measures and the Guidelines and Recommendations are shown in the Annex.

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

The proposed measures are intended to stimulate the economy's competitiveness and raise economic growth rates. By implementing the planned measures we primarily aim to promote faster development of entrepreneurship and small and medium-sized enterprises, create a more business-friendly environment, and increase the inflows of development-supporting domestic and foreign investment. Public utilities and network industries should be made more efficient through measures that will liberalise these services and enhance their competitiveness. These include better utilisation of the communication infrastructure of all utilities, the market-oriented restructuring of the energy sector and competitive end-user energy supply, and competitive transport and logistical services. At the same time, these reforms must take place in a stable macroeconomic environment that will enable the adoption of the euro in 2007.

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

The stable macroeconomic environment of 2004 and the macroeconomic policy-makers' firm commitment to co-ordinated action in the Programme for Entering the ERM II and Introducing the Euro, adopted in November 2003, enabled Slovenia to join the Exchange Rate Mechanism ERM II already at the end of June 2004. Provided that it meets the formal convergence criteria, Slovenia is thus expected to enter the EMU by the beginning of 2007. The decision in favour of the ERM II had a positive effect on the government's economic policy measures, notably in administered prices and incomes, and on the efficient co-ordination with the Bank of Slovenia which was reflected in the inflationary decline seen in 2003 and even more in 2004 and 2005. In the course of preliminary activities for entering the ERM II, the Bank of Slovenia gradually reduced interest rates and decelerated the tolar's depreciation. This also relieved inflationary pressures generated by the tolar's depreciation in the past few years.

The primary goal of economic policy in the next year and a half is to achieve sufficient nominal convergence to enable the adoption of the euro at the beginning of 2007. At the end of 2004, Slovenia fulfilled three out of the five Maastricht criteria, noting that the criterion of the stable exchange rate (requiring the tolar's exchange rate to remain stable for a period of two years) could not be fulfilled since Slovenia has only participated in the exchange rate mechanism since June 2004. Both fiscal criteria were met in 2004 (the budget deficit relative to GDP totalled 2.1% and hence did not exceed the permitted 3%, while public debt at 29.8% of GDP was way below the upper ceiling set at 60% of GDP). Slovenia also complied with the required level of interest rates while it failed to meet the price stability criterion. Average inflation (HICP), which totalled 4.3% at the end of July 2004 following Slovenia's entry to

the ERM II, declined to the level of 2.7% by September 2005², while at the year-on-year level it has been comparable to the average EU inflation since May 2005. An even faster slowdown of inflation was prevented by the oil price hike seen in the global markets in 2005, whose impacts were partly cushioned by the government's counter-cyclical adjustments of excise duties on liquid fuels.

The expected economic developments in the period ahead of the euro changeover are relatively favourable. Economic growth in 2005 will be slightly lower than in 2004 (4.2%) but will still remain relatively strong (3.9% according to the autumn forecast). Despite the expected slight slowdown in the growth of total export demand, the positive contribution of international trade to economic growth (1.4 p.p.) will increase substantially (-0.4 p.p. in 2004). The contribution of domestic consumption to economic growth (2.5 p.p.) will be lower than last year (4.6 p.p.), largely due to the expected lower accumulation of inventories and slightly slower growth of gross fixed capital formation. Private consumption growth in 2005 will strengthen some more over 2004 (3.6% over 3.1%) although it will not exceed the aggregate GDP growth and will thus remain within sustainable macroeconomic limits. Similar economic trends as in 2005 are also expected in 2006 (4.0% growth has been forecast this autumn). Within that, the relative contribution of domestic consumption to growth (3.2 p.p.) will be higher than this year, mainly as a result of the faster growth of total investment consumption (including changes in inventories), since the growth of private consumption is anticipated to soften slightly. On the other hand, the contribution of international trade, while remaining positive given the expected favourable conditions in the international environment (0.8 p.p.), will be slightly lower than this year.

The continued coherent implementation of macroeconomic policies will be vital for Slovenia's successful entry to the EMU. First and foremost, the inflation criterion must be met by the middle of 2006. To achieve this aim, it is essential to keep the exchange rate stable and to gradually reduce interest rates and narrow the general government deficit. Supported by the government's and the Bank of Slovenia's coherent macroeconomic policies and the increased competition resulting from EU membership, the Maastricht price stability criterion is deemed achievable in the first half of 2006 despite the pressure of oil prices on consumer price rises. Monetary policy can contribute to the achievement of this goal especially by keeping the tolar's exchange rate stable while other macroeconomic policies must support these efforts. At the same time, the Bank of Slovenia should harmonise its interest rates with those of the euro area; here the key policy will be to preserve the consistency between inflation cuts and the lowering of interest rates, i.e. to keep the real interest rate stable. The government must continue pursuing the adopted policies in order to meet the Maastricht criterion. Co-ordination between the government and independent regulators involved in price-determining in telecommunications, post and broadcasting, and electricity distribution should ensure coherent rises of these and other prices. Certain pressures on prices will persist in the next few years due to the narrowing of the economic lag behind the more advanced EU countries, which will largely result from the faster productivity growth in the Slovenian economy relative to the average in Slovenia's main trading partners.

The macroeconomic policy mix for the fulfilment of the Maastricht criteria should not only ensure nominal convergence but should also be sustainable, i.e. sufficiently restrictive as to guarantee that the main macroeconomic equilibria are preserved after Slovenia's entry to the EMU. To maintain fiscal stability even in the period before the euro is adopted, it will be crucial to ensure the stability of general government revenue on one hand and to increase the flexibility of general government expenditure on the other. The latter will be vital in order to enhance Slovenia's absorption capacity for EU funds, reallocate part of the expenditure to

² In August 2005, average inflation (HICP) in Slovenia was still 0.3 p.p. above the Maastricht criterion, which totalled 2.4% in that month according to Eurostat's provisional data and the explanations available from EU institutions regarding its calculation method.

priority development areas and improve the ability to react to the volatility of economic activity and consequently of revenue. In the medium term, the main task will be to reduce the share of expenditure in gross domestic product, which will be a prerequisite for alleviating the tax burden on the economy.

The main problem in the area of tax policy is the high tax burden on labour, which has a significant impact on cost competitiveness. In 2002 the tax burden on labour totalled 48.2% in Slovenia, being higher only in Belgium and Germany according to the OECD's data. Payroll tax is Slovenia's peculiarity in this area (while Hungary and Poland also have this tax their rates are appreciably lower), representing a considerable cost for the employer despite the September 2004 increase in the wage taxation threshold³. Therefore, following the objective aimed at raising the economy's competitiveness and promoting entrepreneurship the gradual abolition of the payroll tax is one of the critical measures to be carried out within public finance policy. Payroll tax is planned to be cut by 20% in 2006 and by a further 40% and 70% in 2007 and 2008, respectively, after which it will be lifted completely in 2009. This will also bring about a commensurate lowering of expenditure on wages in the public sector. Apart from that, however, the high tax burden rates are to some extent linked to the complex personal income tax system causing the escape from and hence narrowing of the tax base, as well as to the inappropriate taxation structure. In addressing this issue, the government of the RS will put forth several urgent simplifications of the tax system already this year⁴. As a next step, it will examine the possibilities of a more radical tax reform in 2006, which could possibly include the introduction of flat tax.

As regards incomes policy, the adopted Social Agreement for 2003-2005 reduces the risk of not complying with the Maastricht criteria. Therefore, the principle according to which wage rises must lag behind productivity growth by 1 p.p. will still be upheld in 2006. After adoption of the euro, however, the provisions of the Agreement will be amended in line with policies ensuring a long-term macroeconomic equilibrium. In the medium term (the period of one economic cycle), this would entail wage growth equalling productivity growth or lagging behind it by a certain amount proportional to new employment. Such wage growth does not increase unit labour costs and does not create cost pressures on inflation. It would also be reasonable to abandon the explicit tying of the agreed nominal wage adjustments to estimated inflation as well as any further corrections of the nominally agreed adjustment in line with the measured inflation trends, whereby the last elements of wage indexation would be abolished. In terms of competitiveness, it is vital to enhance the adaptability of wage movements to the actual economic situation and the actual contributions of individuals. This means primarily providing more leeway in remuneration for individual performance and productivity and the greater adaptability of wages to reflect the economic performance of individual industries, regions and companies.

Slovenia is becoming an increasingly long-living society, which also poses a challenge to the long-term sustainability of its social insurance systems. Significant steps have already been taken in this area. The pension reform of 1999 put an end to the expansion of the GDP share of expenditure on pensions and prompted the raising of the effective retirement age. Some progress has also been made in the area of health care in terms of cost management (e.g. prescribing generic instead of original drugs, reference pricelist for drugs) and increased efficiency (reducing waiting lists). Further measures in these two areas will primarily

³ From SIT 130,000 to SIT 165,000.

⁴ Introduction of a schedular taxation on profits from interest, dividends and capital, which will be taxed at a 20% rate; a new VAT calculation system for small and medium-sized enterprises, whereby VAT is deducted after the receipt of payment rather than on invoice; simplification of the tax procedure allowing the possibility of disclosing data on the finally determined tax debt and the self-declaration or full subsequent disclosure of data relevant for an accurate tax liability assessment.



comprise the promotion of a longer active life and individual pension insurance schemes, measures to increase the microeconomic efficiency of health care services and adjustments to the compulsory health insurance system.

Priority measures (Guidelines nos. 1-6):

- 1/ Continue pursuing the co-ordinated macroeconomic policies in order to fulfil the Maastricht convergence criteria and adopt the euro in 2007.
- 2/ Gradually abolish the payroll tax and simplify the tax system.
- 3/ Increase the flexibility of public finances and gradually eliminate the deficit.
- 4/ Adopt a new social agreement.
- 5/ Encourage prolonged activity and individual pension insurance.

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

Among the new EU members Slovenia has one of the most open economies (a high level of trade integration), which means that the price dynamics of market goods and services reflect the relative efficiency of competition by sectors. Despite this openness of the economy Slovenia still has room to improve its competition efficiency, particularly in network services, infrastructure and the financial sector.

Apart from increasing the economy's openness (promoting foreign direct investment), competition can be strengthened through more efficient legislation, public administration and public network services, better regulation of markets and reduced barriers to entering or exiting the market and to competition.

III.A.2.1. Extend and deepen the internal market

With Slovenia's membership in the EU, the Slovenian market became an integral part of the common EU market without internal borders. The effective operation of the EU's internal market is contingent on the timely and correct transposition of EU legislation to the Slovenian legal order as well as consistent and correct application of this legislation in practice. Further, it is essential to monitor the implementation of the adopted legislation. Integrated operation and management of the EU's single market is one of the main conditions for the improved competitiveness of the Slovenian economy. With regard to implementation of the internal market directives, Slovenia, alongside Lithuania and Hungary, has the smallest transposition deficit among all EU members. By June 2005, Slovenia had not transposed 12 out of the total of 1,604 directives, which amounts to a 0.7% transposition deficit.

An important area in the free trade of goods is the technical quality infrastructure⁵, comprising the work of national, European and other organisations in managing the technical quality of products and processes. Through EU membership and involvement in international economic activities, Slovenia has become part of the international technical quality system. While only the basic national institutions dealing with technical quality infrastructure have been developed so far⁶, their workload, EU requirements and the system of efficient technical quality management are bigger than the institutional capacity and existing practices in comparable EU countries. As a result, Slovenia is comparatively less successful in meeting the total needs of its economy and has poorer possibilities for competitive participation in foreign markets.

⁵ The national technical quality infrastructure is divided into four key systems: standardisation, accreditation, metrology and conformity assessment, which guarantee national and global comparability and traceability in economic relations and eliminate barriers to trade.

⁶ Slovenian Standardisation Institute, Slovenian Accreditation, Metrology Institute, conformity assessment laboratories.

The full operation of the single EU market also vitally depends on consumer confidence and the effective protection of consumers' rights. Slovenia supports the efforts to extend the institutional network for consumer protection and ensures inclusion in the existing consumer protection networks within the EU⁷. Another important element for the functioning of the internal market is the improvement of legislation in order to reduce the regulatory burden on the business sector, and an assessment of the regulatory impacts on company performance (also see the chapter on the quality of regulation and simplification of legislation, p. 27).

Slovenia will implement the following measures to extend and deepen the EU's internal market: (i) enhance mutual trust between the state and the business sector in managing the requirements of the EU's internal market; (ii) educate enterprises and citizens on the advantages of the common market; (iii) strengthen the national technical quality infrastructure institutions; (iv) ensure the timely and correct transposition of the EU's internal market directives to the Slovenian legislation; (v) ensure the consistent and correct enforcement of EU legislation⁸; (vi) set up a system to monitor implementation of the EU's internal market legislation⁹; improve legislation and assess its impacts on the business sector; and (vii) support and expand the consumer protection institutional network¹⁰ and integration of the existing EU-wide consumer protection network.

Priority measure (Guideline no. 12):

- 1/ Strengthen the national technical quality infrastructure institutions.
- 2/ Transpose the EU's internal market regulations to the Slovenian legislation and establish a system to monitor enforcement of this legislation.
- 3/ Expand the institutional consumer protection network and its integration in the existing consumer protection network within the EU.
- 4/ Disseminate information about the internal market within the business sector and the general public.

III.A.2.2. Increase inflows of development-promoting domestic and foreign investment

Foreign direct investment (FDI) is an important factor of economic growth and the transfer of knowledge, technology and efficient resource allocation in the economy. During the transition period Slovenia did not exploit the benefits of FDI to a sufficient extent, as the penetration of this investment into the economy was too low¹¹. Nevertheless, its effects on the economy's restructuring were positive and substantial.

In the next period Slovenia as a FDI location intends to make the best use of its competitive advantages in this area and achieve the following goals of promoting FDI: (i) increase the annual inflows of initial FDI (excluding takeovers, privatisation and bearing in mind the expansion of foreign-owned enterprises) by an average of 1% to 1.5% of GDP; (ii) provide

⁷ European Consumers Centres Network – ECC-Net, out-of-court cross-border dispute settlement in the area of financial services – FIN-NET.

⁸ The SOLVIT system for the informal settlement of disputes due to the incorrect application of EU legislation by public administration bodies.

⁹ IMI – the EU's Internal Market Information System.

¹⁰ European Consumer Centres Network – ECC-Net; out-of-court cross-border dispute settlement in the area of financial services – FIN-NET.

¹¹ The share of the inward FDI stock in GDP rose from 9.5% to 20.7% in 1995-2003, while the share of outward FDI was up from 2.6% to 7.5%. After the sharp rises in FDI inflows in Slovenia seen in 2001 and 2002 due to some major foreign takeovers, these inflows slipped back to the level observed before 2001. FDI outflows from Slovenia have been rising steadily. In 2003 and 2004 Slovenia was thus a net direct outward investor, which is not a normal situation for a country at Slovenia's level of development. While these results point to the rising significance of FDI for the inward and outward internalisation of the Slovenian economy, they have once again confirmed that Slovenia is incapable of attracting new (*greenfield*) FDI.



1,000 to 1,500 new jobs each year; and (iii) ensure at least one initial high-tech FDI and at least three initial FDIs in the highly internationally-oriented services sector.

Slovenia's measures and activities in this area focus on three main goals: (i) reduce the administrative barriers to entrepreneurial activity and investment; (ii) cut start-up costs for initial investment and compensate for deficiencies in the operation of market mechanisms in the areas of employment and accessibility of industrial land; and (iii) market Slovenia as a suitable FDI location. Foreign investors will be attracted to join in privatisation processes and the establishment of public-private partnership on an equal basis as domestic investors.

To stimulate FDI, administrative barriers to business operations must be systematically reduced and eliminated (also see the chapter on the improvement of the business environment and reduction of the administrative burden, p. 18). Measures will be targeted primarily to areas where shortcomings had been established: tax burden, closed entrepreneurial culture, lack of investment incentives, the complexity of establishing and operating enterprises, and complicated business legislation. As regards Slovenia's competitiveness, the administrative barriers will be reduced primarily in the areas of employment relationships, the tax procedure, spatial planning and building permits, as well as some procedures related to the acquisition of operating permits.

A partial elimination of these deficiencies and a reduction of start-up costs will be achieved through financial incentives for foreign investment (incentives for the training of workers via the active employment policy and financial incentives for foreign investment). The main measures aimed at improving the supply of suitable building land, industrial estates and technology parks include the keeping of records of land plots in public ownership that can be designated for investment (also see the chapter on better spatial management and housing policy, p. 44), assistance to local communities in establishing and managing industrial estates, and the joint funding of the spatial completion and site development of industrial estates and technology parks by EU funds and the budget of the Republic of Slovenia.

To promote Slovenia as an FDI location, forceful marketing and public information strategies will be applied focusing on the horizontal promotion of FDI in medium/high technology and quality jobs, and stimulating the expansion of existing foreign enterprises in Slovenia and their integration into the Slovenian economy. Regional catalogues will be compiled for foreign investors, containing comprehensive descriptions of labour and land supply in Slovenian regions.

Apart from that, efforts aimed at enhancing Slovenia's attractiveness for domestic and foreign entrepreneurs will be directed to: (i) the establishment of 3-5 large business estates under direct state management located close to the national motorway network; (ii) active endeavours to attract the regional administrative hubs of multinationals; (iii) incentives for large foreign projects; and (iv) training of a sufficient number of workers for new or expanded enterprises (also see the chapter on knowledge for development, p. 25).

Priority measures (Guideline no. 13):

- 1/ Improve the supply of building land and industrial estates.
- 2/ Systematically remove administrative barriers to investment and business operations (spatial planning, building and operating permits, employment relationships).
- 3/ Reduction of start-up costs for initial investment matched by high/medium technology transfers and the creation of quality jobs.
- 4/ Forceful marketing of Slovenia as a suitable FDI location.

III. A.2.3. Ensure open and competitive markets

III.A.2.3.1. Competition policy

Competition protection is statutorily and substantively aligned with the *acquis*, including the enforced amendments to competition law in the EU¹². According to the law, the Competition Protection Office is a functionally independent institution with powers that enable it to effectively exercise control over restrictive agreements, the abuse of a dominant position and mergers. The decisions of the Office are final. The enterprises involved in its procedures may seek legal protection before the Administrative Court. The Office is empowered to autonomously carry out investigative activities and take final decisions. With the enforcement of the Minor Offences Act the Office has also been authorised to impose sanctions. Given the new substantive and functional powers of the Office, it is one of the first priorities for Slovenia to increase its administrative and hence also financial capacity.

As regards implementation, most procedures still deal with the assessment of mergers. However, the structure of handled cases is changing as the number of concentrations appraised by the Office reveals a declining trend. Therefore, greater emphasis will gradually be placed on the assessment of more serious infringements of anti-trust legislation such as cartel agreements and abuses of a dominant position¹³.

A draft new law to regulate this area is currently being prepared and it is due to be submitted to the parliamentary procedure by the end of 2006. The aim of the new legislation is to increase transparency, unify the procedures and ensure the necessary investigative powers and more efficient control over mergers¹⁴. The measures aimed at increasing the administrative capacity include a gradual increase in the number of employees in line with the government's staff policy priorities.

Priority measures (Guideline no. 13):

- 1/ Amend legislation to ensure greater transparency, unify procedures, ensure appropriate investigative powers and control mergers more efficiently.
- 2/ Gradually give greater priority to the assessment of more complex violations of anti-trust legislation (cartel agreements, abuses of a dominant position).
- 3/ Strengthen the Competition Protection Office.

III.A.2.3.2. Privatisation

The state is still a significant direct owner of some companies and an indirect owner in most of Slovenia's prominent companies. In the next few years, the state will transform the parastatal funds (KAD and SOD) into regular portfolio investors through the phased sale of their shares. This means that the investments made by the two funds will be global and based only on the estimated risks and expected returns. They will no longer be 10% owners in any enterprise. The withdrawal will be executed in a transparent way by treating all shareholders equally and looking for the best bidder. At the same time, the gradual sale will be used as an opportunity to develop the domestic financial market. A parallel process will be the

¹² The national regulations were largely amended simultaneously with the entering into force of Council Regulation 1/2003 (on 1 May 2004).

¹³ In 2004, 68 decisions were issued, 62 of which were merger assessments, 4 dealt with the abuse of a monopoly while 2 handled restrictive agreements. In the first half of 2005, 30 decisions were issued: 27 dealt with concentrations, 2 with a monopoly abuse and 1 with a restrictive agreement.

¹⁴ Including the 'simplified procedure' for marginal concentrations where it is clear from the beginning that the parties cannot acquire a large market share.



privatisation of large companies – banks, insurance companies, Telekom – in which the state has large shares. Individual programmes and timelines will be drawn up for every one of them, tailored to the specific characteristics of each activity and company. As a general rule, the state should seek out a strategic owner (i.e. one with a development plan and which is prepared to buy a large enough share to carry this plan out) and ensure that the buyer's business policy is consistent with the goals of economic development.

Priority measure (Guideline no. 13):

1/ Speed up the state's withdrawal from enterprise ownership (privatisation).

III.A.2.3.3. Public utilities and network industries

III.A.2.3.3.1 Electronic communications and postal services

The new framework Electronic Communications Act, adopted in April 2004, liberalised the telecommunications domain in line with EU regulations. All exclusive and special rights of any subject in the market¹⁵ were thus abolished. A variety of mechanisms was introduced to balance market relations and the independent regulatory Agency was given extended powers to ensure competition and co-operate with both the national Competition Protection Office and the EU's regulatory bodies. An independent regulatory body, the Post and Electronic Communications Agency, ensures competition and controls price ratios in telecommunication services. The Agency adopts secondary legislation such as implementing regulations based on sector-specific laws and accepts notifications of new entrants to the electronic communication and postal services market.

Competition exists in all segments of the electronic communications market, although it remains poor in certain segments (fixed telephony, xDSL, inland calls). Providers of IP voice services (VoIP, 22 operators) and international transmission network operators providing international calls (5 operators) have become strong competitors to Telekom Slovenia d.d. Apart from that, providers of international telephony services based on the selection and pre-selection of operators started to offer their services in June 2004.

Mobile communications control the largest part of the market with 44% of turnover and 90 connections per 100 inhabitants¹⁶. There are currently 3 operators in the mobile telecommunication services¹⁷. The market share of the largest operator dropped by 3 p.p. in 2004 to 73%. In 2001 a concession for the provision of third-generation mobile telecommunications (UMTS) was granted to Mobitel d.d. The Post and Electronic Communications Agency is examining providers' interest to enter the UMTS mobile telephony market in Slovenia in order to also ensure competition in this area.

While narrowband access to the Internet is widespread in Slovenia, none of the 12 operators holds a majority share. Within broadband access, cable access takes a 40% share, which is significantly more than in the EU on average where this share totals 20%. This is due to Slovenia's highly developed cable network and its low penetration rate of ADSL networks. The number of ADSL, cable and other broadband connections is rising. The number of ADSL connections doubled in 2004 and is still growing, while the share of competitive providers remains at the level of about 8% relative to the number of users. After the Agency undertook

¹⁵ Procedures ensuring better competition and imposing certain obligations on operators with significant market power are laid down in detail.

¹⁶ This level of development ranks Slovenia at the top of the EU (the EU average is 87 connections per 100 inhabitants). The number of subscribers is rising steadily, and the ratio between subscribers and payers is improving.

¹⁷ One in NMT (cessation as from 1 January 2006), two in GSM, three in DCS and one in UMTS.



measures to decouple the local loop and abolish the ISDN access requirement for the provision of ADSL in September, a new provider has entered the market.

The provision of postal services¹⁸ in Slovenia is aligned with the EU directives in terms of both regulations and practice. The Postal Services Act adopted in 2002 and amended in May 2004 abolished the monopoly in postal services and liberalised the market by removing all legal obstacles to competition. The Post and Electronic Communications Agency supervises the deregulation of postal services in line with the law and its powers.

The strategic measures in the area of electronic communications are: (i) liberalise and deregulate the telecommunications market; (ii) encourage the entry and development of new telecommunications operators; (iii) promote the development of alternative networks (strengthen the market position of alternative backbone operators, stimulate the further development of cable networks); and (iv) ensuring the phased privatisation of the fixed telephony operator (Telekom Slovenije d.d.).

Competition in Slovenia's electronic communications markets will be enhanced by: (i) a modern regulatory framework comparable to that of the most advanced EU member states; (ii) improved operation of the Post and Electronic Communications Agency; (iii) the building of broadband electronic networks by tapping European structural funds; (iv) creating real competition in the market to supply lease lines thereby ensuring more efficient use of existing capacities in electricity distribution companies, railways and motorways; introducing number portability; (v) and accelerating the building of broadband electronic networks in rural areas.

Further, the Ministry of the Economy will carry out projects to develop electronic networks in areas in which there is no commercial interest. The measures will be aimed at eliminating irregularities in the market by building public infrastructure.

The state still holds a 62.53% share in Telekom Slovenije d.d.¹⁹, the largest operator in the electronic communications market. The privatisation of the dominant operator has not been carried out yet due to unfavourable market conditions, which prevented the sale of the company's share at a reasonable price. In 2005 the Ministry of the Economy will define the objectives and the purpose of privatisation and prepare a strategy that will serve as a basis for further steps to be taken by the state as the main owner. The strategy will determine the type of the company's future ownership that will be best-suited for Slovenia, and lay down the targets to be fulfilled by Telekom Slovenia d.d. before the planned sale in order to achieve the highest possible sale price.

Priority measures (Guideline No. 13):

- 1/ Stimulate the market entry and development of new telecommunications operators.
- 2/ Modernise the regulatory framework and improve the operation of the Post and Electronic Communications Agency.
- 3/ Build broadband electronic networks and ensure a transparent and competitive supply of existing leased lines.
- 4/ Ensure the phased privatisation of the fixed telephony operator (Telekom Slovenije d.d.).

¹⁸ With regard to the penetration of its postal network, Slovenia is within the European average in terms of both geographic and demographic criteria. Apart from Pošta Slovenije d.o.o. (a 100% state-owned company), the major provider of postal services (and the sole provider of universal postal services with the right of reserved service provision up until 2008), there are 18 other providers of postal services in Slovenia.

¹⁹ Telekom's two subsidiaries are Mobitel d.d. (mobile communications) and Siol d.o.o. (Internet services).

III.A.2.3.3.2 Public environmental protection services

Public utilities for environmental protection are vital to ensure not only competitiveness and economic growth but also the protection of the environment. Because of the imperative of the widest possible access to public goods and services, consumers cannot be expected to manage the environment or natural resources by themselves.

The key objectives in the area of public environmental protection services are: (i) increase access to the public services providers' service network; (ii) improve the organisation of providers; (iii) reduce costs; (iv) create a competitive environment; and (v) transfer knowledge and new technologies.

The fragmentation of municipal public services is a specific problem for Slovenia. Local utilities often cover areas that are too small for the services to be cost efficient and adequately technically qualified for the increasingly demanding tasks in this area. The gradual integration of the current municipal public service providers into larger organisational units at the regional level will provide the conditions for introducing the EMAS or ISO 14001 system in these working environments.

Due to the specific and monopoly position of these service providers, the performance of their tasks and their costs per unit of service must be strictly controlled. To this end, comparative analyses will be carried out for different areas, e.g. the efficiency of public service providers, the use of natural resources in service provision, the satisfaction of users, and the condition of infrastructure.

Special efforts will be made to ensure equal conditions for the providers of public environmental protection services, irrespective of their type of organisation, without distorting the competitiveness rules and by applying the equality principle in selection procedures. This will lay the grounds for the development of a competitive environment needed to reduce costs and obtain better services. The underlying principle will be to fully cover the costs of service provision, properly maintain the existing infrastructure and build new infrastructure in the most cost-efficient and economical way. Public-private partnerships will be established where reasonable and where this will be for the public's benefit. Special endeavours will be made to improve services, introduce new technologies and transfer knowledge, as well as create new markets of secondary raw materials and goods.

Priority measures (Guideline no. 13):

- 1/ Combine the current municipal public service providers into larger organisational units at the regional level.
- 2/ Introduce the EMAS or the ISO 14001 system in public environmental protection services.
- 3/ Strengthen control over the provision of public environmental protection services that have a specific and monopoly position.
- 4/ Guarantee equality to providers of public environmental protection services regardless of their type of organisation.

III.A.2.3.3.3. Electricity and natural gas

Slovenia's energy dependence, totalling 50-55%, is covered by imported energy, primarily of petroleum products and natural gas.

Following the EU directives, Slovenia liberalised the electricity and natural gas market for commercial customers on 1 July 2004 (75% of electricity consumption and 91% of natural

gas consumption). Electricity and natural gas transmission network operators are now legally and functionally separated from supply and trading. There are currently 15 companies operating in the electricity wholesale market, the largest one being Holding Slovenske elektrarne (HSE). 10 of these companies are end-user suppliers.

Approximately 50% of electricity produced in the Republic of Slovenia is generated by the HSE, about 40% by the Krško Nuclear Power Plant (NEK), and the remainder by two thermal power plants and several smaller qualified producers²⁰. The state is the major direct or indirect owner of all electricity suppliers, except the NEK where the Croatian electricity sector owns a 50% share. About 3% of the electricity produced is sold on the Slovenian power exchange, while the rest is traded on the basis of bilateral contracts. The reliability of the transmission network is high but Slovenia is increasingly faced with transit flows that substantially exceed the contract flows, particularly in the direction towards Italy. In the wholesale market of natural gas, Geoplin²¹ remains the only supplier in Slovenia; however, it is not in majority state ownership. There are also a number of distribution companies for natural gas which supply approximately 20% of gas yet none of them exceeds the number of consumers which is required for the legal separation of the network operator and supplier.

The main objectives in the area of electricity and natural gas supply up until 2010 are to: (i) complete market liberalisation and develop competition in the market; (ii) maintain a high level of reliability in electricity and natural gas supply; (iii) reorganise Slovenian electricity and natural gas suppliers so that they will remain competitive in the liberalised environment; (iv) ensure sufficient production of electricity; and (v) respect environmental restrictions.

In line with the EU directives, liberalisation will be finalised by 1 July 2007 in both the electricity and natural gas sectors. The legal separation in the distribution of electricity will also be completed by this date. The government will strive to establish another Slovenian company in the electricity wholesale market as early as 2006, including through sales and exclusions. An increase in the number of independent suppliers in the electricity market can be expected after 1 July 2007²². Slovenia will provide market instruments for the allocation of limited cross-border transmission capacity. The system operator of the transmission network has already launched auctions of cross-border transmission capacity in 2005. Further, regulatory amendments are foreseen to facilitate the conclusion of contracts between foreign and Slovenian enterprises and trading on the Slovenian power exchange. Further, the government will reorganise the electricity distribution enterprises by 1 July 2007 to ensure that they stay competitive in the face of the required legal separation.

Reliability in electricity transmission largely depends on the proper operation of the transmission network operator. Apart from that, the transmission network is planned to be amplified²³. In the area of distribution, standards of quality and reliability of supply will be introduced and gradually raised. The planned modernisation of the natural gas sector comprises the renovation of the main pipeline connecting Slovenia with Austria, Italy and Croatia.

The existing producers are planning to extend their production capacity to preserve the balance between electricity production and consumption in Slovenia. Another planned measure is co-funding by foreign investors. If there is no investment, new production capacity will be tendered in accordance with Article 7 of Directive 2003/54/EC. Another major project

²⁰ From renewable sources below 10 MW, waste and power plants with an above-average yield – combined electricity and heat production.

²¹ in natural gas, Slovenia is entirely dependent on imports. 60% is imported from Russia, while the remaining 40% comes from Algeria.

²² Article 6/1 of Regulation (EC) No. 1228/2003 enters into force on 1 July 2007.

²³ By an additional 400 kV connection with Italy (Okroglo-Udine), upgrading of the national network (Beričevo-Krško) and a new 400 kV line to Hungary (Cirkovce-Hevitz).



planned in the energy sector is the rapid launching of efficient treatment of energy and renewable energy sources in line with the national energy programme.

Priority measures – proposal (Guideline no. 13):

- 1/ Finalise the liberalisation of the energy sector.
- 2/ Separate and reorganise electricity distribution companies.
- 3/ Apply new, market regulations for the allocation of cross-border electricity transmission capacity.
- 4/ Establish more domestic suppliers in the wholesale market.
- 5/ Provide measures to build new transmission and production facilities.

III.A.2.3.3.4 Transport policy

Public road and railway passenger transport

Since Slovenia joined the EU all rail freight transport, including combined transport, has operated on a commercial basis. Railway passenger transport, on the other hand, is still a public utility. The population's increasing level of motorisation has resulted in a declining number of users of public transport, which is in turn becoming more costly for both users and the state and local communities that directly or indirectly subsidise it.

The main providers of public passenger transport services, bus and railway operators, must comply with the operating conditions currently defined by two different and mutually inconsistent laws and two managers controlling the provision of the public utility. The main problem is the lack of a uniform tariff system and combined bus and rail tickets, which would simplify the use of public transport and, if properly financed, also the affordability of public transport service prices for all citizens.

In the next period it is therefore vital for Slovenia to increase the capacity and quality of public passenger road and rail transport by ensuring competitive conditions in the transport market and promoting all-inclusive logistical services backed by the setting up of a framework architecture for intelligent transport systems. It is also important that freight and passenger transport services are reliable, safe, price-competitive and environmentally-friendly.

A special measure planned in the transport area is the sale of the state's ownership shares and deregulation in all cases where private operators can offer more competitive and better services, provided that the level of safety does not decline. Further, a law is currently being drafted to regulate the integrated public transport system and to define solutions to integrate public passenger transport services, stops and transfers (intermodal terminals).

The adoption of the second railway package requires its implementation in the next two-year period. The objective of the package is to remove the barriers to cross-border service provision and increase operation safety, *inter alia* by expanding the rights of access to infrastructure in national railway freight services, defining the key elements of safety systems, establishing the European Railway Agency and gradually extending the application of interoperability.

Further necessary steps include the promotion of research and the launching of innovative, environmentally-friendly services in supplying the business sector in order to fulfil the Kyoto requirements in the area of transport. One example of these measures is the abolition of the ticket supplement for bicycles so that bicycles can be carried for free on suburban local trains. It is also required to harmonise the timetable and set up a single information system for all public transport modes.



Maritime transport

The freight port of Koper is managed by the Luka Koper d.d. company, which acts as both the port's manager and operator. The legal relationships between the state and Luka Koper d.d. remain unsettled. A new law is to be adopted to revise the port's legal regulation comprehensively, transfer the management and care for the public interest to the port administration as an entity governed by public law, and define the conditions for the performance of port operations and the use of marine resources in harbour areas. In order to regulate the existing legal relationships, priority concession contracts will have to be concluded with Luka Koper d.d. and the providers of harbour services upon the establishment of the port administration.

Settlement of legal relationships in relation to the harbour area will enable the port's smooth operation and further development, which is currently being hindered by unsettled property rights in the Koper freight port area facilities and the undivided managing and operating functions.

Air transport

By becoming an EU member Slovenia assumed additional responsibility for market liberalisation and particularly its harmonisation with the EU regulations. These processes will result in more modern and liberal procedures regarding the commercial aspects of transport, and in the standardisation of technological, technical and safety regulations for transport. Air transport is expected to rise by almost 40% until 2010. Therefore, capacity expansion is planned in all three international airports (Ljubljana, Maribor and Portorož) as well as the planned new airport Cerklje na Dolenjskem (a combined civil/military airport).

Priority measures (Guideline no. 13):

- 1/ Establish an integrated system of public passenger transport (single tariff system, combined tickets, harmonised timetable, single information system, intermodal terminals).
- 2/ Promote comprehensive logistical services backed by the setting up of architecture for intelligent transport systems.
- 3/ Sell the state's shares and deregulate wherever justified in terms of competition, quality and safety.
- 4/ Amend the national railway legislation in line with the second railway package.
- 5/ Adopt a new law on harbours stipulating the conditions of harbour management, the provision of harbour operations and the use of marine resources.
- 6/ Standardise the technological, technical and safety regulations on air transport and introduce more liberal procedures regarding the commercial aspects of transport.

III.A.2.3.5. Expansion and improvement of infrastructure

The EU also strives to achieve a more complete integration of its member states by supporting the development of Trans-European Networks (TEN-T), whose main purpose is to remove bottlenecks along the main transport corridors. The need for an 'intelligent' transport system which will enhance the capacity and safety of transport through increased information flows, better co-ordination of transport flows between member states and the use of different transport modes is becoming ever more prominent.

III.A.2.3.5.1. Railway infrastructure

The condition of the public railway infrastructure is deteriorating every year due to the lack of funds for its development/new construction, maintenance and modernisation²⁴. If these negative trends persist, it will be impossible to expand the share of railway transport; at worst this could even lead to the closure of certain sections of railway lines. Safety is the top priority in transport services yet, given the current state of infrastructure, it can only be secured by restricting speed limits which, in turn, leads to increasing train delays. The development and modernisation of rail transport will be more intensive within the trans-European long-distance high-speed rail network project.

Therefore, the key objectives in this area are to: (i) increase the economy's competitiveness by reducing travel times and transport costs; (ii) harmonise and/or ensure the interoperability of the public railway network with the EU's network; (iii) enhance the accessibility of certain regions and interregional connections; and (iv) improve the achieved level of transport safety.

Measures in the area of railway infrastructure comprise: (i) investment projects on TEN-T corridors²⁵ (V and X); (ii) the upgrading of lines to increase speed and axle load limits and the upgrading of track installations on stations, introducing remote control for stable catenary devices, the upgrading and new construction of power supply stations, implementation of the ERTMS/ETCS system²⁶; (iii) the renewal of existing lines and construction of passenger centres; and (iv) the building of non-level or automatically secured passages for trains (subways, overpasses, automatically secured passages) and the upgrading of level crossings (automation of 20 level crossings), as well as the upgrading of signalling and safety devices and telecommunication devices.

III.A.2.3.5.2 Road infrastructure

The condition of the national road network is deteriorating as a result of insufficient investment in the renewal of national roads in the past few decades²⁷ since average daily traffic on all national roads rose at the average annual rate of 2.3% in 1998-2003. The quality and scope of the existing infrastructure services no longer meets today's demand and is detrimental to balanced regional development.

The main structural goal in constructing the road and motorway network is to generate and strengthen its economic effects by modernising the transport infrastructure, increasing the general economic and social benefits of investment in transport infrastructure, maintaining the built motorways and reducing the negative impacts of traffic on the environment.

Further, there is a growing need for major repairs on national roads and new investment to expand the capacity of the national road network. The adoption of the National Programme for the Development and Maintenance of State Roads in 2005/2006 will further reduce travel times and transport costs. The programme's aim is to improve the accessibility of regions, strengthen interregional connections and link up parts of Slovenia with the main European road corridors.

²⁴ Which is reflected in the higher number of decisions issued by the Transport Inspectorate of the RS restricting speed and axle load limits due to the increased load on lines and transport operations, which contributes to the poorer quality of transport services. Some freights have already failed to comply with the required axle load standards. These are either redirected to diversions around Slovenia or wagons are loaded 15% below their load capacity, even on some sections of the main lines Zidani Most-Šentilj and Pragersko-Murska Sobota.

²⁵ Modernisation of the Ljubljana-Budapest line and upgrading of the Koper-Divača line.

²⁶ ERTMS – standardised European Rail Traffic Management System, ETCS – European Train Control System.

²⁷ The state road network, comprising 5,900 km of main and regional roads, is degenerating year by year. The condition of 42% of roads is inadequate, 15% of facilities are in a poor or critical condition, and over 267 landslide or avalanche risk areas have been identified on roads. Moreover, there are 58 black spots and 27 black crossroads on sections of the network.



The Slovenian motorway network is in a much better condition than the railway network. The construction of the motorway network will be finished by 2010 in line with the National Motorway Construction Programme²⁸, the realisation of which has been underway since 1994. This will enable growth in transit transport flows along European corridors V and X.

III.A.2.3.5.3. Maritime infrastructure

The volume of freight and passenger harbour transport has risen in the last few years since the Koper port is a significant entry and exit point along corridor V for EU countries and is hence particularly important for Slovenia's development. The capacity of the Koper freight harbour must be expanded to enable its further development. To this end, a detailed national plan for the construction of dock III has been prepared. Apart from increasing the port's capacity, it is also vital to provide functional connections of the port with road and railway infrastructure.

III.A.2.3.5.4. Air transport infrastructure

The network of airports and heliports in Slovenia remains limited to four international public airports. In view of the increased air transport in Slovenia and in order to comply with the EU regulations and provisions of the Schengen Agreement, the existing airport infrastructure must be modernised and upgraded. The phased introduction of new technical air traffic control systems is planned to ensure the interoperability of the different regional air traffic control systems in Europe.

The main measures in the area of air transport infrastructure comprise: (i) the modernisation of international airports²⁹; and (ii) the modernisation of air traffic control infrastructure by building a new air traffic control centre, which will also comprise a new control tower at Ljubljana airport.

Priority measures (Guideline no. 16):

- 1/ Railway infrastructure: carry out investment projects on TEN-T corridors, upgrade lines and track facilities to allow greater speed and axle loads; renew existing lines and build passenger centres.
- 2/ Road infrastructure: finish the motorway network construction by 2010, realise the National Programme for the Development and Maintenance of State Roads.
- 3/ Maritime infrastructure: increase the capacity of the Koper freight harbour and link it up with road and railway infrastructure.
- 4/ Air transport infrastructure: modernise international airports and air traffic control infrastructure.

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

Slovenia's has reduced its lagging behind the economic development of the advanced part of the EU. Nevertheless, Slovenia has been sliding in the global competitiveness rankings (IMD, WEF) for several years. According to the IMD's survey³⁰, Slovenia recorded a drop in its

²⁸ The main measures of the NMCP include priority measures dependent on the dynamics of NMCP implementation, the renewal and maintenance of the motorway network, construction of new motorways, upgrading of the existing toll system, free-flow electronic toll system, motorways around international border crossings, linking with existing and future motorway network.

²⁹ Maribor: renewal of airport facilities used for passenger and freight transport, extension of the runway; Ljubljana: logistical hub, technology park, aviation museum of Western Europe, modernisation and construction of a new terminal; Portorož: modernisation of the airport, including a possible runway extension; Cerklje na Dolenjskem: basic equipment of the airport.

³⁰ World Competitiveness Yearbook 2005.

index values in all four factors of competitiveness in 2004 (economic performance, business and government efficiency and infrastructure). Slovenia's ranking according to the national competitiveness measured by the WEF³¹'s growth competitiveness and business competitiveness indices has similarly declined for the second consecutive year.

Innovative, dynamic and flexible small and medium-sized enterprises (SMEs) are one of the key levers of economic growth. However, their operation is still hampered by a number of obstacles. In the World Bank's opinion, Slovenia is a bureaucratic and enterprise-unfriendly country where 10 procedures are required to set up an undertaking (the OECD average is 6 procedures), and the establishment takes 61 days (OECD average: 25) and costs 12.5% of GDP per capita (OECD average: 8.0%).

The entrepreneurial infrastructure in Slovenia is still too weak to ensure a supportive environment for the creation and growth of enterprises. The small business sector similarly lags behind. According to the Global Entrepreneurship Monitor, 2.6% of the population is considering setting up a business or has already had one for over 3.5 years, while one in 2.7 established businesses survives. Support institutions providing services for enterprises³² also have to comply with the cumbersome administration.

The transfer of new technological and scientific findings from university and public research centres to new and growing enterprises is characteristically scant in Slovenia. SMEs are hampered by the inefficient banking system poorly tailored to their needs, the high cost of financial support, problems with guarantees, a lack of risk capital, financial indiscipline, difficult access to land suitable for business operations and a lack of qualified labour in the job market.

The main policy guidelines to promote entrepreneurship are: (i) encourage and promote entrepreneurship and an enterprise-friendly environment; (ii) promote the system of 'education and knowledge for enterprise development'; (iii) strengthen the innovation activity of enterprises; (iv) improve and upgrade the system of financial instruments; and (v) foster the internationalisation of Slovenian firms.

Slovenia will focus its competitiveness incentives on: (i) certain prime national projects where Slovenia has the biggest competitive advantages in terms of its strategic businesses, technological development, market opportunities and value added; (ii) the promotion of specific strategic projects (business networks) which have a positive impact on the regional and international levels through their networks; fostering participation in European technology platforms and the transfer of knowledge and technological solutions; (iii) reducing administrative barriers and simplifying the procedures for acquiring various forms of aid; and (iv) setting up a risk-capital fund to finance entrepreneurial projects.

III.A.3.1. Improving the business environment and reducing the administrative burden

Competitiveness in Slovenia will be raised by creating an enterprise-friendly business environment and reducing the administrative burden. The main objectives in this area are to: (i) improve the operation of support institutions; (ii) shorten the time needed to set up a business to 7 days by 2008; and (iii) set up a connected and functional network of 40 one-stop entry points at the local level.

³¹ World Economic Forum.

³² According to survey data, support institutions have a negligible influence on enterprises' investment and innovation strategies – 40% of enterprises believe the support institutions are absolutely inconsequential.

To ensure the improved functioning of support institutions, the government has adopted a decision to establish the Public Agency for Entrepreneurship and Foreign Investment (PAEFI), joining two former agencies: the Small Business Development Centre (SBDC) and the Slovenian Trade and Investment Promotion Agency (TIPO) in co-operation with the Slovenian Enterprises Fund. The aim of this reorganisation is to ensure the better transparency of operation, synergies in certain processes, the rationalisation of work and a one-stop support system for enterprises. The PAEFI will start operating as a single agency at the end of 2005.

The reduction of the administrative burden (also see the chapter on the quality of regulation and simplification of legislation, p. 19) is a key prerequisite for further development of the entrepreneurial sector. Slovenia has therefore resolved to shorten the time needed to set up a business to 7 days and reduce the costs of establishment to 8% of GDP per capita by 2008. To this end, the one-stop-shop system will be launched, consisting of three elements: the info point, the support point and the registration point. The one-stop contact points will enable registration and other administrative procedures at the local level for all economic subjects. These procedures will thus be executed all in the one place, with the minimum required time and costs. The e-one-stop system has already been launched in 2005. There are currently 160 active entry points where individual private entrepreneurs can be registered electronically in 1-2 days. In the coming years, the one-stop points are planned to be extended to the local level with a maximum of 40 additional entry points, which will also be used for business consultancy and promotion of the one-stop system.

III.A.3.2. Promoting entrepreneurial development and innovation

The main objectives of promoting entrepreneurial and innovation activity are to: (i) raise the level of enterprises' and small businesses' acquaintance with enterprise-fostering measures to 50% by 2010; (ii) organise at least one workshop on entrepreneurship and innovation in all primary and secondary schools and tertiary education institutions or integrate these topics within the curricula; (iii) raise the share of revenues from enterprises in public research and development institutions by 10 p.p.; (iv) ensure higher growth of turnover from sales to foreign markets in both affiliated and non-affiliated enterprises, where the absolute difference in turnover growth must be exceed the granted affiliation incentives at least fivefold; (v) provide incentives for the creation of a minimum of 50 new enterprises with above-average value added regarding the individual industry or high technology each year; and (vi) set up at least three new business estates, giving priority to regions that lag behind in development, and at least two new technology parks by 2006.

The following planned measures will significantly contribute to the promotion and development of entrepreneurship in Slovenia: (i) simplify bankruptcy procedures; (ii) improve financial discipline; (iii) expand potential public sources for risk-capital funds (KAD, SOD, pension funds); (iv) remove administrative barriers at the level of administrative units (e.g. faster appeal proceedings, more efficient co-operation at all levels); (v) amend the national legislation to ensure that the entrepreneur or enterprise owner has equal rights to the employee: possibly establish a fund for unemployed entrepreneurs; and (vi) develop and create subjects of innovative environment (incubators, technology parks, centres of excellence, technology networks, technology platforms, clusters etc.).

III.A.3.3. Education for entrepreneurship

Activities to improve education for entrepreneurship will include improving employees' and enterprises' adaptability to conditions in the global and labour markets, the creation of new jobs, an increase in productivity and competitiveness of enterprises and eliminating barriers to development in the area of labour supply and demand. At the level of education, activities should be directed to raising employees' and employers' qualifications and levels of skills

and knowledge needed to keep a job. Further, measures in this area should also result in higher competitiveness and enhanced technological and scientific development (also see the second development priority, p. 21).

The key measures aimed at promoting the development and upgrading of the knowledge needed in the enterprise sector are to: (i) update the programme 'researchers for business'; (ii) support undergraduate education and specialisations; (iii) enable employees and researchers in enterprises to go abroad and return to Slovenia; and (iv) foster vocational education (the dual education system).

III.A.3.4. Small and medium-sized enterprises' access to financial resources

The promotion of entrepreneurial development is still hindered by difficult access to appropriate finance³³. In order to stimulate the creation and growth of SMEs, access to financial resources will be improved through: (i) simplified access to financial resources for SMEs, including non-repayable and repayable incentives for SMEs' investment and development projects; (ii) the provision of start-up and seed capital; (iii) the development of instruments for owner's financing, including all risk-capital instruments, project financing, and the inclusion of leasing in enterprise financing; and (iv) the establishment of public institutions and a support network enabling SMEs to use owners' financing instruments. These measures are intended to increase the supply of risk capital on the demand level, provided/given that the required yield does not exceed 20%.

Besides the existing debt financing instruments and subsidies, guarantees for SMEs' investment, microguarantees and microloans are already being implemented. By expanding the '*de minimis*' aid scheme for SMEs, Slovenia is meeting the objective of simplified procedures for the use of aid and control over aid to SMEs. To meet the goals of providing development resources for SME projects and encourage the transfer of knowledge to the enterprise sector, the state will participate in the preparation of joint instruments with the public enterprise fund in areas such as searching for entrepreneurial ideas, turning these ideas into marketable products and the financing of market testing.

Priority measures (Guidelines nos. 14-15):

- 1/ Draw up a new programme for the promotion of entrepreneurial activities and competitiveness based on the principles of simplicity, transparency and clear focus.
- 2/ Rationalise the system of granting aid to businesses in accordance with the 'one-stop' principle.
- 3/ Improve the quality and access to support services for small and medium-sized enterprises; link consultancy and control institutions within a single network.
- 4/ Improve access to start-up and risk capital and simplify bank lending procedures.
- 5/ Create instruments to enhance co-operation between enterprises and education and research institutions, and promote labour mobility.

III.A.3.5 Promoting business internationalisation

Even after gaining EU membership, the creation of measures and development initiatives to enhance international business competitiveness remains within the competence of the member states. This includes initiatives to promote the internationalisation of businesses, the aim of

³³ The Ministry of the Economy will provide the following services as part of the financial instruments: (i) establish one-stop support and information centres for financial services for small and medium-sized enterprises in Slovenia; (ii) inform enterprises about potential investors and risk-capital funds abroad, and help them establish contacts; organise both national and international events; and (iii) support joint entrepreneurial and development projects through financial resources and investors, promote knowledge and information on the various types of financing and access to banks and investors; consultancy.



which is to have a positive impact on the national economy. Member states require an appropriate institutional framework in order to implement such measures effectively. The range of institutional support in Slovenia is relatively underdeveloped compared to its fellow EU member states.

The objective in promoting business internationalisation is to use public and private financing effectively to improve the competitiveness of residents in international trade and to reduce the costs and risks for residents appearing on markets outside Slovenia. The specific objectives in promoting the internationalisation of Slovenian businesses are as follows: (i) increasing the number of first appearances by SMEs on foreign markets; (ii) increasing the export of goods, services and direct investments; (iii) the diversification of Slovenia's export portfolio; (iv) reducing business risks for Slovenian businesses on foreign markets.

The government will be able to achieve these objectives via the planned implementation of business internationalisation measures such as: (i) collecting and issuing high quality foreign trade intelligence³⁴; consultancy services (assistance in establishing companies and branch offices); (ii) monitoring events on the market and issuing information on business opportunities and operating conditions on target markets, promotion and PR services for companies, joint promotional campaigns; (iii) supporting businesses' own promotional activities (research on profile of business and its brand names, organising communication and promotion strategies, implementing promotional campaigns, distributing promotional material, assistance in establishing new products or technologies, selecting suitable premises for promotional events, setting up (initial) contacts between representatives of foreign and domestic companies); (iv) education and training for international business (as a supplement to existing business training; using specific programmes that offer extra marketing, financing, management and organisational knowledge); (v) providing information, consultancy and other services for non-residents (providing information on Slovenian export capacities to potential foreign buyers); (vi) other work that contributes to more successful business internationalisation (active participation of Slovenian representatives in the working bodies of economic associations and international organisations).

The measures set out above provide support for businesses wanting to start exporting as well as business that are already exporting but that want to enter new markets. The measures also relate to increasing outgoing investment by Slovenian companies (see also the chapter on increasing inflows of foreign and domestic investment in development initiatives, p. 7).

Priority measures (Guidelines nos. 10 and 13):

- 1/ Collect and issue high quality foreign trade intelligence and consultancy services
- 2/ Support promotional activities of businesses abroad
- 3/ Provide education and training on international business

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

Through the proposed measures we wish to achieve the better application in Slovenia of domestic and foreign knowledge for the country's economic development. In this way we will encourage the formation of a more innovative and technologically advanced economy and the opening of better quality jobs to a better educated and trained workforce.

³⁴ e.g. market trends, potential export markets, distribution networks, entry conditions for foreign markets, potential business partners, legal and organisational basis for operating on foreign markets; economic policy measures by individual governments; technical regulations; consumer behaviour; free customs zones, technology parks, and so on.

The fundamental change that we wish to achieve in this sphere is the strengthening of cooperation between the research/academic sphere and the business sector. Joint work by experts and entrepreneurs in the development of new technological, organisational, design, marketing and other business solutions is the best way to greater innovation and the more rapid technological progress of the economy.

III.B.1. RESEARCH, INNOVATIONS AND TECHNOLOGY

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

In terms of share of expenditure on R&D, Slovenia is about halfway up the scale of EU countries and has a suitable ratio of public to private investment. In terms of investment in R&D as a percentage of GDP, Slovenia, with a figure of 1.52 % of GDP in 2003, lags behind the most successful EU country by almost 3 percentage points and behind the Lisbon objectives by half that amount. In terms of the rate of growth of these investments in 2002-2003, it is at the tail end of the list of EU countries. In recent years the number of scientific publications has grown rapidly, but despite this we lag behind the EU average in terms of scientific/technological productivity, particularly in the area of highly-cited publications and patents granted. Slovenia scores badly in terms of effectiveness of use of resources, definition of priorities and application of the findings of R&D activity for faster economic and social development. Most worrying of all is the situation in the sphere of the application of knowledge to new products and services, since only one fifth of businesses are innovationally active – which places us among the bottom four countries of the enlarged EU.

The key objectives that we intend to achieve through appropriate incentives and measures in the sphere of R&D and innovations are: (i) to increase the influence of R&D in the domestic environment, particularly by encouraging greater R&D and innovation collaboration between enterprises and the public research sphere and mediators for the transfer of research results to enterprises; (ii) to increase investment in R&D in accordance with the Barcelona objective to 3 % of GDP by 2010 by doubling business sector investment in R&D to 2 % and raising public expenditure on R&D to 1 % of GDP; (iii) in the distribution of budget funds for R&D between science and technology, to achieve a ratio of 55:45 by 2010; (iv) to increase the quality of R&D activity, which, like economic activity, must demonstrate globally comparable quality, competitiveness, innovativeness, rationality and efficiency; (v) to strengthen human resources for R&D and their human awareness through education of young people in a spirit of free and open creativity, curiosity and awareness of the importance of their own knowledge, by promoting equal opportunities for women and men in science and research, by stimulating an increase in the share of R&D personnel in the business sector, by encouraging the international and inter-sectoral mobility of researchers and incorporation of the potential of Slovenes from abroad and from neighbouring countries; (vi) to develop a supportive environment for R&D by promoting a modern understanding of the role of knowledge and science in social and economic development as a key investment in social and economic progress, and by creating a supportive environment to boost investment in science, technology and enterprise; (vii) to increase the number of high-tech and innovative enterprises, since these are vital for the successful transfer of knowledge and the results of R&D and represent the motor of the country's technological development.

Among the priority measures for the realisation of these objectives will be: (i) improvement of the structure of use of existing resources and an annual increase in public expenditure on R&D by approximately 0.1 % of GDP; (ii) ensuring a changed investment structure through, among other things, a gradual increase in the share of specific applicable and developmental research and an increase in the share of project financing, the gradual directing of resources towards the priority areas of R&D, and through the division of additional budget funds for

R&D between the sphere of technological development and the sphere of science in a ratio of 80:20; (iii) establishment of a new expert system for the evaluation of other projects and other categories subject to open tenders, which will guarantee the greatest possible objectivity of evaluation; (iv) significant improvement of supervision of implementation of tasks set, the performance of research work and the achievement of forecast results, including appropriate measures if objectives are not achieved; (v) establishment of legislation that will enable the transparent establishment of spin-off enterprises at universities and public research organisations; (vi) formation of a flexible and attractive labour market in the R&D sphere, bringing together universities, research institutes and commercial institutions and enabling the employment of university professors or researchers from abroad at universities and research institutes in Slovenia; (vii) establishment of tax legislation that will encourage investment in R&D and in highly trained human resources.

With an improved structure of use of existing resources and increased expenditure on R&D, Slovenia will, among other things, improve its research infrastructure at universities, public research institutes and centres of excellence, increase the number of young researchers from 250 to 350 a year (the increased number should mainly go into the business sector), co-finance the formation of as many new high-tech companies as possible, give a greater opportunity to R&D for the growth of new products of large companies and their penetration onto the market under an established brand, restructure existing technology parks and prepare and equip sites for new technology parks near universities, increase the number of top foreign researchers working in Slovenia, achieve a higher share of highly-cited publications in international journals and significantly increase incentives for the popularisation of scientific/technical disciplines and science in general in the media and throughout the education system.

With regard to expenditure on R&D, it should be mentioned that the average annual real growth in expenditure in the period 1997-2002 reached 6.3 %. In order to achieve the target value of 3 % of GDP for R&D in 2010, this expenditure would need to grow more than twice as fast in the period 2003-2010 – or by 14.4 % a year. As an intermediate target, it is envisaged that investment in R&D in 2008 will reach 2.5 % of GDP.

Priority measures (Guidelines nos. 7-8):

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

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

The widespread use of information and communication technology (ICT) in all spheres of business, public and private life is an important contribution to the creation of a knowledge society. Considerable progress has been made in Slovenia in the recent period (2002-2004) if we take into account indicators of internet use across the whole population or among households, which can be attributed to a reduction in the costs of equipment and internet access. Somewhat less favourable is the picture regarding the use of various forms of e-business (online shopping, online banking, e-government), where we lag badly behind other EU states. The reasons for the unsatisfactory use of e-business relate to the security and reliability of transactions, the availability of appropriate accompanying services and the wider community's ability to use these services.

The development priorities of the information society in Slovenia are harmonised with the i2010 initiative³⁵, which encourages an open and competitive digital economy and in which ICT is highlighted as the driving force of social inclusion and quality of life, economic growth and competitiveness. The horizontal nature of the development of the information society will continue in the forthcoming period. On the one hand the key challenge is the provision of compatible (interoperable and integrated) services within the internal market of the EU and, on the other, the challenge is to ensure access to services for all (bridging the digital divide) and in all EU languages. Particularly for Slovenia, the provision of e-content in Slovene on the web is a major challenge.

Slovenia will significantly strengthen R&D in the ICT sector, both through the instruments envisaged for public educational and research institutions and as a support to the private sector and foreign investment. Moreover, we expect a greater share of cooperation of Slovenian partners in European Community programmes, particularly the 6th and 7th framework programmes (IST), eTEN, eContent and the Competitiveness and Innovation Programme (CIP, second pillar, after 2007). Besides strengthening development in the ICT sector, Slovenia is planning the following horizontal measures: (i) increasing the accessibility of ICT by stimulating the development of wireless networks (WiMax and WiFi), increasing competition, through investments in passive infrastructure and by increasing the security and reliability of services on the internet; (ii) including the broadest possible population in the use of ICT and information society services through the implementation of the initiative 'A computer in every home' (measures for encouraging the purchase of ICT equipment via an employer, coordinated campaigns to buy portable computers for students and a coordinated campaign to provide affordable ICT for the unemployed and at-risk groups). In this context the upgrading of the academic network ARNES will continue; additional equipping of educational institutions with ICT equipment and consistent implementation of the measures of education in the ICT sphere in the European Social Fund; (iii) provision of e-content in Slovene through the digitalisation of study materials and the building of a national portal for distance learning (e-learning) and the facilitation of transactions between legal persons and individuals and the public sector via the internet (e-government services for citizens and enterprises).

Priority measures (Guideline no. 9):

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

³⁵ – The European Information Society 2010 (COM(2005) 229)

- 2/ Include the broadest possible population in the use of ICT and information society services and the implementation of the 'A computer for every home' initiative.
- 3/ Provide e-content in the Slovene language.

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

In all spheres and at all levels of formal education, Slovenia has prepared a sweeping and thorough reform, which actually began during Lifelong Learning Year (1996). The reform, which is currently in progress, covers technical and vocational education, educational programmes for pupils with special needs, and higher education including university education. Simultaneously, the system of non-formal learning has been transformed and supplemented in many spheres. In 2004 the Resolution on the National Programme for Adult Education in the Republic of Slovenia up to 2010 was adopted. This is realised through annual adult education programmes in which the competences of different departments are envisaged. Lifelong learning is a constituent part of the system of education and learning, and fully comparable to other EU countries.

Slovenia has begun implementing the programmes of the SPD, Phare and other programmes that will support the realisation of the lifelong learning process via a more modern range of education and training, training for teachers and trainers, the development of local/regional centres, widening the system of quality assurance and direct assistance for the education of adults with an education deficit, and reducing the drop-out rate. A relatively high share of GDP (which is still increasing) is devoted to the education system, and this includes integrating all interested partners in the provision of an accessible and quality system of learning and education supported by all necessary infrastructure (ICT, information/advice centres, a wide and accessible network of institutions, methods and forms of learning and education, etc.). Slovenia is putting lifelong learning into effect in higher education mainly by widening access to higher education (e.g. widening entry conditions, the possibility of mobility from post-secondary to higher education, etc.) and by encouraging diversity in the courses offered and the constant growth of this diversity.

Slovenia's priority task is the establishment of an effective regionally balanced network of vocational and technical schools, lifelong learning and consultancy centres and contact points which will support and respond to the priority tasks of national and regional economies. Among the priority objectives are the reform of the higher education sector (the Bologna process), vocational and technical education (including *gimnazije*), music schools and special needs programmes, and the improvement of the general level of education of adults; boosting the educational and qualifications level in the direction of increasing employment possibilities; opportunities for study and inclusion in education, mobility and competitiveness. With regard to horizontal priority tasks, the objective is to increase a positive attitude to lifelong learning, equal opportunities, creativity, the environment and health in the family, in local communities and in enterprises.

Slovenia intends to achieve these objectives through the following measures: (i) the preparation of a National Programme of Higher Education 2006-2010, in accordance with the ongoing higher education reform; (ii) changes to the Professional and Academic Titles Act; (iii) the establishment of a public agency for higher education through the Council for the Evaluation of Higher Education; (iv) the preparation of a national qualifications framework in line with the European Qualifications Framework for all forms of education (formal, non-formal and informal) and all levels; (v) the preparation of a national strategy for lifelong learning; (vi) the enabling of transitions from post-secondary education to university



education; (vii) the provision of public responsibility for higher education and consideration of the social dimension in the ongoing higher education reform (system of study supports, equal access, transferability of scholarships and loans, attractiveness of employment in higher education and research, etc.).

As part of the efforts to improve the quality and application of knowledge, an integral reform of the university system will be carried out over the next few years. The principal elements of this reform are: (i) to deregulate the establishment of public and private higher education institutions and courses and encourage the formation of new universities in regional centres; (ii) to link financing to international comparisons according to the criteria of academic excellence, cooperation with the business sector, the success of graduates in the market and international cooperation; (iii) to study the possibility of introducing a voucher system and/or deferred fees; (iv) to increase flexibility in the design of courses, employment of teachers, mobility of students between courses, international cooperation; (v) to encourage the cooperation of universities with research institutes in the scientific/technical field and boost enrolment in undersubscribed scientific and technical courses; (vi) to increase public and private expenditure on tertiary education and improve conditions for teaching and research work at colleges and universities.

Priority measures (Guideline no. 23):

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

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

Over the last ten years Slovenia has implemented a range of measures and activities supporting the improvement, quality, flexibility and attractiveness of vocational education. New legislation has been adopted (1996 and 2000), and on the basis of the results of two Phare programmes for the development of vocational education and training (VET), a Memorandum on the further development of VET has been prepared (2000) and Starting Points for the preparation of programmes of lower and secondary vocational education and secondary technical education (2001) drawn up as a strategic document on the basis of evaluation of solutions to date and European guidelines.

Among the basic objectives in this sphere are the following: (i) opening the national curriculum for the needs of the economy at the local and regional levels; (ii) modularisation of courses, interconnection of general, technical and practical education; (iii) integration of education of young people and adults on the basis of clearly defined standards of knowledge; (iv) recognition of non-formally and informally acquired knowledge, skills and competences on the labour market and in the formal education system; (v) strengthening of international comparability and transparency of vocational qualifications; (vi) quality assurance; (vii) development of innovations in learning, teaching and assessment, and training for the new roles of teachers and mentors; (viii) reducing the drop-out rate in schools and greater support for individuals in the acquisition of new knowledge and competences, and promoting the integration of young people into the labour market; (ix) strengthening the autonomy and the developmental role of the school.



Slovenia intends to achieve these objectives through the following measures: (i) adoption of a national strategy on the realisation of adopted principles on the strengthening of information and consultancy at all levels of education, training and work; (ii) development of an information and consultancy network for young people who are not included in the education system; (iii) building of a national qualifications structure by sectors and activities and a national qualifications framework; (iv) implementation of the tools and mechanisms developed within the Copenhagen process (Europass, common quality frameworks, common principles relating to non-formal learning, textbooks and instructions) and the adoption of a new act governing technical and vocational education; (v) improving appropriate incentives for employers and employees to invest more in education; (vi) forming of appropriate partnerships at the regional and local level; (vii) improvement of the reputation and quality of vocational and technical education and thus of enrolment in this type of education.

Priority measures (Guideline no. 24):

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

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

The fundamental change we wish to achieve in this sphere is an increase in the efficiency of the state. This will be achieved by raising standards of professionalism and transparency in the public administration, improving the quality of its services and strengthening its consulting function. We plan to introduce a regulatory impact assessment system to screen regulations for their restrictive administrative and regulatory impact on competition and economic activity and take steps to remove these obstacles. We will reduce the gap between the state's investment needs and traditional available sources of funding by introducing public-private partnerships (PPP) to the provision, performing and financing of public services and investment in infrastructure.

III.C.1. Improving the institutional competitiveness of the state

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

Improving the quality of regulation includes the elimination or amendment of regulation which restricts competition and creates economic rents, the involvement of the public or stakeholders in the preparation of regulations through a process of consultation, removal of administrative obstacles, simplification and unification of procedures, and their standardisation and computerisation. The principal objectives of these measures are greater responsibility and openness of the state.

In the removal of unnecessary and unreasonable bureaucratic obstacles, we will use the Removal of Administrative Obstacles Programme, which is currently undergoing interdepartmental harmonisation. This programme includes the measures which are necessary for the achievement of individual goals and which are defined by the competencies of individual ministries as bodies responsible for the implementation of measures and thus for the achievement of the targets set³⁶. The methodology for the declaration on the removal of

³⁶ In 2006, on the basis of the draft Agreement on cooperation between non-governmental organisations (NGOs) and the Government of the Republic of Slovenia, prepared by NGOs, the priority tasks which the Government of the Republic of Slovenia will include in the Removal of Administrative Obstacles Programme, for the purpose of



administrative obstacles and cooperation of stakeholders (initial assessment of the impact of regulations), which every proposer of a new regulation will have to complete, is also being prepared.

In its pursuit of the objective of simplification of legislation, the government has set up the Council for an Economy-Friendly Administration, which has the function of a kind of 'anti-bureaucratic filter', whose main aim is to reduce administrative obstacles in the setting-up and operation of companies, since such obstacles complicate procedures and create additional costs for businesses. The Council designs proposals that lead to a reduction in administrative burdens for companies and guarantee greater transparency of business conditions, where the needs of Slovenia's economy are the most important guiding principle.

The priority measures in the period up to 2008 are: (i) the introduction of obligatory regulatory impact assessment, the development of a methodology for the assessment of impact on the economy and the implementation of pilot projects; (ii) the establishment of standards of success and efficiency and a methodology for comparisons between public administration bodies; (iii) analysis of the business processes of the administration as a basis for the optimisation, standardisation and computerisation of procedures; (iv) the improvement of coordination of the design and implementation of the development function of the state (the economy, social security, the environment).

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

Slovenia wants to achieve a growth in institutional competitiveness by introducing business excellence in the public administration. The objectives we wish to achieve are the introduction of a strategic planning system as a basic management tool in the public administration, the introduction of management tools, and the application of the Common Assessment Framework (CAF) and inclusion in the European Excellence Model (EFQM). The measures for the achievement of these objectives are: (i) adoption of regulations for quality assessment and strategic planning (2006/2007); (ii) building support (methodological support and information support) for the strategic planning system (2006/2008); (iii) management education and training.

In the sphere of e-government, a portal will be set up for the electronic services of the public administration. Certain registers will be renovated so as to enable additional online services. A central data repository will be set up to monitor the use of public administration services, administrative statistics and the efficiency of the public administration. The one-stop-shop project, which was successfully introduced in the sole trader sector in July, will be widened to include enterprises in 2007.

The increasing of efficiency is also conditioned by the establishment of uniform central registers, particularly in the sphere of social transfers, where the introduction of the concept of deciding on social transfers according to the one-stop-shop principle is important. The existing integration of databases or information systems proves that integration brings faster and more efficient monitoring of changes, greater transparency, higher quality of decision-making and less bureaucratisation. For example, data exchange among collection managers reduces the need to burden clients with the adaptation of certificates. At the same time, the government is planning to launch activities for a phased harmonisation of data and possibly the merging of the register of companies, the national Agency for Public Legal Records and Related Services (APLRS) and the Tax Administration of the Republic of Slovenia.

eliminating legal and other obstacles to the work of NGOs, will be defined. In 2007/2008 the Government will commence the implementation of obligations from the Removal of Administrative Obstacles programme in the sphere of cooperation with NGOs.

The reform of the public administration must also lead to greater efficiency in traditional property spheres of operation covered by the records of the land register, the land cadastre and the buildings cadastre (see also 'better management of space', page 42).

III.C.1.3. Public-private partnership

It is logical to involve the private sector in the financing and management of major infrastructure projects and the provision of certain other public functions. Slovenia lags behind other EU countries in terms of public-private partnership and we are one of the few countries, which does not have a defined normative framework. It will therefore be necessary to apply the concept of public-private partnership in Slovenia and introduce statutory regulation of this sphere. In Slovenia such a method of financing could be used in specific infrastructure projects (roads, bridges, railways, power supply, public transport) and services (education, health care, old people's homes, cultural centres, sports facilities, prisons). The government will establish an appropriate institutional framework and study all opportunities for the application of public-private partnership.

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

Good functioning of the justice system which will remove existing backlogs in courts and ensure the right to justice within a reasonable deadline is important for a market economy and democratic development. The main measures for the improvement of the efficiency of the judicial system are: (i) simplification and standardisation of judicial proceedings; (ii) full computerisation of the courts; (iii) additional training of judges and prosecutors, especially in the spheres of economic crime, corruption and organised crime; (iv) reorganisation and better management of courts; (v) provision of spatial conditions in accordance with the strategy of spatial development of the judicial system; (vi) additional provision and organisation of technical staff for a fixed period, up to 31 December 2010, when the removal of court backlogs is envisaged; (vii) reward judicial staff for reducing court backlogs.

Priority measures (Guideline no. 14):

- 1/ Improve coordination of the design and implementation of development function of the state (economy, social security, environment).
- 2/ Introduce compulsory regulatory impact assessment and development of a methodology of the assessment of impact on the economy.
- 3/ Adopt and implement the Removal of Administrative Obstacles Programme.
- 4/ Introduce a system of strategic planning and managerial tools the public administration, introduce the Common Assessment Framework (CAF) and inclusion in the EFQM.
- 5/ Establish standards of success and efficiency of the public administration; analyse business processes of the administration as a basis for the optimisation, standardisation and computerisation of procedures.
- 6/ Introduce public-private partnerships.
- 7/ Establish central registers, e.g. a uniform central register in the sphere of social transfers, a property register, etc.
- 8/ Ensure greater efficiency of the judicial system.

III.C.2. State aid

State aid almost halved in Slovenia between 1997 and 2002 (1997: 2.7 %; 2002: 1.42 % of GDP) but has grown slightly in the last two years (2003: 1.51 %; 2004: 1.58 % of GDP), as the result of a growth in aid for agriculture and fisheries and for the transport sector. Aid for these sectors represents two thirds of total state aid. Other aid (excluding agriculture, fisheries and railway transport) is decreasing (2003: 0.65 %; 2004: 0.54 % of GDP) and is only slightly



higher than the annual average (2000-2003) of aid in EU-15 countries (0.43 % of GDP) and significantly lower than in the new Member States (1.38 % of GDP). Regional aid and aid to SMEs is extremely low, which is a consequence of Slovenia not promoting investment.

The realisation of the objective which envisages the reduction of state aid is closely linked in Slovenia to a reduction in aid to agriculture and transport. Aid expenditure for other purposes is lower than in Germany, Portugal and the majority of new EU Member States. From the point of view of the realisation of the objectives of the Lisbon strategy and the strengthening of the competitiveness of the economy, Slovenia should not reduce expenditure even further but redirect it for more efficient purposes. Instead of being used for the rescue and restructuring of badly-performing enterprises, where aid has proved to be ineffective, more expenditure will be directed towards promoting the development of enterprise and internationalisation, which means a strengthening of aid to SMEs, training, regional development and energy saving. Aid for R&D will be increasingly diverted from basic to applied research, which is more significantly connected to competitiveness and economic growth. The extraordinary growth in aid to the transport sector in 2004 in comparison to previous years was a one-off phenomenon and such levels of aid are not expected in the years ahead. The level of aid to agriculture will continue to be closely linked to the obtaining of aid from the European Agricultural Fund in coming years, since Slovenia has already been funding the implementation of the programme of the common agricultural policy with national resources, i.e. with state aid, for a number of years.

Priority measures (Guideline no. 13):

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

III.C.3. Developmental restructuring of public finances

Slovenia intends to meet a number of ambitious objectives in the sphere of public finances: (i) the reduction of the scale of public expenditure in comparison to GDP by 2 percentage points by 2008 and the gradual elimination of the government deficit; (ii) redirection of a part of government expenditure on financing development priorities, especially expenditure on R&D and education; (iii) increasing the absorption capacity for the use of EU funds and provision of funds for co-financing; (iv) transformation of the tax system in the direction of greater support for the competitiveness of the economy.

The main measures for this improvement in the quality of public finances are: (i) in the preparation and implementation of the budget, application of the principles of a results-orientated budget and more efficient public expenditure; (ii) an increase in the flexibility of government expenditure; (iii) transfer of the provision of some public services to the private sector and co-funding; (iv) simplification of tax legislation; (v) simplification of tax procedures and reform of the operation of the tax administration in the direction of an efficient and friendly tax administration; (vi) preparation of a comprehensive tax reform with the objective of reducing the burden on labour and promoting competitiveness, investment and employment; (vii) centralisation and rationalisation of procedures relating to the acquisition of resources from European structural funds; (viii) preparation of a selection of a small number of focal projects of national importance for financing in the next financial perspective.

Priority measures (Guideline no. 4):

- 1/ Change the structure of government expenditure in the direction of development priorities and better absorption of EU funds.



2/ Gradually reduce the share of government expenditure in GDP by at least two percentage points.

3/ Carry out a comprehensive tax reform based on the principles of removing the burden from labour, promoting competitiveness, employment and the simplicity of the system.

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

The purpose of the proposed measures is to create an environment in which citizens will be able to find employment more rapidly and more easily and at the same time enjoy the necessary level of social protection. The main change is aimed at motivating unemployed people and recipients of social transfers to actively seek employment, develop their skills, and accept occasional and temporary jobs. In this respect, the state will assist them by amending the employment policy and introducing incentives for investment in education and training. At the same time, the changes made in the labour market will help employers adjust the extent of employment and thus encourage them to increase recruitment. Based on a better use of human resources, the planned set of measures will ensure faster economic growth and employment, without undermining the foundations of the social state.

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

III.D.1.1. Horizontal goals and measures

The overall employment rate in Slovenia in 2004 among people aged between 15 and 64 was 65.3%, which is slightly above the EU average. The employment rate for men and women is 70% (slightly more than the EU average) and 60.5%, respectively. The employment rate of older workers is critically low, accounting for just 29%.

Although the overall unemployment (6.0% in 2004) is considerably below the EU average, the unemployment rate of young workers is dramatically high and stands at 14.3% (11.5% for men and 18.0% for women). A high unemployment rate is also recorded by non-skilled workers or people who have not completed primary education (9.7%). Among the unemployed, the share of the long-term unemployed remains relatively high (53.1% in 2004), with an increasing number of young first-time job-seekers, including those who are highly educated.

In order to achieve higher employment, Slovenia has set the following individual goals:

1. *Achieving full employment:* (i) increase the employment rate to 67% by 2008; (ii) reduce unemployment (ILO) to 5.5% by 2008; (iii) keep the female employment rate at least 2 percentage points above the EU-15 average and achieve the EU-15 average in male employment within two years; (iv) increase the employment of older workers to 35% by 2008; (v) by 2008 create the conditions for the first-time employment of young people with a university or post-graduate education within 6 months of the completion of their studies.
2. *Improving quality and productivity at work:* (i) increase the number of quality jobs; (ii) improve the adaptability of enterprises by allowing greater numerical flexibility and providing a sufficiently high level of security in the labour market; (iii) remove inconsistencies between the educational system and labour market needs; (iv) promote lifelong learning and boost access to education and training, particularly for low-skilled and older workers in sectors undergoing restructuring; and (v) promote private investment in the knowledge and training of the workforce.
3. *Strengthening social and territorial cohesion:* (i) reduce regional disparities in terms of employment, unemployment and labour productivity; and (ii) prevent exclusion from the



labour market and increase social inclusion, particularly of people at a disadvantage (disabled persons, ethnic and other groups etc.).

Through a broad partnership of the relevant players and with the available resources including structural funds, Slovenia intends to cope with the abovementioned challenges in the next three years and achieve the goals set by implementing the measures specified below and focusing on the following aspects: (i) attract and retain more people in employment, increase the labour supply and modernise social protection systems; (ii) improve the adaptability of workers and enterprises; and (iii) raise investment in human capital through better education and professional training.

Priority measures (Guideline no. 17):

- 1/ Programmes for increasing the employability of both the unemployed and employed
- 2/ Discourage early retirement
- 3/ Improve the adaptability of workers and enterprises by promoting the use of flexible forms of employment and lifelong learning
- 4/ Bolster private investment in human capital
- 5/ Increase employment incentives within the social protection system

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

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

The unemployment of young people is relatively high, particularly among young women. In addition, the average age at which young people enter the job market is increasing as the time spent on studies is becoming longer. Another problem is the increasing share of first-time job-seekers with a university education among the unemployed and long-term unemployed.

In accordance with the Bologna process, the average time spent at college or university is expected to decrease while the performance of students will improve. Since the attractive work incentives in the past few years considerably increased the extent of student work and resulted in lower performance and less possibilities for the regular employment of younger workers, the youth labour market will now be included within a single employment system. (Also see the chapter on R&D and innovation activity, p.22, and knowledge for development, p. 25) Youth employment can also be improved by promoting volunteer work which enables young and unemployed people to obtain formal credentials about their working experience acquired during volunteer work, which may improve their employment prospects.

Slovenia's main objective in terms of youth employment is to increase their integration into life and work and improve their performance and study success. The promotion of youth employment, their integration into the working environment and society as well as other measures provided by the programme of reforms all comply with the objectives and guidelines of the Youth Pact and emphasise their importance within a new partnership for growth and jobs.

The most important measures aimed at solving the issue of youth employment include: (i) integrating study and work (e.g. scholarships for socially deprived students, sponsorships, practical training); (ii) reorganising higher education in line with the Bologna process; (iii) active employment policy measures for unemployed youth (e.g. each young person has to enter an active employment policy programme or employment within six months of registration with the Employment Service of Slovenia); (iv) implementing the project 'Prevention of non-performance in vocational and technical education and training' by the Vocational and Professional Education Centre, aimed at reducing dropouts as an obstacle to access to the labour market; and (v) reforming student employment offices and the envisaged



amendments to scholarship regulations aimed at vacating jobs occupied by students working through student employment offices.

Priority measures (Guideline no. 18):

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

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

The employment rate of older workers (aged 55-64) – accounting for 29% in 2004 and 23.5% in 2003 – is very low and mainly results from the early retirement of older people due to the corporate restructuring (mostly in industry) seen in the early 1990s when a certain share of the then still active population started their retirement. Since the introduction of the pension reform in 1999 the average retirement age has risen by 2 years. In 2004, a considerable rise of the employment rate in the 55-64 age group was recorded.

In the future, there will be a gradual rise in the effective retirement age from the current 58 to the target 65 years. In addition, it may be expected on one hand that in the event of favourable economic growth wages will rise as a result of the anticipated drop in active employment while, on the other hand, given the existing pension legislation, there will be a relative reduction of pensions compared to wages, most probably causing a voluntary prolongation of working years.

Although a slight rise in the birth rate is expected, demographic estimates anticipate the ageing of the population and a shrinking of the working age population after 2006. No major immigration flows affecting demographic trends are expected. The only way to increase the employment rate is thus by reducing unemployment and increasing the activity of older people (aged 50-64), particularly in the 55-64 age group where the Lisbon Strategy envisages a level of 50% employment in 2010.

The problems concerning the active ageing and employment of older people with the objective of increasing the latter on a long-term basis will be solved by the following measures: (i) prolongation of the working years of older people (55-64) aimed at increasing the retirement age pursuant to the pension reform; (ii) an integral strategy of active ageing, to be prepared by the end of 2006; (iii) a more qualified and experienced workforce in terms of access to education and training and lifelong learning (also see the chapter on knowledge for development, p. 25) and in this respect replacing quantity with quality human resources; and (iv) the most important employment measures in this field include the development of integrated programmes and job catalogues (quasi market) as well as the development of systems enabling employment in the real economic market on a long-term basis.

Priority measures (Guideline no. 18):

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

III.D.1.2.3. Modernisation of social protection systems

Slovenia complies with the goals and activities of the Community Action Programme to Combat Social Exclusion and of the adopted National Action Plan on Social Inclusion 2004-2006 (NAP/inclusion) that comprises key challenges and concrete measures aimed at reducing poverty and social exclusion. The measures indicated by NAP/inclusion will be implemented in areas such as active employment policy, the development and promotion of



lifelong learning, reduction of dropouts among young people, promotion of the use of ICT, as well as the provision of adequate living conditions for all and of adequate income and resources to ensure a decent standard of living.

A new National Social Protection Programme for 2006-2010 is expected to be adopted by the end of 2005 and to provide the basis for a new Social Protection Act. The basic objective of the social protection policy is to provide professional assistance and the necessary material resources to the individual and their family when they are unable to provide for basic social conditions by themselves. Other objectives include greater social inclusion of individuals and interaction with Slovenian society, better access to services and programmes of the public service, preservation of existing income levels, greater quality of services and programmes as well as the increased target designation and efficiency thereof, and enhanced professional autonomy, managerial independence and rational operation in the area of social security.

Due to the growing number of people entitled to cash social assistance under the Social Protection Act, which is a result of the higher base amount of the minimum wage and unstable social and economic conditions (economic growth, employment, demographic changes) along with cases of abuse (when income or property is not disclosed entirely or does not reflect the actual situation), a constant increase has also been recorded in national budget expenditure. The amendments to the Social Protection Act in autumn 2005 are expected to improve the existing situation and rationalise budgetary expenditure in granting cash social assistance thanks to the introduction of fairer and more efficient criteria in areas not properly regulated at the moment, encourage unemployed recipients of cash social assistance to undertake greater work activity, bring about a more rational spending of budgetary funds, and improve control over spending by beneficiaries of extraordinary cash social assistance. Further, the proposed amendments are aimed at improving the current situation, simplifying the procedures, rationalising expenditures in regulating the right to choose a family assistant, and improving the financing of family assistants.

In order to modernise the social protection system, the government has appointed a special group for reforming social transfers whose task is to prepare draft structural reforms or systemic changes of the social protection systems. However, a more proper and integral reform of social transfers will only be possible after examining the different rights and decision-making procedures concerning social transfers in the social protection system. A possible approach to modernising social protection systems lies in the possibility of exercising the relevant rights in a single place and on the basis of uniform registers, which will represent a rationalisation for both providers and users. In this respect, measures for achieving uniform principles of assessment and valorisation of benefits are also being prepared. What is most important is to ensure that when deciding on the allocation of benefits, the beneficiary's entire income and property status is assessed according to uniform criteria, and that the total amount of benefits will be determined so as to encourage work activity and prevent the passivity of assistance recipients.

In the same context, the Long-term Care Insurance Act is being prepared, which is aimed at improving the sustainable financing of different social protection services, such as home care or accommodation in social and health care institutions.

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

- 1/ Integral reform of social transfers
- 2/ Rationalise procedures and the spending of budgetary funds
- 3/ Prepare a new Social Protection Act



III.D.1.2.4. Equal opportunities

Slovenia records a high employment rate, even among the female population (60.5% in 2004). Nevertheless, the gap between men and women in terms of employment and unemployment as well as wages remains considerable and requires special attention.

Over the last years, the gap between male and female employment and unemployment rates has grown. The main difference in terms of unemployment is recorded among young people and among highly qualified first-time job-seekers. The share of women employed on fixed-term contracts has increased. Differences are also recorded in relation to absences from work: men are more frequently absent due to injuries at and outside work while women stay home to care for a family member.

Slovenia intends to achieve the equality of men and women in the labour market within the framework of active employment policy and the activities of the European Social Fund with the integration of the gender equality principle – the relevant measures take into account and reduce the structural inequalities between men and women. Equal opportunities are introduced in the programmes of active employment policy by means of a dual strategy, namely by integrating the gender equality principle (as a general rule, 50% of women in every activity) and by introducing special programmes for specific female target groups.

In relation to the labour market, the Resolution on the national programme for equal opportunities of women and men by 2013 defines the following objectives: (i) reduce gender discrimination in employment and work; (ii) reduce the gap in the employment and unemployment rates of women and men, increase the self-employment of women and women entrepreneurship, reduce vertical and horizontal segregation and the differences in terms of wages.

In order to achieve the above objectives, the Resolution envisages the following measures: (i) implement a horizontal equal opportunities policy within the framework of the active employment policy and in the activities of structural funds in Slovenia; (ii) introduce special programmes to encourage female employment within the framework of the active employment policy and in the activities of the European Social Funds; (iii) implement and support special programmes encouraging the self-employment of women and women entrepreneurship, encourage men and women for training and employment in areas where one or the other are a minority; (iv) apply and support special programmes encouraging the promotion of women and their representation in managerial positions; and (v) analyse causes of the difference in wages and introduce mechanisms to eliminate them.

Priority measures (Guideline no. 18):

- 1/ Implement special programmes encouraging the promotion of women
- 2/ Encourage men and women to undertake training and employment in areas where one or the other are a minority (non-standard professions)
- 3/ Ensure significant representation of women in active employment policy programmes and special programmes encouraging female employment

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

According to the Parental Protection and Family Benefit Act both mother and father may take leave to care for a child. The parent who cares for the child up to the child's third year of age or for a child with special needs has the right to part-time work, which covers at least half of normal weekly working hours. In such an event, the employer provides for the payment of the actual hours at work, while the state provides for the payment of social contributions in the



amount of the difference between the minimum wage and full work time. An additional contribution to the better reconciliation of work and private life is made by the institutionalised network of homes for the elderly, together with other organised forms of elderly care.

As regards the reconciliation of work and private life, the Resolution on the national programme on equal opportunities for women and men 2005-2013³⁷ identifies the following objectives: (i) easier reconciliation of work and private life; and (ii) improvement of public and support services facilitating the reconciliation of work and private life.

The following measures are envisaged to achieve the above objectives: (i) implement and support special programmes for the reconciliation of work and private life; (ii) encourage employers to allow the reconciliation of employees' work and private/family duties, for example by introducing flexible forms of employment, flexitime, and additional training for both genders; (iii) conduct and support research on the reconciliation of work and private life of women and men and on the importance and value added of such a working environment; (iv) introduce competitions for family-friendly enterprises, establishments; (v) monitor EU indicators of the reconciliation of work and private life; (vi) develop existing and introduce new child care programmes and services, adjusted to the different needs of parents and children; and (vii) develop existing and introduce new programmes and services of elderly care and other forms of assistance to family members in need.

Priority measures (Guideline no. 18):

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

III.D.1.3. Ensure inclusive labour markets

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

A positive trend has been recorded in the Slovenian labour market over the last five years. The unemployment rate fell from 7.6% in 1999 to 6.0% in 2004 and is currently below the EU average. However, the country still faces structural unemployment and a high rate of long-term unemployment, mostly among non-skilled older workers.

As regards human capital, employment and the labour market, Slovenia largely achieves the EU average and fully complies with the EU's employment policies. The following aspects, however, still separate it from the group of the most developed countries: too low activity in specific age groups, low education and qualification levels, a large share of non-demanding jobs, structural disparities in the labour market, and unequal access to work and capital.

Active and preventive labour market measures

The Employment and Insurance against Unemployment Act provides 19 different active employment policy measures intended for employers and employees, as well as additional specific measures including public works, labour funds, the training of the unemployed, and five different forms of exemption of social contributions for employers employing someone who has been unemployed and registered with the Employment Service for more than 12 months. The programme of active employment policy measures for 2005 comprises activities

³⁷ The Slovenian Government adopted the draft Resolution and submitted it to the Parliament in June 2005; its discussion is expected in autumn 2005.

aimed at the fulfilment of Lisbon objectives and optimum implementation of the European Employment Strategy.

In Slovenia, active employment policy measures are mainly intended to encourage the employment of the unemployed with low employment prospects, particularly those aged over 55, the long-term unemployed and first-time job-seekers. A special target group includes women and the recipients of social assistance. Education and training measures are meant for unemployed people who have no vocational or technical education. Another special target group consists of workers whose work has become unnecessary for business reasons, workers whose work has become unnecessary due to the initiation of a compulsory settlement procedure, and workers who are about to lose their current employment. The purpose of the measure of educating employees is to encourage employers to invest in the development of human capital and promote lifelong learning. In the implementation of active employment policy measures, particular attention is paid to reducing regional disparities in employment by promoting employment in municipalities with above-average unemployment rates and improving education levels in accordance with labour market needs.

In order to successfully implement the above measures and to thus ensure greater transparency and feasibility, active employment policy programmes will have to be integrated into programmes with a clearly defined purpose.

Development of new employment sources in the area of services for individuals and businesses, particularly at the local level

In most cases, non-profit employers are unable to fully and independently finance new employment and thus satisfy the demand for services related to management of the environment and ecology, culture, education, social protection and other non-profit public services. The extent and type of demand in such areas thus provides the possibility to create new jobs and employ the unemployed from the abovementioned target groups, depending on the nature of work. The programme of non-market employment will focus on co-financing the employment of the unemployed from the target groups, preventing their social exclusion, and promoting their reactivation.

Priority measures (Guideline no. 19):

- 1/ Special programmes for people with low employment prospects and for intensively working with them
- 2/ Invest in the training of non-skilled workers
- 3/ Introduce and implement programmes of employment in the non-profit sector

III.D.1.3.2. Discrimination in the labour market

Despite the fact that in Slovenia employment is gradually increasing and the unemployment of the active population is decreasing, the gap between women and men has recently grown in terms of both the work activity rate and unemployment. The share of women among the young unemployed aged 15-24 as well as between first-time job-seekers with a university education is far larger than the share of men.³⁸ As regards the search for employment, the workplace and promotion opportunities, women are more often than men subject to different forms of discrimination on the basis of maternity or family duties.³⁹

³⁸ Data provided by the Statistical Office of Slovenia, 2004, 2005 and the Employment Service of Slovenia, 2004.

³⁹ Data provided by the Office for Equal Opportunities on the basis of cases dealt with on the free telephone line for legal assistance, by the advocate of equal opportunities for women and men, and from the survey entitled »Parents between work and family«, conducted by the Faculty of Social Sciences.

Slovenian legislation is the appropriate framework in which to ensure the equal treatment and prevent the discrimination of men and women in the labour market, but special emphasis should be made for its implementation in practice in order to reduce discrimination based on gender (and other personal circumstances) in employment and work. The objectives and measures to combat gender-based discrimination in the labour market are presented in the Resolution on the national programme for equal opportunities of women and men 2005-2013 (also see the chapter on equal opportunities, p. 35). A two-year plan is also being prepared and will define concrete activities to implement the goals and measures envisaged in the Resolution. A particular objective is to reduce gender-based discrimination in employment and work, namely through: (i) special programmes aimed at combating all forms of discrimination and eliminating the inequality of genders in the labour market (e.g. EQUAL); (ii) an inspection system focussing on different types of discrimination, and methods for the monitoring and managing thereof; and (iii) an analysis and examination of gender-based discrimination in employment and work, and raising awareness about prevention mechanisms.

Priority measures (Guideline no. 19):

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

III.D.1.3.3. Disadvantaged people in the labour market

At the end of 2003, there were more than 50,000 disabled people in the Slovenian labour market, about 44% of whom were unemployed. The average disabled person is 50-years old and has completed primary school and a 2-year vocational education programme, which offers low employment prospects in today's knowledge-based society. Analyses reveal that the position of the disabled in the labour market is less favourable, that the disabled enter the labour market to a smaller extent, that the unemployment rate is more than 20% higher than the general unemployment rate, and that the duration of unemployment is longer than for the rest of the population.

Slovenia intends to implement the EU's recommendations concerning employment policy as a means for social inclusion in accordance with the guidelines of the European Employment Policy through measures and activities defined in more detail in the Active Employment Policy Programme for 2005 and in the Occupational Rehabilitation and Employment of Disabled Persons Act. The Act provides new possibilities for employing disabled people and improving their employment prospects, and introduces a network of occupational rehabilitation providers as well as a system of concessions for performing public service, wage subsidies for the disabled based on the assessment of their performance, a definition of jobs suitable for people with disabilities as determined by employers in their system of positions, the sheltered employment of the disabled within employment centres to employ people with the severest disabilities who have so far been excluded from the employment system due to their condition, supportive employment which introduces a model of integrated employment and is supported by expert support services in the workplace (also support for employers), a system of quotas⁴⁰ to become applicable in 2006 and introducing the regular monitoring of employed disabled persons per activity and employer, and the related

⁴⁰ The system of quotas for the employment of disabled people means the compulsory employment of a certain share of the disabled among all employees. The quota will be set by the government. The maximum quota is 6% of the total number of employees; the minimum quota is 2%. The quota includes all disabled persons holding the status of such as well as disabled persons suffering permanent consequences of physical or mental disability or illness, who are less likely to be employed or keep their job or be promoted and have concluded an employment contract for at least 20 hours per week.



incentives/financial burdens for employers and the publicly financed Fund Promoting the Employment of Disabled Persons.⁴¹

Implementation of the Occupational Rehabilitation and Employment of Disabled Persons Act will improve the status of disabled people in Slovenia, increase the employment prospects of the disabled, and improve their treatment. The system of occupational rehabilitation will be open to all disabled persons on the basis of their legal rights. The new system is based on the individual treatment and planning of rehabilitation of disabled people and on directing them towards possibilities adapted to them and supported by service providers. The action programme aims at providing equal opportunities for the disabled and including a large number of disabled people in the labour market.

Priority measures (Guideline no. 19):

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

III.D.1.3.4. Position of the Roma in Slovenia

In January 2005 the government of the Republic of Slovenia decided to start on preparation of a special law on the Roma community and listed such a law in its work programme for 2005. The Roma law is expected to enter into force on 1 January 2007. By then, special employment programmes for the Roma will also have been prepared.

Priority measure (Guideline no. 19):

- 1/ Preparation of a special law on the Roma community

III.D.1.4. Identify labour market needs

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

In Slovenia, the main institution responsible for implementing employment policy is the Employment Service of Slovenia (ESS). The ESS implements all EU requirements through the EURES network and co-ordinates social protection systems in relation to the rights deriving from insurance against unemployment. As a final beneficiary, the ESS also implements programmes co-financed in Slovenia by the European Social Fund (higher employability, social inclusion, the creation of jobs, greater corporate flexibility) and participates in EQUAL projects as a partner. In accordance with national regulations, the ESS keeps a register of and monitors employment trends and services relative to the free movement of workers.

In the future, it is essential to modernise the Employment Service as the central institution which provides transparent information on labour market needs at the national and EU levels by means of modern technologies and Internet services for job searching, and by introducing modern forms of job-search assistance and counselling for the unemployed, with due consideration of their specific needs. Intense contacts with employers and the development of Internet services intended for this are in fact the preconditions for the timely identification of labour market needs and elimination of short-term mismatches between supply and demand. By developing services for employers and job-seekers within the EURES network, Slovenia



will be able to realise the principle of the free movement of workers within the EU and ensure the priority employment of EU citizens over the citizens from other countries.

In order to boost the ESS' efficiency, the possibility of alternative ways of organising and financing the ESS will be considered. The following measures are necessary to improve the ESS' functioning in relation to the employment of unemployed people and monitoring the associated activities: (i) improve the ratio between unemployed persons and a single counsellor (the optimum ratio is 150 unemployed persons per counsellor); (ii) combine active employment policy programmes into programmes with a clearly defined purpose to overcome the existing fragmentation of active employment policy programmes and at the same time provide for greater visibility, transparency and feasibility; (iii) in active employment policy programmes for one or more years, separate measures to be implemented horizontally according to stable feasibility schemes and with stable financial resources (implemented across the state) from special approaches/projects subject to tenders and aimed at activating regional partners to solve the specific problems of unemployment in individual regions and promote the integration of regional employment projects with other regional development projects (rural development, promotion of corporate innovations, development of business zones etc.).

The state will provide adequate incentives and measures to motivate private agencies to also focus their activities on counselling and employment brokerage for the unemployed with employment disadvantages, and thereby prevent a possible cause of labour market segmentation. In order to improve the labour market's flexibility, the government will eliminate possible barriers to the development of employment brokerage agencies, including incentives for providing jobs to unemployed people.

Priority measures (Guideline no. 20):

- 1/ Modernise the Employment Service of Slovenia
- 2/ Train and motivate employment counsellors
- 3/ Promote employment brokerage agencies as an element of labour market adaptability

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

Upon EU accession Slovenia adopted the principle of reciprocity in terms of the free movement of workers and introduced equal measures for all EU member states. With countries where problems in relation to the employment of Slovenian nationals could arise as a result of a transitional period, interstate agreements on employment may be concluded.

In Slovenia, the free movement of workers applies to the citizens of old EU member states which have liberalised their labour markets (Sweden, Ireland and Great Britain) as well as to the citizens of new member states. The citizens of other EU member states are given employment priority over the citizens of other countries. As far as the latter are concerned, in 2005 the government issued a second decree to regulate and restrict – on the basis of regular monitoring of the labour market – the issuing of work permits for the employment of and provision of services by the citizens of other countries. Considering the deficiency in labour market needs, there are measures for the re-immigration of expatriates/experts on the basis of the anticipated needs for professional competence and the anticipated bottlenecks in the labour market.

Priority measures (Guideline no. 20):

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

3/ Promotional campaigns for the re-immigration of expatriates/experts

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

III.D.2.1. Responding to changes and promoting flexibility, adaptability and mobility in the labour market

III.D.2.1.1. Promote flexibility, adaptability and mobility in the labour market

As regards the labour market and employment, Slovenia still encounters structural imbalances concerning educational, occupational and regional aspects. The national labour market and employment policies thus provide special measures aimed at workers in potentially threatened jobs to improve their skills in order for them to be able keep their jobs on a long-term basis, and at the unemployed to adapt to labour market needs and raise their employment prospects. Particularly important in this respect are job regulation and the mutual recognition of professional qualifications among EU member states, including education and skills for performing a certain job. Slovenia has fully implemented the national professional qualifications system which facilitates the international comparability of qualifications and the introduction of a uniform system for recognising professional qualifications among individual economic sectors. The acquisition of such certificates is fully financed for the unemployed and only partially financed for the employed. Considerable emphasis is given to lifelong learning and to the additional education and professional training of both unemployed persons and employees (also see the chapter on knowledge for development, page. 25).

In order to boost employment, it is essential to improve the labour market's flexibility by promptly resolving structural imbalances and providing an adequate level of social protection. The existence of the social state is in fact essential for social stability and economic growth and it is therefore necessary to reach a consensus with the social partners aimed at high labour market flexibility, the enhanced role of the corporate sector, and more dynamic forms of employment. The preparation of a new Social Agreement for 2006-2009 therefore provides an opportunity to discuss reforms on the labour market and its safe flexibility.

The problem of low labour market flexibility is also reflected in the low mobility of the workforce, not merely in geographical terms but also between activities and jobs. The most important objectives in this respect therefore include a flexible labour market and employment, an increase in part-time and temporary employment, and the easier movement and mobility of the workforce. Labour market policies will thus be even more consistent in terms of work supply and demand, and will include elements of wages policy, social transfers and retirement policy. In this context, Slovenia intends to prepare a wide range of changes to encourage employers to open new positions and motivate job-seekers to occupy them more rapidly. Amendments to the regulations that significantly hinder labour market flexibility compared to other EU member states are necessary.

By adopting the Resolution on national transport policy, the government wishes to improve the situation in this area through some concrete measures such as financing public transport for the unemployed to ensure a minimum standard of accessibility, the re-establishment of public transport lines where that is necessary to promote employment, and increased access to jobs intended to improve existing transport routes which should contribute to employment in some currently isolated areas.

Although measures increasing flexibility, adaptability and mobility in the labour market are based on the Employment Relationships Act (2003) which provides for a more flexible labour market and employment, they have so far not been sufficiently applied. The Act provides the legal basis for part-time employment, a more transparent temporary employment system, and

home work. A particular feature of the Act is the reciprocal liability of the employee and employer concerning education and training, giving – in the event of redundancy – the unemployed worker more possibilities for their reactivation. In terms of promoting labour market flexibility, mention should be made here of the flexibility of employment contracts. In addition to full-time employment contracts for an indefinite time period which are considered a general rule, the Act provides the following contract options: a fixed-term employment contract; an employment contract between a worker and employer who carries out the activity of providing workers to a third user (temporary employment); an employment contract for the provision of public works; a part-time employment contract; an employment contract on home work; and an employment contract with managerial staff.

The following strategic measures apply with the aim of improving labour market flexibility and adaptability: (i) continue replacing passive measures with active labour market measures to activate people and stimulate employment and social inclusion, such as: motivate the unemployed for work by including them in active employment policy programmes, providing training and sound criteria on eligibility for cash benefits and social assistance depending on the willingness to accept work; (ii) reduce employers' social contributions for workers with low employability, first-time employees, and the long-term unemployed in depressed regions, and ensure easier access to funds for the promotion of investment and creation of new jobs; (iii) increase mobility through investments in tenant dwellings in regions with labour shortages; (iv) reduce structural imbalances in the labour market by providing information on the labour market situation, vocational guidance, and youth scholarships; and (v) reduce obstacles to part-time employment and other flexible forms of employment, revise and amend all regulations that significantly hinder labour market flexibility compared to other EU member states.

Priority measures (Guideline no. 21):

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

III.D.2.1.2. Health and safety at work

Health is a precondition for a quality life and productive work, for active ageing (also see Active ageing and measures to address employment issues of older workers, p. 33), as well as for economic growth, development and full participation in society. The purpose of public health policies is hence to prolong life spans and ensure illness-free lives so it is therefore vital to promote the modernisation of preventive and health care systems.

The number of occupational accidents and work-related accidents has recently been decreasing, also due to amendments to the relevant legislation (adoption of the Occupational Health and Safety Act) and the Slovenian economy's successful adaptation to developments in the European labour market. Slovenia's objective is to create new jobs providing workers with a safe and healthy working environment in line with the adopted legislation, and a further increase in safety i.e. reduction and elimination of health risks in existing jobs. Such a policy is also the only way to reduce the costs of health and disability insurance and raise the active participation of elderly people in the labour market.

Slovenia intends to implement the goals set by introducing these measures: (i) implement the Resolution on the national occupational health and safety programme; (ii) conduct the necessary research into areas to be the subject of new regulation; (iii) assist in the



implementation of legislation and improve employers' and employees' knowledge about the preparation and publication of non-binding guidelines for safe and healthy work; (iv) instructions and other publications and public campaigns on specific health risks related to work; (v) efficiently monitor the situation and establish databases related to occupational health and safety; and (vi) increase expertise and the quality performance of tasks, boost occupational safety by promoting and developing all forms of training, together with adequate control of the implementation of regulations related to occupational safety and health.

Priority measures (Guideline no. 21):

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

III.D.2.2. Increase the attractiveness of work

Due to the discouraging impact that certain transfers have on work, some transfer recipients remain inactive. Calculations of the effective limit tax rates and of wage compensation rates in fact indicate that a family whose wage (without social contributions and income tax) equals the minimum wage guaranteed to such a family receives less income than a family that depends on cash social assistance, which leads to a trap of poverty and unemployment. Slovenia's objective here is to reduce payroll tax, examine the possibility of reducing other burdens on wages, and set a new basis for the allocation of social transfers (also see Modernisation of social protection systems, p. 33).

Ever since Slovenia became independent, the social partners have defined wages policy on the basis of the social dialogue in which – at the national level – the government participates as a third partner. At this tripartite level, the partners define the main guidelines for adjusting base wages in line with consumer goods price rises as well as general guidelines concerning real-wage growth lagging behind productivity growth. The specific aspects and results of business are agreed upon by the social partners in collective agreements for individual activities or corporate collective agreements. The last tripartite agreement on wages in the private sector – due to expire at the end of the year – has had a significantly stimulating impact on collective negotiations at the level of activities since it has instructed both employers and employees to define in their activity-specific agreements the amounts of wage rises and the criteria for considering business results. Acting as an employer in the public sector, the government also defines wages policy according to the social dialogue with public sector trade unions.

In the future, the government intends to promote social dialogue between the representatives of employers and employees in the private sector and participate therein only as regards the definition of general guidelines enshrined in the proposal to initiate debate on the social agreement as to which negotiations will begin in early autumn. In accordance with its policy so far, the government will still play an important role in determination of the minimum wage and – as an employer in the public sector – remain a partner of the public sector trade unions.

Priority measures (Guideline no. 22):

- 1/ Establish a new basis for the allocation of transfers
- 2/ Gradual abolition of payroll tax
- 3/ Examine the possibility of the additional disburdening of wages

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

This aim of this priority is to ensure that the measures adopted within the sectoral policies are not only directed to achieving their specific objectives but that they also contribute to Slovenia's sustainable development. Many measures in this area have a predominantly national character and are not directly linked to the implementation of the Lisbon Strategy. They will, however, by all means be aligned with Slovenia's Development Strategy. Among other things, they include measures to achieve sustainable population growth, improve the population's health and develop the national identity and culture.

Culture significantly contributes both directly and indirectly to higher growth and employment, the two main objectives of the Lisbon Strategy. Contemporary cultural production and cultural heritage, including the cultural industries (e.g. the media, cultural tourism, publishing), is vital for the creation of new jobs and the maintenance of existing ones, keeping rural and degraded areas populated and reinforcing social cohesion. Moreover, culture also strongly contributes to the reputation of local and regional areas and the country as a whole, thereby making them more attractive for investment. Last but not least, the horizontal aspect must not be overlooked: culture generates synergetic effects with other areas.

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

The measures for improving the management of space and its easier use for business purposes are linked with the objective of ensuring the higher competitiveness of the economy, while measures to boost residential building have implications for labour mobility and employment and the creation of conditions for higher birthrates. In the real-estate area, the state's objective is to ensure the efficient and sustainable development of safe real estate markets in a cost-efficient way.

The real-estate records will be revamped to create a more effective single system. The government has launched activities for phased data harmonisation and the possible substantive and organisational fusion of the land registry, the land cadastre and the cadastre of buildings. The establishment of a multi-purpose real-estate register will make it possible to set up quality records for objective policy monitoring and control (social, spatial, tax policies), the abandoning of expensive censuses, establishment of cheaper ministerial and national statistics and the compilation of current housing statistics.

The main measures in this area are to: (i) increase the supply of building land for industrial and housing construction through rational expansion of urban populated areas, a higher utilisation rate of populated space (concentration of buildings) and revitalisation of degraded urban and other land for renewed use; (ii) prepare and realise active land policy measures (record and commercially activate building plots); (iii) ensure that the cadastres and land register are regularly updated and facilitate their public accessibility; complete the digital cadastre of buildings and link it up with the cadastres and electronic land register; set up the real-estate register; (iv) prepare a comprehensive analysis of the effective spatial regulations and propose amendments and simplifications in view of the demands of the market economy, and launch active monitoring of their implementation.

Priority measures (Guideline no. 13):

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

III.E.2. SUSTAINABLE USE OF RESOURCES (ENVIRONMENTAL PROTECTION POLICY)

Slovenia has achieved a relatively high level of environmental development so far. It has a comparatively high share of renewable energy sources and it has started to introduce organic farming methods and intensified efforts to preserve biodiversity. Energy intensity has decreased in the last ten years yet the growth levels of emission-intensive industries remain unfavourable. Energy consumption is also rising rapidly. Economic growth goes hand in hand with the increased consumption of natural resources and pressures on the environment. This calls for the promotion of the conscious and responsible handling of natural resources through comprehensive measures such as the recycling and preventing of waste generation, promoting new technologies that are less energy- and commodity-intensive, boosting sustainable production and consumption etc.

The environmental policy framework document in Slovenia is the National Environmental Action Programme 2005-2008, which should result in a general improvement of the environment, the quality of living and the protection of natural resources. Environmental protection is regulated by the Environmental Protection Act that was adopted in 2004. The key novelties in this Act include the comprehensive assessment of environmental impacts⁴², the requirement for an environmental protection licence for certain installations and activities, and improved public access to environmental information. The Act also systematically complements the economic instruments of environmental protection in order to apply one of the fundamental principles of environmental protection – the ‘polluter pays’ principle.

Slovenia’s key long-term guidelines in the area of nature and the environment are to: (i) mitigate climate changes by reducing greenhouse gas emissions; prepare a vulnerability analysis and adjustment strategies for primary sectors; invest in the efficient use of resources and renewable sources; (ii) switch to the use of sustainable natural resources by gradually decoupling economic growth and environmental pressures and to the maximum possible waste reuse and recycling; (iii) ensure a satisfactory condition of waters and their proper management, implement the government’s Operational Programmes for the Collection and Treatment of Municipal Wastewater, water supply and reduction of pollution from diffuse sources⁴³; and (iv) halt the loss of biodiversity (by 2010) and ensure the sustainable use of its elements, primarily through the joint application of measures in sectors critical for the preservation of biodiversity. It is vitally important to recognise biodiversity as an economic and developmental advantage and opportunity.

On the basis of the national plan for 2005-2007, some operators of installations causing greenhouse gas emissions⁴⁴ were granted the right to emit greenhouse gasses free of charge until the end of 2004. This is one of the instruments⁴⁵ designated to help reduce GHG emissions by 8%⁴⁶, a commitment Slovenia made when it ratified the Kyoto Protocol. With the Natura 2000 programme, whose purpose is to protect the natural habitats and heritage, Slovenia protected over one-third of its territory in 2004 and thus restricted the development and other use of these areas for economic activity. The protection of nature can either support or hinder development. Therefore, the protective function of spatial use needs to be balanced

⁴² The comprehensive assessment of environmental impacts is conducted for plans, programmes and policies that have a significant impact on the environment. These by all means include all planned projects for which an environmental impact assessment is required, plans for the Natura 2000 areas, spatial acts and various sectoral programmes at the local, regional and national levels.

⁴³ Agriculture: increase the share of organic farming, promote good agricultural practices etc.

⁴⁴ Operators required to obtain permits for the emission of GHGs in compliance with the provisions of the new Environmental Protection Act.

⁴⁵ A number of measures aimed at reducing the emissions are currently being applied, e.g. the CO₂ emission tax, the promotion of efficient energy use by consumers and the use of renewable energy sources, energy-efficiency labelling of household appliances, thermal insulation characteristics of construction products, waste management, trading in electricity and natural gas, informing consumers about CO₂ emissions from motor vehicles, the promotion of bio-fuels, excise duties on fossil fuels and electricity.

⁴⁶ Up until the 2008-2012 period relative to the starting year 1986.

with its development function so that people living in protected areas have a chance of economic and social development.

2004 saw the adoption of the National Energy Programme, which sets out the improved efficiency of energy use as one of its long-term guidelines⁴⁷. The main measures intended to increase the efficiency of energy use are to: (i) impose taxes on energy and CO₂ emissions and provide financial incentives for environmentally-friendly production⁴⁸; (ii) inform and raise the awareness of energy consumers, provide consultancy, promote the provision of energy services⁴⁹; and (iii) support research, development and demonstrative projects for more efficient energy use.

Other activities in the area of sustainable resource use are, *inter alia*, to continue the environmental tax reform⁵⁰ and launch 'green' public procurements, promote environmentally appropriate, sustainable entrepreneurial and consumer practices, stimulate the development and use of environmental technologies, promote and encourage the environmentally more efficient production and technologies and the sustainable use of materials, energy, water and other resources, develop intelligent transport systems and solve the environmental problems related to transport corridors etc. In the next two years it will also be necessary to review the efficiency of environmental measures and the impact of subsidies related to natural resources and waste.

Priority measures (Guideline no. 11):

- 1/ Implement the Operational Programme for the Reduction of Greenhouse Gas Emissions and the Operational Programme for the Maintenance and Improvement of Ambient Air.
- 2/ Implement the national water management programme through adequate operational programmes.
- 3/ Enforce the 15 operational programmes in the area of waste by 2008.
- 4/ Promote the general public's participation in decision-making processes; raise public awareness and inform people.
- 5/ Apply environmental criteria in the tax legislation reform and the implementation of industrial policy, introduce green public procurements and consider environmental issues in both sectoral policies and spatial planning.
- 6/ Implement the national nature protection programme for 2005-2008.

III.E.3. REGIONAL DEVELOPMENT

The development level of Slovenian statistical regions, calculated as GDP per capita at purchasing power parity, ranges from slightly below the EU-15 average (Central Slovenia) to about one-half thereof (the Pomurje region), setting the ratio at about 2:1. This means that development potential remains underexploited, resulting in regional disparities in terms of education, establishment and enterprises performance etc. Although the development disparities between regions in Slovenia are very low compared to other EU countries, they could start to grow upon EU accession as occurred in less developed member states after they joined the EU. For Slovenia, the increased mobility of workers and capital resulting from EU membership is both an opportunity and a threat – above all, for less developed regions. Less competitive regions are in fact more likely to be »driven out of the market« by increased competition, whereas capital and workers from such regions would show a greater tendency of being reallocated. Therefore, particular consideration of such regions is necessary also to

⁴⁷ A 2.5% lower growth rate of final energy demand relative to GDP growth.

⁴⁸ Subsidies, loans with favourable conditions, tax exemption or relief.

⁴⁹ Contract-based provision of energy savings and energy supply, demand-side management.

⁵⁰ Abolish exceptions to environmental taxation, adhere to the criteria of environmental harmlessness in granting subsidies.

compensate for the special conditions and incentives enjoyed by nearby regions in neighbouring member states.

The level of decentralisation in Slovenia is relatively low – the amount of local financing in overall public finances only accounts for about 12%. The share of revenues generated by local communities' own taxes is relatively low, too.

At the moment, a number of public goods are provided at a level which is either too high or too low. It is thus becoming increasingly evident that the centralised management system is inappropriate to meet the needs of the local population, and that adequate administrative structures need to be provided to decide on public services at the regional level. All attempts hitherto at institutional decentralisation have failed. On a long-term basis, a solution may be the regions yet in the meantime the institutional gap could be filled by the firm undertaking of municipalities to establish interest associations in accordance with the Local Self-Government Act and in relation to the Promotion of Balanced Regional Development Act. The main purpose of such associations is to provide for the stronger influence of municipalities as well as for their integration into the wider environment to facilitate the planning and implementing of regional development. This would result in introduction of a system of the provision of public goods and services at an intermediate level between the state and the municipalities, considered as an upgrading of the existing regional development planning on the basis of binding co-operation between municipalities and other partners, including a formal decision-making procedure.

The model of municipality financing needs to be modified, and a vertical tax structure should be introduced so as to allow the municipalities to meet their needs by means of their own financial resources (i.e. without funds being added from the national budget). The model of financing local communities should thus take as much account as possible of the theoretical basis of decentralisation (or fiscal federalism), its basic purpose, local financing autonomy, and the principles and recommendations deriving from the European Charter of Local Self-Government. It is necessary to make the system of financing transparent in terms of the intended use of the funds, and to provide financial incentives for municipalities' integration into unions and the joint performance of municipal tasks. Considering that previous tasks could be transferred to municipalities without providing the necessary funds for their implementation, it is now necessary to increase the adequate spending of municipalities.

The new Promotion of Regional Development Act is aimed at increasing the efficiency of regional development incentives and filling in the gaps left by the current level of Slovenian local self-government. Regional development mainly focuses on development of the economy, without of course causing additional burdens and backlogs in social and environmental development. Such a direction of regional policy will most efficiently contribute to the reduction of regional disparities and to the economic growth of the country as a whole. In the business segment, regional development policy must include all available sources⁵¹. In this respect, the existing enterprises represent a basis for regional specialisation, facilitating the development of a critical mass of enterprises of capital, people, knowledge and experience to achieve international competitiveness in some sectors or interrelated corporate clusters. A precondition for a successful regional specialisation strategy is an accordingly adapted system of human resources development (a decentralised approach to education, an offer adjusted to regional needs, incentives for the guidance of mostly young people, the training of employees and unemployed persons). In this context, greater mobility represents a problem for the less developed areas due to the possible outflow of highly qualified people. The real solution to this problem is to encourage enterprises to introduce complex production processes and thus create quality jobs. Another important factor in the promotion of economic

⁵¹ Existing medium-sized and large enterprises, small businesses (including potential entrepreneurs), innovative and fast-growing enterprises, and foreign investments.



development of the regions is culture. A rich cultural environment attracts investment, mostly in modern and innovative sectors, for it increases the regions' absorption capacity. The building of local and regional identity, the reconstruction and revitalisation of cultural heritage and the development of cultural industries and products all have a direct impact on employment as well as an indirect impact as they improve the living and working conditions in the region. An environment with a quality, variegated and rich cultural offer is a precondition for retaining and attracting a qualified workforce.

The following measures are envisaged to meet the above objectives: (i) setting up regions with powers and resources (according to the principle of fiscal decentralisation) to promote their own development; (ii) strengthen the development of a polycentric urban system, the development of regional centres (particularly centres of national importance), create urban (innovative) regions and promote regional economies with technological parks and corporate incubators; (iii) create a regionally branched network of tertiary and lifelong learning and other public services; (iv) provide the municipalities with financial incentives for the development of the local economy, social activities and infrastructure (retaining some taxes within the municipality), promote the quality elaboration of spatial planning documents in accordance with development needs, simplify spatial planning regulations, increase the financing of non-profit dwellings, regulate public utilities; (v) provide for the supply of clean drinking water and promote local self-supply with food; (vi) improve the existing regional development planning and strengthen co-operation between urban and rural areas on the basis of a binding partnership and active efforts by the government to set up regions; enhance cross-border regional co-operation, also by including Slovenian minorities; (vii) further develop measures for preserving settlements and the cultural landscape, and strengthen the development vitality and attractiveness of the countryside; (viii) improve the connection of remote, marginal areas with the main transport axes, including the strengthening and stimulating of public transport and sustainable forms of mobility ('modal split'); (ix) implement regional partnerships to develop the information society and integrated regional information society strategies; and (x) provide for an ongoing consideration of the risks posed by natural and other disasters in the preservation of settlements and regional development.

Priority measures:

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

IV. LINKING THE REFORM PROGRAMME WITH COHESION POLICY

The success of reforms cannot be guaranteed without appropriate financial backing from both the national and EU budget. The budget memorandum for 2006-2007 is the basic framework for preparation of the national budget for the next two years. It also defines the guidelines for the government's management of public finances and its conduct of economic and development policy. In realising the measures, the European cohesion policy (structural and cohesion funds) will also play a significant role. Therefore, measures have been proposed to improve Slovenia's administrative and absorption capacity for EU funds.

Cohesion policy in Slovenia will pursue its current course over the next programme period, focusing on the objectives of employment growth. The Lisbon-orientation of cohesion policy is reflected in the substantial financial resources allocated by Slovenia for the European Social Fund programmes and support of programmes promoting competitiveness and innovation. In the next programme period, Slovenia will elaborate these programmes and

increase its expenditure on them. The reforms in the area of education and employment will provide the regulatory conditions for the efficient use of funds and the required increase in absorption capacity. Slovenia will extend the current group of programme implementers and connect them more closely with the needs of the business sector.

The second area where the Lisbon goals can be integrated with cohesion policy is by complementing measures to boost economic growth and employment with measures from various other areas that can produce catalytic effects. The Lisbon Strategy goals are thus also included in e.g. measures of the rural development programme (entrepreneurial revamping of rural areas, forming producer partnerships for a joint market presence and measures for the commercial activation of nature and cultural heritage).

Cohesion policy in Slovenia focuses on ensuring the conditions for economic growth and national competitiveness. Its task is to build development-conducive infrastructure and generate the required labour potential and a creative mindset in society.

In order to improve Slovenia's absorption capacity for EU funds, the following measures have been proposed:

- **2004-2006:** measures to enhance absorption capacity on both the supply (administrative absorption capacity of national institutions) and demand sides (absorption capacity of tender applicants, i.e. potential programme implementers): (i) concentrate the funds and the governance and management institutions of cohesion policy in Slovenia, making sure that the strategic governance of this policy comes from the near-top of political decision-making; (ii) simplify or abolish the procedures that can be carried out without any major institutional changes; and (iii) provide permanent staff education and training for work in different areas of cohesion policy, both in the public administration and for potential project realisation applicants from the public and private sectors.
- **2007-2013:** (i) designate one central body for the planning and harmonisation of national development policies; (ii) appoint one managing authority in the area of structural funds; the areas of the cohesion fund and environmental and transport infrastructure will be assigned one managing authority each; for cohesion policy as a whole (structural funds and cohesion fund) there will be one joint payment authority; (iii) the strategic governance of cohesion policy will be centralised in one body, which will be ensured by the preparation and monitoring of the National Strategic Reference Framework; and (iv) cohesion policy funds must be itemised under one budgetary heading.

The centralisation of structural funds management will allow better monitoring of structural policy's effects. These measures will enable swifter identification of absorption capacity (or incapacity) at the level of individual programmes in ministries and faster transfer of funds to programmes where the tapping of funds is found to be more efficient and rapid. This will also prevent the duplication of implementing structures for similar measures producing analogous effects.

V. APPENDICES

Appendix I - Structural indicators

LISBON PROCESS STRUCTURAL INDICATORS (14) - SLOVENIA'S PROFILE AND CHANGES COMPARED TO THE YEAR BEFORE		
	Slovenia places better than or around the EU-25 average	Slovenia lags behind the EU-25 average
Improvement (from the year before)	<ul style="list-style-type: none"> ❖ Employment rate, 2004 (SLO: 65,3%, EU-25: 63.3%, EU-15: 64.7%) ❖ Poverty risk rate after social transfers, 2001 (SLO: 11.9%⁵² EU-25: 15%, EU-15: 15%) ❖ Long-term unemployment rate, 2004 (SLO: 3.1%, EU-25: 4.1%, EU-15: 3.4%) ❖ Business investment⁵³ 2004 (SLO: 21.9% GDP, EU-25: 17.1% GDP, EU-15: 17%) 	<ul style="list-style-type: none"> ❖ GDP p.c. in PPS, 2004 (EU-25=100) (SLO: 78, EU-15: 109.3) ❖ Labour productivity in PPS, 2004 (EU-25=100) (SLO: 76, EU-15: 106.7) ❖ Comparative price levels, 2002 (EU-25=100) (SLO: 77.1, EU-15: 104) ❖ Employment rate of older workers, 2004 (SLO: 29%, EU-25: 41%, EU-15: 42.5%) ❖ Energy intensity of the economy, 2002 (SLO: 338.14 kgoe/1000 EUR; EU-25: 209.49 kgoe/1000 EUR, EU-15: 190.82 kgoe/1000 EUR)
Deterioration (from the year before)	<ul style="list-style-type: none"> ❖ Youth education attainment level⁵⁴ 2003 (SLO: 89.7%, EU-25: 76.7%, EU-15: 73.8%) ❖ Volume of freight transport relative to GDP, 2002 (1995=100) (SLO: 93.3, EU-25: 99.7, EU-15: 100.6) 	<ul style="list-style-type: none"> ❖ R&D expenditure relative to GDP, 2003⁵⁵ (SLO: 1.52% GDP, EU-25: 1.95% GDP, EU-15: 2% GDP) ❖ Greenhouse gas emissions, 2002 (1990=100) (SLO: 98.7, EU-25: 91, EU-15: 97.1)

Source of data: Eurostat, New Cronos database.

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

⁵² Income in kind is not used in calculation of the rate. If income in kind is taken into account, then the rate is 10.6%.

⁵³ The share of GDP allocated for investment by the private sector

⁵⁴ The share of people aged 20 to 24 who have at least finished secondary school

⁵⁵ 2002 data for EU-25 and EU-15 data

Appendix II - Follow up on the Integrated Guidelines

Taking into consideration the conclusions of the European Council meeting of 22-23 March, the European Commission presented its communication concerning the Integrated Guidelines for Jobs and Employment (2005-2008). This communication is composed of a macroeconomic and microeconomic employment part. It comprises recommendations on the broad economic policy guidelines and member states' employment policy guidelines. The final Integrated Guidelines were approved by the European Council on 16 and 17 June 2005. The details of the macroeconomic part will be explained in greater depth in the Convergence Programme.

Macroeconomic part

- (1) To secure economic stability*
- (2) To safeguard economic and fiscal sustainability*
- (3) To secure economic stability for sustainable growth*
- (4) To ensure that wage developments contribute to macroeconomic stability and growth*
- (5) To promote a growth- and employment-orientated and efficient allocation of resources*
- (6) To contribute to a dynamic and well-functioning EMU*

1/ Continue pursuing the co-ordinated macroeconomic policies in order to fulfil the Maastricht convergence criteria and adopt the euro in 2007

2/ Simplify the tax system and gradually abolish the payroll tax

3/ Tailor the structure of general government expenditure to the development priorities and better absorption of EU funds

4/ Increase the flexibility of public finances and gradually reduce the share of general government expenditure in GDP by at least 2 percentage points

5/ Gradually eliminate the public finance deficit

6/ Adopt a new social agreement

7/ Encourage prolonged activity and individual pension insurance

also see guidelines nos. 15, 18, 22

Microeconomic part

(7) To increase and improve investment in R&D with a view to establishing the European Knowledge Area

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

2/ Gradually change the structure of public investment in R&D in such a way that additional public funds for R&D will be distributed between the technology sphere and the science sphere in a ratio of 80:20, while within existing public funds the share for specific applicable and developmental research will be gradually increased in the sense of promoting technological development and innovation.

also see guidelines nos. 8, 15, 23, 24

(8) To facilitate all forms of innovation

1/ Create instruments to enhance co-operation between enterprises and education and research institutions, and promote labour mobility.

2/ Establish a legislative and financial environment which will be supportive for the establishment and growth of high-tech and other innovative enterprises, particularly small and medium-sized enterprises (strengthening the Slovenian Enterprise Fund, co-founding and



support for the operation of risk capital funds and other forms of support for enterprises through rebates, etc.)

3/ Complete the reform of the university sector by increasing the number of providers, greater adaptability to the needs of the economy, greater quality and competition.

also see guidelines nos. 7,15,23,24

(9) To facilitate the spread and effective use of ICTs and to build a fully inclusive information society

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

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

3/ Provide e-content in the Slovene language.

(10) To contribute to a strong industrial base

1/ Change tax policy and industrial policy and the system of financing research activity which will encourage cooperation between the research sphere and the business sector, the establishment of spin-off enterprises and the employment of researchers in the business sector.

2/ Collect and issue high quality foreign trade intelligence and consultancy services

3/ Support promotional activities of businesses abroad

4/ Provide education and training on international business

5/ Introduce public-private partnerships.

also see guidelines nos. 8,9,13,14,15,16,20

(11) To encourage the sustainable use of resources and strengthen the synergies between environmental protection and growth.

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

2/ Implement the national water management programme through adequate operational programmes.

3/ Enforce the 15 operational programmes in the area of waste by 2008

4/ Promote the general public's participation in decision-making processes; raise public awareness and inform people.

5/ Apply environmental criteria in the tax legislation reform and the implementation of industrial policy, introduce green public procurements and consider environmental issues in both sectoral policies and spatial planning.

6/ Implement the national nature protection programme for 2005-2008.

(12) To extend and deepen the internal market

1/ Strengthen the national technical quality infrastructure institutions.

2/ Transpose the EU's internal market regulations to the Slovenian legislation and establish a system to monitor enforcement of this legislation.

3/ Expand the institutional consumer protection network and its integration in the existing consumer protection network within the EU.

4/ Disseminate information about the internal market within the business sector and the general public.

also see guideline no. 20

(13) To ensure open and competitive markets inside and outside Europe

Increase inflows of FDI

- 1/ Systematically remove administrative barriers to investment and business operations (spatial planning, building and operating permits, employment relationships).
- 2/ Reduction of start-up costs for initial investment matched by high/medium technology transfers and the creation of quality jobs.
- 3/ Forceful marketing of Slovenia as a suitable FDI location.

Better spatial management and housing policy

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

Competition policy

- 1/ Amend legislation to ensure greater transparency, unify procedures, ensure appropriate investigative powers and control mergers more efficiently.
- 2/ Gradually give greater priority to the assessment of more complex violations of anti-trust legislation (cartel agreements, abuses of a dominant position).
- 3/ Strengthen the Competition Protection Office.
- 4/ Speed up the state's withdrawal from enterprise ownership (privatisation)

State aid

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

Telecommunications and post office

- 1/ Stimulate the market entry and development of new telecommunications operators.
- 2/ Modernise the regulatory framework and improve the operation of the Post and Electronic Communications Agency.
- 3/ Build broadband electronic networks and ensure a transparent and competitive supply of existing leased lines.
- 4/ Ensure the phased privatisation of the fixed telephony operator (Telekom Slovenije d.d.).

Public environmental protection services

- 1/ Combine the current municipal public service providers into larger organisational units at the regional level.
- 2/ Introduce the EMAS or the ISO 14001 system in public environmental protection services.
- 3/ Strengthen control over the provision of public environmental protection services that have a specific and monopoly position.
- 4/ Guarantee equality to providers of public environmental protection services regardless of their type of organisation.

Energy sector

- 1/ Finalise the liberalisation of the energy sector.
- 2/ Separate and reorganise electricity distribution companies.
- 3/ Apply new, market regulations for the allocation of cross-border electricity transmission capacity.
- 4/ Establish more domestic suppliers in the wholesale market.
- 5/ Provide measures to build new transmission and production facilities.

Transport

- 1/ Establish an integrated system of public passenger transport (single tariff system, combined tickets, harmonised timetable, single information system, intermodal terminals).



- 2/ Promote comprehensive logistical services backed by the setting up of architecture for intelligent transport systems.
- 3/ Sell the state's shares and deregulate wherever justified in terms of competition, quality and safety.
- 4/ Amend the national railway legislation in line with the second railway package.
- 5/ Adopt a new law on harbours stipulating the conditions of harbour management, the provision of harbour operations and the use of marine resources.
- 6/ Standardise the technological, technical and safety regulations on air transport and introduce more liberal procedures regarding the commercial aspects of transport.

(14) To create a more attractive business environment.

- 1/ Improve coordination of the design and implementation of development function of the state (economy, social security, environment).
 - 2/ Introduce compulsory regulatory impact assessment and development of a methodology of the assessment of impact on the economy.
 - 3/ Adopt and implement the Removal of Administrative Obstacles Programme.
 - 4/ Introduce a system of strategic planning and managerial tools the public administration, introduce the Common Assessment Framework (CAF) and inclusion in the EFQM.
 - 5/ Establish standards of success and efficiency of the public administration; analyse business processes of the administration as a basis for the optimisation, standardisation and computerisation of procedures.
 - 6/ Establish central registers, e.g. a uniform central register in the sphere of social transfers, a property register, etc.
 - 7/ Ensure greater efficiency of the judicial system.
- also see guidelines nos. 8, 15*

(15) To promote a more entrepreneurial culture and create a supportive environment for SMEs

- 1/ Draw up a new programme for the promotion of entrepreneurial activities and competitiveness based on the principles of simplicity, transparency and clear focus.
 - 2/ Rationalise the system of granting aid to businesses in accordance with the 'one-stop' principle.
 - 3/ Improve the quality and access to support services for small and medium-sized enterprises; link consultancy and control institutions within a single network.
 - 4/ Improve access to start-up and risk capital and simplify bank lending procedures.
 - 5/ Create instruments to enhance co-operation between enterprises and education and research institutions, and promote labour mobility.
- also see guidelines nos. 3,8,14,23,24*

(16) To expand and improve European infrastructure and complete agreed priority cross-border projects

- 1/ Railway infrastructure: carry out investment projects on TEN-T corridors, upgrade lines and track facilities to allow greater speed and axle loads; renew existing lines and build passenger centres.
 - 2/ Road infrastructure: finish the motorway network construction by 2010, realise the National Programme for the Development and Maintenance of State Roads.
 - 3/ Maritime infrastructure: increase the capacity of the Koper freight harbour and link it up with road and railway infrastructure.
 - 4/ Air transport infrastructure: modernise international airports and air traffic control infrastructure.
- also see guidelines no. 9*



Employment part

(17) Implement employment policies aiming at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion

- 1/ Programmes for increasing the employability of both the unemployed and employed
- 2/ Discourage early retirement.
- 3/ Improve the adaptability of workers and enterprises by promoting the use of flexible forms of employment and lifelong learning.
- 4/ Bolster private investment in human capital.
- 5/ Increase employment incentives within the social protection system.

(18) Promote a lifecycle approach to work

Increase the employment of young people

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

Active ageing and measures to address the employment issues of older workers

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

also see guidelines no. 2

Modernisation of social protection systems

- 1/ Integral reform of social transfers.
- 2/ Rationalise procedures and the spending of budgetary funds.
- 3/ Prepare a new Social Protection Act.

Equal opportunities

- 1/ Implement special programmes encouraging the promotion of women
- 2/ Encourage men and women to undertake training and employment in areas where one or the other are a minority (non-standard professions).
- 3/ Ensure significant representation of women in active employment policy programmes and special programmes encouraging female employment.

Reconciliation of work and private life

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

(19) Ensure inclusive labour market, enhance work attractiveness, and make work pay for job-seekers, including disadvantaged people, and the inactive

Active and preventive measures for unemployed and inactive people and the creation of new jobs

- 1/ Special programmes for people with low employment prospects and for intensively working with them.
- 2/ Invest in the training of non-skilled workers.
- 3/ Introduce and implement programmes of employment in the non-profit sector.

Discrimination in the labour market

- 1/ Implement the Resolution on the national programme for equal opportunities of women and men.



- 2/ Consistently exercise inspection controls regarding discrimination.
- 3/ Implement awareness-raising campaigns on combating discrimination in the labour market (mostly in 2007 – the European Year of Equal Opportunities for All).

Disadvantaged people in the labour market

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

Position of Roma in Slovenia

- 1/ Preparation of a special law on the Roma community.

(20) Improve matching of labour market needs

Labour market brokerage, functioning and modernisation of the ESS, agencies

- 1/ Modernise the Employment Service of Slovenia.
- 2/ Train and motivate employment counsellors.
- 3/ Promote employment brokerage agencies as an element of labour market adaptability.

Removing obstacles to workers' mobility across Europe

- 1/ Prepare a programme for eliminating deficiencies in individual professional segments through selective immigration.
- 2/ Monitoring developments in Slovenian and EU labour markets and regulating them based on the actual situation.
- 3/ Promotional campaigns for the re-immigration of expatriates/experts.

(21) Promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of the social partners

Responding to changes and promoting flexibility, adaptability and mobility in the labour market

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

Health and safety at work

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

(22) Ensure employment-friendly labour cost developments and wage-setting mechanisms

Modernisation of social protection systems

- 1/ Integral reform of social transfers.
- 2/ Rationalise procedures and the spending of budgetary funds.
- 3/ Prepare a new Social Protection Act.

Wage policy

- 1/ Establish a new basis for the allocation of transfers.
- 2/ The gradual abolition of payroll tax.
- 3/ Examine the possibility of the additional disburdening of wages.



also see guideline no. 4

(23) Expand and improve investment in human capital

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

also see guidelines nos. 7-8

(24) Adapt education and training systems in response to new competence requirements

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

Appendix III – Follow up on the country specific EU recommendations

This supplement presents a brief survey of the measures adopted and envisaged by Slovenia in response to the Broad Economic Policy Guidelines and Employment Guidelines.

Broad Economic Policy Guidelines BEPGs (2004)⁵⁶

(1) Lower inflation in a sustainable way, also sustainable public finance

Measures:

- 1/ Continue pursuing the co-ordinated macroeconomic policies in order to fulfil the Maastricht convergence criteria and adopt the euro in 2007
- 3/ Tailor the structure of general government expenditure to the development priorities and better absorption of EU funds
- 4/ Increase the flexibility of public finances and gradually reduce the share of general government expenditure in GDP by at least 2 percentage points
- 5/ Gradually eliminate the public finance deficit
- 6/ Encourage prolonged activity and individual pension insurance

(2) Increase employment rates, especially for older workers

- Review the tax and benefit systems, with a focus on labour market participation of older workers, and reassess the measures promoting active ageing by means of lifelong learning activities, as well as address the imbalance between temporary and permanent work conditions

Measures:

See measures in guidelines for the employment policies

(3) Improve conditions for sustained productivity growth

- Further reduce the time and costs necessary to set up a new company and simplify the administrative procedures affecting businesses
- Promote R & D and innovation in the business sector and improve the quality of the tertiary level education system

Measures:

Encourage entrepreneurship

- 1/ Draw up a new programme for the promotion of entrepreneurial activities and competitiveness based on the principles of simplicity, transparency and clear focus.
- 2/ Rationalise the system of granting aid to businesses in accordance with the 'one-stop' principle.
- 3/ Improve the quality and access to support services for small and medium-sized enterprises; link consultancy and control institutions within a single network.
- 4/ Improve access to start-up and risk capital and simplify bank lending procedures.
- 5/ Create instruments to enhance co-operation between enterprises and education and research institutions, and promote labour mobility
- 6/ Gradually abolish the payroll tax and simplify the tax system

Lower administrative burden, especially for SME's

⁵⁶ The 2004 update of the broad guidelines of the economic policies of the Member States and the Community (for the 2003–05 period)



7/ Introduce compulsory regulatory impact assessment and development of a methodology of the assessment of impact on the economy.

8/ Adopt and implement the Removal of Administrative Obstacles Programme.

9/ Complete the introduction of One-stop-shop system.

Encourage investment in R&D

10/ Increase public expenditure on R&D by approximately 0.1 % of GDP a year.

11/ Gradually change the structure of public investment in R&D in such a way that additional public funds for R&D will be distributed between the technology sphere and the science sphere in a ratio of 80:20, while within existing public funds the share for specific applicable and developmental research will be gradually increased in the sense of promoting technological development and innovation.

12/ Create instruments to enhance co-operation between enterprises and education and research institutions, and promote labour mobility.

13/ Establish a legislative and financial environment which will be supportive for the establishment and growth of high-tech and other innovative enterprises, particularly small and medium-sized enterprises (strengthening the Slovenian Enterprise Fund, co-founding and support for the operation of risk capital funds and other forms of support for enterprises through rebates, etc.)

Improve tertiary education

14/ Reform higher education, including the introduction of the Bologna Declaration.

15/ Complete the reform of the university sector by increasing the number of providers, greater adaptability to the needs of the economy, greater quality and competition.

Increase inflows of FDI

16/ Increase the supply of building land for housing construction and industry.

17/ Systematically remove administrative barriers to investment and business operations (spatial planning, building and operating permits, employment relationships).

18/ Reduction of start-up costs for initial investment matched by high/medium technology transfers and the creation of quality jobs.

19/ Forceful marketing of Slovenia as a suitable FDI location.

(4) Promote the development of effective competition in all segments of the economy, notably in network industries

- Develop effective competition, notably in network industries
- Strengthen the administrative capacity of the Competition Protection Office, ease the entry of new

Measures:

Competition policy

1/ Amend legislation to ensure greater transparency, unify procedures, ensure appropriate investigative powers and control mergers more efficiently.

2/ Strengthen the Competition Protection Office.

Effective competition, notably in network industries

3/ Stimulate the market entry and development of new telecommunications operators.

4/ Ensure the phased privatisation of the fixed telephony operator (Telekom Slovenije d.d.).

5/ Strengthen control over the provision of public environmental protection services that have a specific and monopoly position.

6/ Guarantee equality to providers of public environmental protection services regardless of their type of organisation.

7/ Finalise the liberalisation of the energy sector.

8/ Separate and reorganise electricity distribution companies.



- 9/ Apply new, market regulations for the allocation of cross-border electricity transmission capacity.
- 10/ Speed up the state's withdrawal from enterprise ownership (privatisation).

Guidelines for the employment policies of the Member States (2004)⁵⁷

(1) Increasing adaptability of workers and enterprises

- The interaction between the minimum wage and the different components of tax burden on labour should be assessed to increase activity and reduce undeclared work. It is important to pursue the efforts in order to promote flexible forms of work while maintaining the appropriate balance between flexibility and security.

Measures:

Wage policy

- 1/ Establish a new basis for the allocation of transfers.
- 2/ The gradual abolition of payroll tax.
- 3/ Examine the possibility of the additional disburdening of wages.

Flexibility, adaptability and mobility

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

(2) Attracting more people to the labour market and making work a real option for all

- Increasing the employment of people over 55 is a clear priority for Slovenia. Further efforts should include reducing the use of early retirement schemes, ensuring consistency between tax and benefit reforms (e.g. measures aimed at reducing undeclared work and at reforming pensions), to promote flexible forms of work and access to training for older workers.
- In order to make work pay, it is important to review the interactions between unemployment, social benefits and the minimum wage, to increase the incentive to take up a job in the formal economy. The public employment service has developed a comprehensive model of management in its implementation of the preventive approach, yet it would be necessary to improve staff training in the public employment service in order to deal efficiently with the most difficult to employ. The relations between private and public employment services could be intensified.

Measures:

Increase employment of older workers

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

Make work pay

- 5/ Integral reform of social transfers

⁵⁷ COUNCIL DECISION of 4 October 2004 on guidelines for the employment policies of the Member States



6/ Prepare a new Social Protection Act

Improve training of employment counsellors in Employment Service of Slovenia

7/ Train and motivate employment counsellors

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

9/ Form appropriate partnerships at the regional and local level between ESS, R&D, and educational institutions for increased investment in education and training (for example, human resource committees at the regional level)

(3) Investing more and more effectively in human capital and lifelong learning

- Building on recent progress and initiatives to develop lifelong learning systems, it would seem important to increase the share of the adult population participating in further education and training. Adequate resources and incentives for workers and employers to invest in training as well as a clear definition of all stakeholders' roles are needed. Reducing drop-out rates appear to be an important problem.

Measures:

Increase share of adults in lifelong learning

1/ Improve appropriate incentives for employers and employees to invest more in education.

2/ Formulate an integrated and detailed strategy of lifelong learning.

3/ Form appropriate partnerships at the regional and local level for increased investment in education and training (for example, human resource committees at the regional level).

Reduce drop-outs

1/ Building of a national qualifications structure by sectors and activities and a national qualifications framework.

2/ Improve the quality and increase the attractiveness of vocational education – adoption of a new act.

3/ Widen employment possibilities through the evaluation and recognition of non-formal and informal learning and ensure transparency of all processes connected to this.

