

SLOVENIA'S DEVELOPMENT STRATEGY

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GOVERNMENT OF THE REPUBLIC OF SLOVENIA

INSTITUTE OF MACROECONOMIC ANALYSIS AND DEVELOPMENT

Slovenia's Development Strategy

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Summary

Slovenia's Development Strategy (SDS) sets out the vision and objectives of Slovenia's development, including five development priorities with the corresponding action plans. At the forefront of the new Strategy is the overall welfare of every individual. Therefore, the Strategy does not focus solely on economic issues but also involves social, environmental, political, legal and cultural issues. Due to such prioritisation of the objectives, SDS also serves as Slovenia's strategy of sustainable development. At the same time it integrates the Lisbon goals with the national setting, keeping Slovenia's specific development opportunities and setbacks in view.

The four strategic goals of Slovenia's development are the following:

(i) The economic development objective is to exceed the average level of the EU's economic development (measured in GDP per capita in PPP) and increase employment in line with the Lisbon Strategy goals.

(ii) The social development objective is to improve the quality of living and the welfare of all individuals, measured by the indicators of human development, social risks and social cohesion.

(iii) The cross-generational and sustainable development objective is to enforce the sustainability principle as the fundamental quality measure in all areas of development, including the objective of a sustained increase in the population.

(iv) Slovenia's development objective in the international environment is to employ its distinct development pattern, cultural identity and active engagement in the international community to become a recognisable and distinguished country around the world.

In order for Slovenia to achieve these ambitious goals it needs to prepare and deliver sweeping structural reforms and change its existing development pattern. Slovenia is no longer the country closing its development gap with the EU most rapidly. Due to slow changes Slovenia's global competitiveness has started to wane; other countries in transition are catching up with Slovenia, or even moving ahead in some areas. The Slovenian economy is over-regulated and the bureaucratisation of its business environment is hindering enterprise development. The economy's slow restructuring is indicated by its modest level of innovation, weak entrepreneurial activity, maintenance of a high share of labour-intensive industry, low technical intensity of exports, sluggish growth of market services and financial intermediation, and an inefficient non-tradable sector. In this context, the public sector's spatial management is a limiting factor that does not accommodate to the demands of a dynamic market economy. Negative demographic trends, the population's ageing and ill-adapted social models could jeopardise the achieved level of social welfare in the long run. The Slovenian state has also failed to sufficiently activate civil society and integrate it into a creative and co-operative network.

The new national development model therefore combines those positive characteristics of the European liberal economy models and the partner-state model that suit Slovenia in terms of its development possibilities and values. If Slovenia wants to improve its position and range among the most developed EU countries it needs to improve its global competitiveness substantially. This, however, will require

more radical structural reforms in order to resolve the fundamental development problems and overcome the resistance to faster social change. Instead of the gradualist approach applied thus far, a radical reformist turn is needed to enhance Slovenia's competitiveness and ensure its sustainable development. This calls for the updating of Slovenia's current development model. Slovenia's new political-economic vision is therefore geared towards a social market economy that will combine a more liberal market economy with an economically more effective and flexible social-partner state.

| <i>Current development model</i> | <i>Vision of the new social development model</i> |
|---|---|
| regulation and bureaucratisation of markets | deregulation and liberalisation of markets |
| restrictive business environment | promoting the creation and growth of enterprises |
| relatively closed financial markets | open financial markets and competition |
| insufficient flexibility of the labour market | a more flexible labour market |
| collective social security systems | individual needs and responsibility |
| corporatism of large social partners | open, broad-based partner co-operation |
| bureaucratic and hierarchical public administration | decentralisation and public-private partnerships |
| focus on macroeconomic and social balances | focus on sustainable development based on structural reforms and a more dynamic society |

Slovenia has been realising its development vision within the European Union as an area in which different social models and development paths are possible. The EU's future success depends on preserving the political culture that involves communicating and reaching agreement on the Union's common objectives and projects. Slovenia accepts the values of political moderation and consensual resolution of issues within the EU, and advocates the gradual strengthening of the EU as a federal political and economic union of sovereign states. Slovenia's vision favours diversity and competition to over-centralised institutions and the concentration of political and economic power by some members. The EU should be a place promoting the peaceful co-existence of nations and countries on one hand, and the global competition of enterprises and individuals on the other.

The key national development objectives of Slovenia in 2006-2013 are as follows:

- increase the welfare and quality of life of all individuals in a sustainable way;
- enhance every person's opportunities for a long, healthy and active life by investing in education, health, culture, living conditions and other resources that individuals need to realise their potential;
- create a more dynamic and flexible society capable of responding swiftly to the challenges of globalisation and the single European market;
- sustained increase of economic growth and employment according to the principles of sustainable development and the preservation of economic, social and environmental balances in the long run;
- increase Slovenia's global competitiveness by stimulating innovation and

- entrepreneurship, the spread of the use of ICT and effective modernisation of and investment in learning, education, training, and research and development;
- improve the efficiency of the state and reduce its direct role in the economy;
- reduce social risks for the most vulnerable groups; lower the levels of poverty and social exclusion;
- create the conditions for sustained population growth;
- accelerate the overall regional development and reduce the gaps of the least developed regions;
- sustainable environmental and spatial development; and
- increase all forms of security; consistently respect human rights; prevent discrimination and actively ensure equal opportunities.

Slovenia's five key development priorities aimed at attaining the set objectives are:

1. A competitive economy and faster economic growth:
 - foster entrepreneurship and increase competitiveness;
 - increase the inflows of development-promoting domestic and foreign investment;
 - support the economy's internationalisation;
 - increase the competitiveness of services; and
 - successful participation in the exchange rate mechanism ERM II and adoption of the euro.
2. 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; and
 - improve the quality of education and encourage lifelong learning;
3. An efficient and less costly state:
 - increase the institutional competitiveness and efficiency of the state;
 - restructure public finances to enhance their developmental role; and
 - ensure better operation of the judicial system.
4. A modern social state and higher employment:
 - improve labour market flexibility;
 - modernise social protection systems; and
 - reduce social exclusion and poverty risk.
5. 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; and
- develop the national identity and culture.

The main weaknesses of previous development strategies were their unsatisfactory implementation and the fact that they were not amended and upgraded at regular intervals. The new strategic approach therefore places considerable emphasis on the concrete implementation and constant improvement of the new Strategy. The Strategy thus merges individual guidelines into five development priorities representing the most vital areas in which action is needed in order to achieve the development objectives. The priorities are backed by specific action plans for the next two years. The guidelines have served as the basis for defining concrete measures, the bodies responsible for their implementation, and targets. While also involving non-governmental organisations, implementation of the Strategy will be managed by the government as the responsible political body. Such an implementation-oriented set-up of the Strategy will also allow for sufficiently detailed reporting on delivery. These reports will be used as the basis for a broad discussion on the achievement of the Strategy's goals and the required changes. In this respect, the Strategy is an open book intended to be systematically and regularly upgraded and modified in terms of its contents, objectives and measures. The logic underlying this approach is that future planning is an open process while strategies are merely part of the ongoing search for the best social development solutions.

In order for Slovenia to catch up with the average development level of the enlarged EU by 2013 it must exceed the growth rate of the more advanced EU member states by three percentage points throughout the 2006-2013 period. This is an ambitious goal set at the upper end of what is deemed achievable. It represents the upper potential growth limit of Slovenia's economy that is only achievable through optimal implementation of the SDS measures. The average rate of real economic growth in 1993-2003 totalled 3.8%. The leap in the economic growth rate that is needed to close the gap with the EU average by 2013 therefore also requires a leap in the mindset and the raising of the potential economic growth.

Regarding the dynamics of economic growth, the entire period can be further divided into three sub-periods. In the first period (2006-2007), when the short-term measures set out in the Strategy are to be carried out and macroeconomic policies will be aimed primarily at stabilising the economy to ensure fulfilment of the Maastricht convergence criteria, economic growth should accelerate moderately while inflation should fall to below the Maastricht reference value. Productivity growth in this period is not expected to substantially deviate from the growth achieved in the last ten years. Similarly, no essential changes are anticipated in the structure of GDP during this time. The breakthrough to a higher development level with economic growth exceeding 5% is foreseeable in 2007 when the short-term measures planned in the Strategy would yield their first results, accelerating the growth of productivity and competitiveness of the economy. The period of accelerated economic growth, ending around 2010, would be followed by a period of a relative slowdown in growth to a level of around 5% which would, provided that the SDS measures are implemented, represent new potential GDP growth while inflation could dip closer to the average European level.

On the supply side, the development breakthrough will require a restructuring of the economy in favour of services (increasing the share of services in the structure of value added to 67% by 2013), where the level of knowledge-based services will grow appreciably faster than the level of other services. Within knowledge-based services, financial, business and telecommunication services will grow at the fastest pace. The gap of Slovenia's financial sector behind the EU's financial sector, measured by selected indicators, is bigger than its relative gap in GDP. Financial intermediation hence has good chances for fast development and could, in addition to business activities, record the highest value-added growth rates by activities that would substantially exceed the rate of overall economic growth. Public services will similarly record the fastest increase in the knowledge-based services – health and social work, and education.

At the same time, optimal implementation of the measures set out in the SDS could spur a development breakthrough in Slovenian manufacturing geared towards high-tech and medium-high-tech industries. These industries would expand to account for close to a 50% share in manufacturing's total value added; the overall share of manufacturing industries in GDP's production structure, however, is not projected to increase. Similar development breakthroughs were achieved by Finland and Hungary: the latter effected it with foreign direct investment, the former by engaging human capital and through effective and substantial investment in R&D.

Economic growth and investment in knowledge will also provide the grounds for higher employment. In the period of accelerated economic growth, the annual growth of total employment could thus exceed 1%, while Slovenia could achieve the target 70% employment rate in 2013. This will also allow Slovenia to gradually reduce its unemployment, which could approach 3% by the end of the period.

1. Vision and objectives of Slovenia's development

1.1. Reasons for the new Strategy

1. EU membership has placed Slovenia within a new development framework that is fundamentally changing the conditions and methods for achieving its national development. Slovenia's main objective in the last decade was to carry out the transition and join the EU successfully. This process was already supported by national development documents. Yet in the period ahead Slovenia as an EU member has to reassess its strategic position in a broader global perspective. It must identify its weaknesses and development opportunities so far and respond to them with an appropriate strategy. Slovenia should find ways to achieve its national goals in a sustainable way and in line with the common European rules, policies and strategies, above all the revised Lisbon Strategy. It must find an answer to the questions of how to speed up economic development, raise employment, ensure the necessary social security, improve its environment, conserve nature and use natural resources in a sustainable way within the EU. Achieving these goals will enable a greater material and spiritual well-being of Slovenia's citizens and a higher quality of life for its present-day and future generations.

2. At the forefront of the new Strategy is the overall welfare of each individual. Therefore, the strategy does not focus solely on economic development but also involves social, environmental, political, legal and cultural issues. As such, it represents Slovenia's sustainable development strategy. Slovenia's long-term objective is the sustainable improvement of its citizens' welfare. To achieve this goal, Slovenia should exceed the average EU economic development level in the next ten years and reduce the risks in the areas of social security and the environment. In a developed modern society the production and distribution of wealth is linked to the distribution of risks, which similarly include economic, social, environmental, political and cultural risks. That is why only a broad-based strategy can provide answers to the challenges of the present-day globalisation, to which Slovenia must respond with steps that will take into account its specific position, thereby also contributing to the development of the national identity. Slovenia wishes to strengthen its international position within the EU and beyond and to pursue its long-term cultural, political and economic interests. Slovenia's development priorities simultaneously reflect the general strategic guidelines of the Lisbon Strategy.

3. The main weaknesses of previous national development strategies were their unsatisfactory implementation and the fact that they were not amended and upgraded at regular intervals. The new strategic approach therefore places considerable emphasis on the actual implementation and constant improvement of the new Strategy. Clearly defined goals and implementing bodies, and above all a transparent monitoring system, are vital for successful delivery. The Strategy therefore merges individual guidelines into five development priorities representing the essential areas in which action is needed to achieve the development objectives. These priorities

are backed by specific action plans for the next two years. The guidelines have served as the basis for defining specific measures, the bodies responsible for their implementation, and targets. While also involving non-governmental organisations, implementation of the Strategy will be managed by the government as the responsible political body. This implementation-oriented layout of the Strategy will also allow for sufficiently detailed reporting on delivery. The reports will be used as the basis for a broad discussion on the achievement of the strategic goals and the necessary changes. In this respect, the Strategy is an open book intended to be systematically and regularly upgraded and modified in terms of its contents, objectives and measures. The logic underlying this approach is that future planning is an open process while strategies are merely part of the ongoing search for the best social development solutions.

4. Visions, objectives, strategic measures and action plans do not by themselves lead to success. They can only be realised by people and the values guiding them. Therefore, promoting a development-oriented culture is a prerequisite of the Strategy's successful realisation. The objectives can be achieved by realising the development vision of Slovenia as an open, dynamic, flexible and developmentally balanced knowledge-based society. The public debate about Slovenia's future that took place over the past two years revealed the existence of a basic consensus on the country's vision and its fundamental development objectives, along with the awareness that their realisation calls for changes. It is the government's responsibility to plan and deliver comprehensive structural reforms based on this consensus, even if this will require additional endeavours and adjustments and even in the face of opposition by existing interests. To realise the Strategy's objectives the government must attract people's creative abilities, the development potential of institutions and diverse interests of the state, enterprises and civil society. This is how Slovenia can achieve a development breakthrough and the desired social changes.

5. The purpose of Slovenia's Development Strategy is to:

- prepare a comprehensive strategy that will ensure Slovenia's sustainable economic, social and environmental development, active and equal participation in the EU, the development of its national, cultural and spatial identity and its recognition in the world;
- provide the institutional and organisational framework for a more successful social development that will reduce the lag of Slovenia behind the most developed EU countries and enable Slovenia to achieve a new development breakthrough, greater quality of living and overall human development for current and future generations; and
- achieve the required level of social consensus on the basic development vision and strategic guidelines and thereby strengthen the political commitment to achieve the Strategy's goals with the aid of development priorities, action plans, targets, measures and the appointment of implementing bodies.

The SDS is the top national development strategy based on the principles of sustainable development and the integration of development policies. The partial, sectoral and regional development strategies, national programmes and other development documents must be in line with the general Strategy guidelines as well as with other documents aimed at achieving the same or similar objectives. The SDS as the principal development document hence incorporates the objectives of previously adopted development documents, merges them into a coherent whole and aligns them with the overall national development goals. The state's developmental function carried out through the co-ordination of different policies and application of appropriate financial instruments will be set out in greater detail in the National Development Programme (NDP). The NDP is a plan that translates the Strategy's objectives into specific programmes and projects within the existing budgetary possibilities. The NDP should include the comprehensive national development policy that must be consistent with the SDS in terms of its priorities and with the national budget and other possible funding sources in terms of its financing.

The Strategy will achieve its aims if it becomes a vehicle for constant social developmental change. This will require the proper implementation, monitoring and continual upgrading of the adopted Strategy.

1.2. Starting point of Slovenia's development

6. *The Development Report (IMAD 2005) observes that in the transition period Slovenia managed to significantly close its gap vis-à-vis the EU average, particularly in the area of economic development.* Slovenia achieved strong and stable economic growth in the period of transition. The average rate of real economic growth in 1993-2003 was 3.8%. Although not the highest, Slovenia's growth was the most stable compared to other countries in transition and was achieved without any significant macroeconomic and social imbalances. So far Slovenia has been developing as a corporatist society, which is the prevalent model in Continental Europe. Its main characteristic is that the welfare of citizens is largely taken care of by public systems of social state actively involving the traditional social partners (employers and trade unions) while giving a smaller role to enterprises and individuals. Although Slovenia's gap with regard to the level of economic development is closing, this is still the area where Slovenia lags behind the EU average most critically, whereas its gaps in the social and environmental areas are smaller and limited to certain segments. Therefore, the competitiveness of the economy and sustained economic growth as preconditions of sustainable development are the Strategy's leading short-term priorities.

7. *Over the past three years, Slovenian economic growth has slowed down mainly due to the economy's slow restructuring and the weak development policy against the economic downturn in the main trading partners.* Slovenia is no longer the new member state closing the development gap relative to the EU at the fastest pace. The economy's slow restructuring surfaces in its modest level of innovation, weak entrepreneurial activity, maintenance of a high share of labour-intensive industry, low technical intensity of exports, sluggish growth of market services and financial intermediation, and an inefficient non-tradable sector. All these elements combined

are reducing Slovenia's chances of faster economic growth and enterprise development (the problem of real convergence with the EU). This was also the main reason why inflation persisted at a relatively high level for such a long time (the problem of nominal convergence with the EU). Due to the slow changes Slovenia's global competitiveness has started to wane. Several other transition countries are catching up with it and already moving ahead in some areas. If Slovenia wants to improve its position and become one of the most developed EU countries it has to improve its global competitiveness appreciably. This, however, requires more radical structural reforms in order to defeat the fundamental development problems and overcome the resistance to faster social change.

8. The slow restructuring observed thus far has been the result of the predominantly gradualist approach that characterised the Slovenian political-economic transition. Gradual changes and slow reforms of the economic and social model of society certainly reduced economic risks and the social price of post-socialist changes. However, Slovenia has now reached the point where the costs of gradualism already exceed its benefits. This calls for a breakthrough in the areas of structural reforms and social state, and a more active global competitiveness policy that will promote entrepreneurship and enterprise restructuring. Concurrently, a reasonable macroeconomic policy mix – of monetary, fiscal, incomes and price policies – should ensure nominal convergence within the EU and the adoption of the euro.

9. Along with its successful economic progress Slovenia managed to preserve a relatively favourable level of social development during the transition period, achieving the average EU-15 level according to many indicators. The risk of poverty rate is decreasing, measured income inequality is not widening, unemployment is below the EU average, and regional gaps have been widening at a much slower pace than in most other transition countries. At the same time, life expectancy is rising and infant mortality is falling. The cost of these results, however, was considerable since the social balance was achieved partly by the frequently expensive subsidising of the less productive part of the economy and the creation of a non-transparent system of social benefits. The share of the inactive population in Slovenia is too high, notably among the elderly and less educated population, but it has recently also risen among young job-seekers. Further, education levels are still too low and lifelong learning too modest to enable ongoing adaptation to the changes in the environment. In the next decade Slovenia will also be increasingly faced by the social challenges of the changing population structure, low birth rates and long-living society. This implies that the current model of intergenerational solidarity is becoming an ever heavier burden for the active population. This issue goes hand in hand with the shorter-term problem of the insufficiently precise social transfer targeting. The solution to these problems is therefore to be sought in a reform of social systems geared towards clearly defined and limited universal public social security programmes, the establishment of different forms of public-private partnership, further rationalisation of social systems and increased individual responsibility.

10. Despite the relatively favourable social development Slovenia is facing the challenges of its transition to a long-living society. The contemporaneous effect of improved living conditions surfacing as longer life expectancy and lower number

of births is reflected socially as the population's ageing. Ageing is a process which is caused by a number of factors and which results in long-living societies. Most European societies are reacting to this process in similar ways. They are searching for, testing and some already implementing new policies concerning older generations (people of retirement age); at the same time they are rethinking, changing and amending the policies that apply to younger generations (people of childbearing age who are still active). Their experience shows that the problems related to ageing populations cannot be solved hastily or with a partial approach due to the different basic characteristics of the long-living society where proportions between age groups have changed. The social, pension and health insurance systems and the employment and social care policies have to be modified, and the need for a different notion of activity is unavoidable. We should provide reasonable conditions for the employment of older population groups that will keep them in the labour market, as well as conditions that will make it easier and less risky for young people to have families. Creating the conditions that will allow young generations early social and economic independence, helping young parents who have just embarked on their careers, adopting an appropriate housing policy for young families and, on the other hand, adjusting the working conditions for older employees and changing the attitude to them, acknowledging their activity and integrating it with formal employment schemes can play a decisive role in selecting the right elements that will finally lead to an improved population perspective.

11. Slovenia has achieved a relatively high level of environmental development. This is indicated by its comparatively high share of renewable energy sources, the application of organic farming methods and the enhanced efforts to preserve biodiversity both inside and outside of the expanding protected areas. Energy intensity has decreased in the past ten years but the growth levels of emission-intensive industries and intensive farming remain unfavourable. Energy consumption is also still rising rapidly. This indicates that the principle of environmental sustainability has so far not been sufficiently integrated with the steering of the economic development which has been partly generated by exhausting natural resources and reducing both biodiversity and environmental quality. One main environmental problem that has largely yet to be resolved is the increase in car transport on account of the decrease in the use of public transport. Ongoing sustainable progress has thus still not been achieved in Slovenia. In order to achieve this goal, the connection between economic growth and environmental degradation should be cut. Care for sustainable development is becoming the central principle and assessment criterion for the future social development – an insurance policy on security and stability. The environmental and sustainable practices are also opening up new possibilities for job creation in different activities.

12. Fifteen years after opting for a democracy and market economy, Slovenia is encountering the need for radical structural reforms in order to increase the global competitiveness of its economy. The core abilities of Slovenian society that are vital for the country's further development are:

- a built national identity and culture, placing Slovenia at the centre of the European cultural and value system and forming the basis for the further development of a country identity open to the world;

- the successfully completed project of establishing a democracy and joining the European Union, which confirmed the society's ability to act unanimously in order to achieve the adopted common national goals and forms the basis of Slovenia's international reputation;
- social stability based on social dialogue, enabling a sufficient consensus for the required changes that will help create a more dynamic society capable of responding swiftly to the challenges of globalisation and the single European market;
- macroeconomic stability supported by a sound balance between the main macroeconomic variables enabling Slovenia to achieve nominal convergence with the EU by 2007;
- relatively high investment in the education of young generations that will lead to improved education quality, adjustment to the demands of the competitive market, the integration of employment with lifelong learning and activation of individuals' creative potential;
- medium-high investment in R&D and information and communication technologies aimed at boosting the economy's innovation capacity supported by changed priorities, incentives for R&D and additional investment;
- relatively developed infrastructure enabling the elimination of bottlenecks and the raising of the infrastructure's efficiency and sustainable use;
- the comparatively small widening of overall regional differences enabling a focus on those areas where development gaps are largest and still growing;
- high biotic and landscape diversity, a high-quality living environment and well-preserved environmental capital, which is also the basis for a sustainable economic environment; and
- a stable and safe country with a high level of security whose national security system and membership in the NATO and the EU repels any threats that might negatively impact on the achievement of the development goals.

1.3. Four strategic objectives of Slovenia's development

13. The economic development objective is to exceed the average level of the EU's economic development level (measured by GDP per capita in PPP) and to increase employment in line with the Lisbon Strategy goals.

According to the Strategy's development vision, higher levels of economic development and employment will provide the basis leading to improved social security, lower social risks for the most vulnerable groups, faster development of the most backward regions and improved quality of the environment. Combined, these improvements will enable a higher quality of living and human development. The accomplishment of the economic development objective requires more radical reforms aimed at increasing the economy's global competitiveness, institutional flexibility and innovativeness of the entire society. In order to achieve above-average results in all areas (the business sector, public administration, education, health

system etc.) systematic introduction of business excellence is a vital development direction. The successful promotion of development is also contingent on the existing level of social capital. Therefore, all social stakeholders should take part in planning and implementing the Strategy. This will facilitate a refocusing on areas where Slovenia has competitive advantages at the European or global level. By implementing the Strategy, an economically dynamic, socially well-developed and adaptable state will become Slovenia's competitive advantage. Slovenia should evolve into an intellectually relaxed and open as well as socially and technologically innovative society. A new entrepreneurial spirit, ongoing business adaptation of enterprises and mutual trust between all social stakeholders should become the central vehicle of development. Slovenia must also make use of its development potential in the areas of its natural endowments and cultural development, which have so far largely been regarded as limiting factors.

14. The social development objective is to improve the quality of living and the welfare of all individuals, measured by the indicators of human development, health, social risks, and social cohesion, inclusion and trust.

People are the agents of development, which is measured by the quality of their lives. The Strategy can only be successful if people can recognise in it the fulfilment of their own desires and expectations. The development of society should therefore improve every individual's opportunities for a long, healthy and quality life and ensure the population's sustained growth. Maintaining and improving the achieved level of social security, the quality of living and health is an important social value which, however, requires integrated policies aimed at safeguarding equal opportunities and human rights. Slovenia should start approaching this objective by increasing the population's education and creativity levels, preserving and improving the health of its citizens, and promoting active lifestyles and social cohesion as the basis of people's social security. Therefore, access should be enhanced to the sources of a decent life needed for personal development and the fulfilment of personal potentials – primarily knowledge and information. Education and culture will play a crucial role in this respect. Improving the quality of living for every individual presupposes the safeguarding of cultural pluralism and peaceful co-existence of different cultures within Slovenia's limited geographical area.

15. The cross-generational and sustainable development objective is to enforce the sustainability principle as the fundamental quality measure in all areas of development. According to the principle of sustainability, the needs of present-day generations must be fulfilled in such a way as not to limit the possibilities of future generations in fulfilling their needs to at least the same extent.

The principle of sustainability in the economic and social domains primarily concerns the achievement of a sustained increase in the capacity for economic growth, human development and improved welfare. Among other things, this presupposes cross-generational sustainability of social insurance and public finance systems, the creation of conditions for sustained population growth and the prevention of developmental isolation of certain social groups or regions of the country. The size and structure of the population are the result of people's individual decisions and living conditions. People make their choices based on their value systems within a given social context.

They are influenced by different policies; ultimately, however, the decisions they make and the responsibilities they assume are independent and individual. Therefore, the measures and instruments applied should be targeted to all age and social groups of the population. Moreover, they should be adopted as soon as possible, yet it may take a while until they bear fruit.

In the area of spatial development, the principle of sustainability translates into such an organisation of the economy, infrastructure, land settlement and way of living within the capacity limitations of the environment, space and natural resources that the spatial and settlement-related needs of the population are effectively satisfied. In this respect, the following guidelines should be pursued: (i) climate changes in the next few years will require not only the reduction of greenhouse gas emissions but also the adaptation of agriculture and forestry to these changes; (ii) increase the sustainable use of natural resources and the reuse and recycling of waste; (iii) ensure a satisfactory condition of waters and their proper management; and (iv) stop the decline in biodiversity. Ecosystems, landscapes and the environmental and spatial development potential should be given greater prominence. The mentioned areas of potential include domestic natural resources (especially renewable ones), areas offering characteristic landscapes or culture, biodiversity and the preservation of nature (plants and animals), rest and leisure, favourable conditions for healthy food produce etc. The concept of sustainable development also includes rational and efficient spatial development supporting economic development and following migratory and general demographic trends. Sustainable spatial development encompasses the comprehensive treatment of all aspects of development in a particular area, the polycentric development of urban and settlement networks, and the maintenance and further development of natural and cultural resources and values contributing to higher quality of living. However, spatial planning policy should not be a factor limiting the adopted regional development strategies.

16. Slovenia's development objective in the international environment is to employ its distinct development pattern, cultural identity and active engagement in the international community so as to evolve into a recognisable and distinguished country around the world. Slovenia should become a global crossroads, while its national identity should act as the backbone supporting its confident participation in global integrations.

We want to build a creative and open society. Slovenia must become a hospitable place attracting people from all over the world and enticing the best world enterprises, creative teams and individuals to operate here. However, modernisation and participation in global flows do not negate the need for an affiliation and identification with the national community and its traditions. Slovenia's national interests in contemporary globalisation processes should be a constant source of social dynamism, social capital and creative energies in all areas of Slovenian society's operations, rather than becoming a shield against the world. Slovenia's recognition in the world must rest on its own development achievements and its original contributions to the development of the global community.

17. In view of the above, Slovenia's key national development objectives in 2006-2013 are to:

- increase the welfare and quality of life of every individual in a sustainable way;
- enhance every person's opportunities for a long, healthy and active life by investing in learning, education, health, culture, living conditions and other resources needed for the fulfilment of personal potential;
- create a more dynamic and flexible society capable of responding swiftly to the challenges of globalisation and the single European market;
- sustained increase of economic growth and employment based on the principles of sustainable development and the long-term preservation of economic, social and environmental balances;
- increase Slovenia's global competitiveness by stimulating innovation and entrepreneurship, spreading the use of ICT and effectively modernising and investing in learning, education, training, and research and development;
- improve the state's efficiency and reduce its direct role in the economy;
- reduce social risks of the most vulnerable groups; lower poverty and social exclusion levels;
- create the conditions for sustained population growth;
- accelerate overall regional development and narrow the development gaps of the least developed regions;
- ensure sustainable environmental and spatial development; and
- enhance all types of security; consistently respect human rights; prevent discrimination and actively ensure equal opportunities.

1.4. Slovenia's development vision

18. Slovenia's economic development, gradual reforms and neocorporatist regulation of society to date are being replaced by a new development model. A higher development level demands greater liberalisation and deregulation of the market economy supported by public-private partnerships, faster economic and social reforms, more decentralised decision-making and broader inclusion of civil society.

The Slovenian economy is over-regulated and the bureaucratisation of its business environment is hindering entrepreneurial development. In this context, the public sector's spatial management is another limiting factor that does not accommodate to the demands of a dynamic market economy. Many enterprises and business areas are technologically underdeveloped, their international competitiveness is declining, and the total economy's value added is below the average of the EU's advanced countries. Further, negative demographic trends, the population's ageing and ill-adapted social models could jeopardise the achieved level of people's social welfare in the long run. The state of Slovenia has also not been overly successful in activating civil society and integrating it into a creative and co-operative network. The existing market economy and the state are thus increasingly turning into agents of the old

development traps, when they should actually be the sources of new development abilities and opportunities. Instead of the gradualist approach applied thus far, a radical reformist turn is therefore needed to enhance Slovenia's competitiveness and ensure its sustainable development. Slovenia should adjust its existing economy and social-state models and forge different democratic mechanisms for reaching mutual agreement on the responsibility for common progress. The new national political-economic vision is a development model combining a more liberal market economy with an economically more effective and adaptable yet social-partner state.

| <i>Current development model</i> | <i>Vision of the new social development model</i> |
|---|---|
| regulation and bureaucratisation of markets | deregulation and liberalisation of markets |
| restrictive business environment | promoting the creation and growth of enterprises |
| relatively closed financial markets | open financial markets and competition |
| insufficient flexibility of the labour market | a more flexible labour market |
| collective social security systems | individual needs and responsibility |
| corporatism of large social partners | open and broad partner co-operation |
| bureaucratic and hierarchical public administration | decentralisation and public-private partnerships |
| focus on macroeconomic and social balances | focus on sustainable development based on structural reforms and a more dynamic society |

19. Slovenia's development model of the twenty-first century therefore combines those positive characteristics of the European liberal economy and partner-state models that suit Slovenia's development possibilities and values. It focuses on the individual as an autonomous human being with her/his own values and culture who freely develops her/his potential and increasingly assumes individual responsibility for her/his economic progress and social welfare. At the same time, by participating in democratic decision-making processes and partner dialogue between equal social stakeholders, each individual takes part in creating the necessary social trust and co-operation and imposes her/his values related to the content and quality of social development. In the new development model, care for economic efficiency is to a greater extent handed over to the co-ordinating mechanism of the market. Market liberalisation is used as a means for raising economic growth, competitiveness and employment. The economy's efficiency is best secured by a functioning market competition supported by deregulation, decentralisation and debureaucratisation of the state. Goods, labour and capital markets must operate freely yet in compliance with clear-cut rules that promote entrepreneurial innovation, market ethics and socially accountable conduct of enterprises, non-profit organisations and individuals. Such rules can only be determined by the state which must, however, also adapt its own operations to the new development model. Above all, the state must safeguard the public interest of all citizens, protect the rights and interests potentially endangered by the majority, and ensure democracy, social security, the rule of law and the needed solidarity between people. It must act as the moderator of social dialogue and, by using information and arguments, increase the awareness that structural reforms for a more dynamic society and economy are a vital necessity.

The state's economic role is to ensure a stable, simple and transparent economic environment. At the regional level, the state's central task is to activate human resources and capital and to co-ordinate development interests between the different agents of social development. It is a matter of course that the state should carry out its tasks in an economically efficient way. To meet this requirement, it has to transfer some of its powers to autonomous and decentralised, public-private organisations financed by both budget and private funds. Such a marketisation of the state is introducing a new governance pattern as a form of co-operation between the public and the private sectors. The state determines the objectives, policy and the rules of the game, while actual implementation is increasingly being transferred to a public-private network of organisations.

20. In the partner-state model, a broad circle of stakeholders take part in determining the rules and regulatory mechanisms of the market economy. Developed liberalised markets and a stable post-modern state produce different forms of co-operation between economic agents, political institutions and civil society. They require a bigger role for social and intellectual capital, network partnerships between competitive institutions and the transfer of responsibility from the public to the private sector. Until now, Slovenia has primarily sought a social consensus on development in the dialogue between the three large social partners: the government, the trade unions and employers' representatives. The new model of decentralised, free and open decision-making, on the other hand, transcends the established corporatist institutions by also including civil society, regional and local interest groups, political parties, consumers and other non-governmental organisations or even groups of individuals. The partner-state model means that the effective steering of development at all levels requires mutual co-ordination and a relatively high level of consensus between the social stakeholders. The basic form of promoting development is therefore special partner coalitions tailored to particular development objectives, action plans and development projects. They should go beyond the present redistributive coalitions in which private interests prevail over public ones and widespread corruption often poses the biggest impediment to development changes. Partner coalitions increase the social responsibility for efficient development through their transparent operation. Slovenia will be able to achieve its development objectives and increase its development efficiency if it promotes a free market economy and clear social responsibility of the state, enterprises and individuals.

21. Slovenia must strike a new balance between the economic efficiency of the market and the social responsibility of a partner-state. We need greater economic freedom, simpler and more transparent operation of the state and an open and friendly entrepreneurial environment. Tax regulations should be simplified, bureaucratic and administrative barriers removed, the system of social benefits and rights should be reformed to stimulate job-seekers in the labour market. Further, room for investment should be ensured and access to financial resources facilitated. In the next few years, greater economic liberalisation of the markets and the dynamic growth of enterprises must stimulate economic efficiency, economic growth and employment. Higher employment rates are the key prerequisite for social security. On the other hand, we need a lean state that will satisfy social needs just as efficiently yet with reduced operating costs and tax burdens. People should give up the belief that only the state can guarantee them a safe economic and social future. The future solution therefore

lies in a broader division of responsibility between the state, enterprises and individuals whereby the state is just one of the partners providing social security. Enhanced partnerships between the public and the private sectors, the state, the market and civil society should pave the way to achieving a better balance in the shared responsibility for the welfare of citizens and thereby to greater social justice. Therefore, Slovenia should reform those state institutions that currently perform both statutory functions for the citizens and tasks arising from state policies in specific areas, and organise them as flexible and pliable systems capable of transferring their powers to the local and regional levels. The notably advanced information and communication technologies sector enables Slovenia to more effectively exploit the potential of the information society to modernise the public sector and create a more supportive environment for entrepreneurship and a knowledge-based society.

22. Slovenia needs a thorough reform of the state's socio-economic role. The present institutional system of the labour market and the role of the social state should be reformed if Slovenia wants to accelerate social change and achieve the desired social objectives. The lever of social development and social security is being shifted from the state to enterprises and enterprise networks, civil society and individuals, which are increasingly taking on the responsibility for securing welfare and the quality of life. The social-state reform concentrates on the changed relationship between the state and its citizens and a greater marketisation of public social systems. On one hand, the state must relieve its citizens of the tax burden and obligations; on the other, it has to redirect the citizens to the increased private financing of social services. This requires the citizens to be active and the public sector to come closer to the users. To achieve this, we need a more efficient social state based on a more flexible approach to people's diverse needs that will stimulate the activity and entrepreneurial engagement of its citizens and provide a wider, more diversified and in part competitive range of social services. In this way, market regulation and the entrepreneurial logic of operation will partly also penetrate certain social areas of activity such as social protection, health care, education, science and others. The new reform of the social state strives for a balance between competition and co-operation, partnerships between the public and private sectors and increased decentralisation of governance. The state and civil society must become parts of a single network so that the state will no longer be the sole guardian of social goals. Ahead of Slovenia therefore lies a transition from a welfare state to a welfare society.

23. The new liberal and partner-state development vision upgrades the values and culture of development achieved so far. Slovenia is facing a moment of truth in its development. Although people are eager for change they find it hard to accept that they too must change in the process. As people and their social capital are becoming the essential development factor of Slovenia's future, values such as freedom and security, human rights and individual responsibility are coming into focus. People must be given rights and obligations, power and responsibility to be able to decide about their future more directly. Assuming responsibility for tomorrow's development starts by assuming personal responsibility. Slovenia is now facing the decision on whether the history of our future will be a success story or whether we will merely be spectators of what the future of our history has to offer. The only proper answer to this question that will determine the success of Slovenia's development is self-confidence, shared responsibility and mutual trust.

24. *Slovenia is realising its development vision within the European Union as an area in which different social models and development paths are possible.* The EU's future performance depends on preserving its political culture of reaching agreement on the Union's common objectives and projects. Slovenia accepts the values of political moderation and the consensual resolution of issues within the EU, and advocates the EU's gradual strengthening as a federal political and economic union of sovereign states. Slovenia's vision favours diversity and competition to over-centralised institutions and the concentration of political and economic power by some members. The EU should be a place promoting the peaceful co-existence of nations and countries coupled with the global competition of enterprises and individuals.

25. *The EU has based its social development in the period up until 2013 (the next financial perspective) on a comprehensive reform of the economy and the social state.* In its reformed Lisbon Strategy (2005), the EU concentrates on two key objectives – achieving higher economic growth and employment. The EU member states will achieve these goals through: (1) liberalised trade and greater efficiency of the internal market; (2) improved entrepreneurial environment and higher competitiveness; (3) more flexible labour legislation and labour market; (4) increased investment in education, science, research and development; and (5) improved infrastructure and common industrial projects. The revised Strategy of the EU focuses on a smaller number of objectives and places more emphasis on the implementation of common development policies and projects while remaining firmly rooted in the vision of sustainable development. This EU approach to development is at the same time also the main guideline for Slovenia's development vision up until 2013.

26. *Slovenia is committed to a pluralistic vision of the EU that steers clear of excessive centralisation of political institutions and decision-making procedures.* Slovenia's strategic development interests within the EU include the development of the common European market with the four freedoms, the single monetary system and the constitutional charter. Slovenia approved the EU's constitutional charter in 2005; it aims to adopt the EU's common currency – the euro – in 2007; and is committed to promoting competitive and entrepreneurial freedom within the EU's common market. In so doing Slovenia will transfer part of its sovereignty to the EU level in accordance with the principle of subsidiarity limited to the areas of the common market and common policies. Slovenia hopes that all member states will voluntarily give up mutual distrust and respect the rule of law, the common institutions and the agreed common policies. This also includes a moral consensus on the common European values focusing on a high level of libertarian human rights and the prevailing Christian cultural heritage.

2. Five development priorities and the Action Plan

The government's implementation of this Strategy will focus on five key development priorities. They coherently combine measures from different ministries that can be implemented swiftly and can contribute the most to achieving the Strategy's overall objectives in the short run. Focusing on the common development priorities will enable a higher degree of the government's co-ordination needed to press ahead with the necessary structural shifts in development policy.

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

Fostering entrepreneurial development and increasing competitiveness

- apply measures aimed at fostering technological development, education and training to detect and promote those areas where Slovenia has competitive advantages, and allow the development of new, potentially successful areas;
- encourage development-oriented investment and strategic projects that via networking produce positive effects at the regional and international levels;
- encourage business networking in key sectors of the economy (electronic communications and information technologies, pharmaceuticals, chemical industry, electrical and optical equipment, logistics);
- accelerate the development of the leading service industries (tourism; business, financial and information services; high-tech services);
- develop mortgage banking instruments, particularly in the housing sector;
- develop instruments for the government's and private sector's joint investment in infrastructure building through concession agreements;
- develop new models for financing the development of small and medium-sized enterprises;
- create a supportive entrepreneurial environment and culture; and
- stimulate and develop an innovative environment and innovation.

Increasing inflows of development-promoting domestic and foreign investment

- create industrial/technological estates on attractive sites to eliminate the problem of land (availability and price) and administrative restrictions for domestic and foreign investors, and to foster development in specific regions;
- encourage the expansion of existing foreign enterprises in Slovenia and the integration of foreign-owned enterprises with the Slovenian economy;
- promote foreign direct investment (FDI) in high-tech and medium-high-tech industries and quality jobs;
- ensure the conditions to promote greenfield FDI;

- provide foreign investors with information and consulting on the business environment; and
- grant financial incentives for FDI.

Stimulating the economy's internationalisation

- develop economic diplomacy, enhance active participation in the EU and the WTO, become an OECD member;
- promote the internationalisation of successful Slovenian enterprises and develop models for financing the internationalisation of small and medium-sized enterprises;
- encourage economic and technological co-operation with the Slovenian national minorities in neighbouring countries and Slovenians around the world;
- stimulate two-way international mobility in secondary and tertiary education and research; and
- promote the international recognition of Slovenia's cultural output and make Slovenia an attractive destination for tourism and international cultural and economic exchange.

Increasing the competitiveness of services

- strengthen the factors contributing to the efficiency of services;
- place special emphasis on those services most closely linked to business operations (business, distributive, infrastructural and financial services); and
- amend regulations and simplify the business environment for service provision.

Successful participation in the exchange rate mechanism ERM II and adoption of the euro

- increase the adaptability of fiscal and incomes policies; and
- ensure long-term sustainability of public finances and price stability.

28. Competitive economy and faster economic growth – Action Plan for 2005 and 2006

Promoting the economy's competitiveness

- establish a simple and transparent system of promoting competitiveness focused on the key objectives; draw up a new programme for promoting entrepreneurship and the competitiveness of enterprises (Ministry of the Economy (ME), spring 2006);
- streamline the system for allocating aid to enterprises in line with the one-stop-shop principle (ME, competent ministries, spring 2006);
- increase the effectiveness of acquiring EU structural funds (Government Office for Local Self-Government and Regional Policy (GOLSRP, competent

ministries, autumn 2005) and combine different state incentives instruments (state aid, structural funds, research and development, foreign direct investment, active employment policy, tertiary and lifelong education, health care, government investment etc.) in a single system (GOLSRP, competent ministries, by end-2006);

- invest domestic and European funds in excellence centres in areas where Slovenia has world-leading companies or high potential (industrial design, new materials, composites, tools, spa tourism etc.) (ME, permanently);
- improve small and medium-sized enterprises' access to support services, improve the quality of these services and bring all consultancy and supervisory institutions, including regional chambers of craft, together into a single network (ME, autumn 2006);
- establish mechanisms to boost investment in service industries by promoting small entrepreneurial initiatives (ME, autumn 2006);
- improve access to start-up and risk capital; simplify and reduce the cost of bank lending procedures (Ministry of Finance (MF), ME, spring 2006);
- reduce financial indiscipline (ME, by end-2006);
- encourage the use of key managerial techniques to manage change and develop a business model of development and business excellence for Slovenian enterprises; develop the management of human capital and knowledge; increase investment in the training of managers and new entrepreneurs (ME, autumn 2006);
- systematically increase the quality of operations in Slovenian enterprises by promoting and implementing the European excellence model 'EFQM' (ME, Ministry of Higher Education, Science and Technology (MHEST), autumn 2006);
- enhance the development of the specific know-how related to the process of service innovation, service marketing and international transactions; develop instruments tailored to stimulating innovation in services (MHEST, ME, autumn 2006);
- establish mechanisms to increase corporate investment for co-operation with educational institutions and the readiness to promote mobility (Ministry of Labour, Family and Social Affairs (MLFSA), Ministry of Education and Sport (MES), ME, MHEST, spring 2006); and
- prepare a law on the Employee Share Ownership Plan (ESOP) (ME, spring 2006).

Boosting investment and internationalising the economy

- prepare a government programme to encourage FDI and adequately restructure the Slovenian Trade and Investment Promoting Agency (TIPO) (TIPO, summer 2005);
- foster FDI in high/medium-high technology, quality jobs (with high value added and required qualifications) and in export-oriented production, and promote the integration of foreign-owned enterprises with the Slovenian economy (ME/TIPO, permanently);

- encourage investment by domestic and foreign companies and investment in industrial estates and technology parks at the regional level (ME, permanently); establish at least three new industrial/business estates – giving priority to underdeveloped regions – and at least two new technology parks (ME, by end-2006);
- provide information, consultancy and other services to non-residents (ME, TIPO, permanently);
- revamp the municipalities' financing system so as to stimulate local communities to promote economic development in their territories (GOLSRP, MF, spring 2006); motivate municipalities and regions to foster entrepreneurship and create small business zones (ME, GOLSRP, spring 2006); facilitate and reduce the costs of obtaining land at abandoned manufacturing and other facilities (Ministry of the Environment and Spatial Planning (MESP), ME, spring 2006);
- promote the outward internationalisation of Slovenian enterprises to reduce costs; maintain and further develop activities with higher value added in parent companies in Slovenia (ME, TIPO, Slovenian Export Corporation (SEC), permanently); establish financial mechanisms for promoting investment abroad (higher credit limits, subsidised interest rates, guarantees, risk capital funds) (ME, TIPO, SEC, spring 2006);
- prepare programmes to promote and strengthen the institutional support of Slovenian companies in their entry to rapidly-growing world markets (Brazil, Russia, India, China) (ME, TIPO, SEC, by end-2006);
- enhance support measures for the economy's internationalisation (collect and distribute information on foreign trade and the possibilities for making business in foreign markets; assistance to companies' promotion activities and the creation of representative offices abroad; training in international business (ME, Ministry of Foreign Affairs (MFA), permanently);
- prepare a national (policy) programme to assist developing countries (MFA and ME, autumn 2006); and
- increase the involvement of the Slovenian economy in NATO's activities (Ministry of Defence (MD), permanently).

Advancing activities supporting the economy's competitiveness

- meet the convergence criteria and complete preparations for adoption of the euro (MF; spring 2006);
- formulate regional strategies in specific infrastructural areas aimed to ensure reliable supply and boost competition and openness and, where this is not possible, effective regulation (competent ministries, spring 2006);
- carry on with the privatisation of state-owned banks and insurance companies and promote financial integration (MF, by end-2006);
- increase the market supply of building land for housing construction; raise the market supply of dwellings for purchase and renting and reduce the prices of building land, and especially of dwellings (MESP, spring 2006);
- develop mortgage banking in order to raise the supply of affordable housing loans and develop models of subsidies and tax relief for young families and those seeking their first dwelling (MF, MESP, spring 2006);

- provide public sector funds to promote housing construction and renovation and finance social housing supply programmes (MESP, spring 2006);
- ensure competition in the electronic communications market by encouraging competition and competitive use (promote the development of fixed wireless broadband access, establish actual competition in leased lines, enable number portability and other regulatory measures) (Post and Electronic Communications Agency (PECA), ME, by end-2005); upgrade the broadband networks strategy (ME, summer 2005) and prepare a strategy for the transition to digital broadcasting (ME, autumn 2005); and
- build optical infrastructure as the basis for the accelerated use of modern technologies and e-processes (MHEST, autumn 2006).

Applying the principles of sustainable development

- launch measures aimed at the greater yet sustainable mobility of workers, i.e. provide workers with the possibility to travel to work from a greater distance by using environmentally more sustainable modes of transport (e.g. fast city and intercity trains) (Ministry of Transport (MT), by end-2006); and
- commence measures to reduce the energy and material intensity of the Slovenian economy (introduce programmes for enhancing companies' environmental efficiency) (ME, by end-2006).

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

Increasing economic efficiency and the level of investment in research and technological development

- focus R&D activity primarily on those technological areas where research potential can be linked to economic activity to achieve higher value added (electronic communications and information technologies, biotechnology and pharmacy, nanotechnology, new materials, process and environmental technologies);
- apply the criteria of the applicability and two-way flow of knowledge between research institutions and the business sector in public financing;
- create an appropriate organisational structure of research organisations to improve their adaptability to the challenges of modern research work;
- adjust the organisational structure and financing of the R&D sector to ensure a more efficient use of funds available for R&D;
- encourage the recruitment of researchers in commercial companies;
- raise public expenditure on R&D to 1% of GDP by 2010; create an appropriate system to stimulate the business sector's investment in order to increase this expenditure to 2% of GDP by 2010 and enhance the capacity to absorb R&D's findings;

- regulate the provision of start-up capital for new high-tech and innovative enterprises;
- encourage Slovenian experts to return from abroad and work in Slovenia, and attract quality foreign experts;
- expand the use of information and communication technologies to boost productivity and entrepreneurship, the efficiency of the public sector's services and general competitiveness of the labour force in the global labour market; and
- introduce flexible forms of employment and telework; develop and promote forms of employment that exploit the information society's potential; raise (computer, functional) literacy rates; and boost public access to the Internet and information mediators.

Improving the quality of education and promoting lifelong learning

- encourage mobility and flexibility through credit studies;
- combine the research and teaching potential of different institutes and universities and stop the mutual prevention of staff mobility between universities and institutes;
- provide opportunities for research and education work to all who meet the formal criteria;
- supplement and differentiate the expert part of habilitation conditions;
- enhance co-operation between industry and universities in preparing curricula, particularly in technology studies;
- improve the quality of studies (the ratio between the number of teachers and students, infrastructure and equipment) and shorten the duration of studies;
- increase the inclusion of generations of enrolment age in tertiary education to at least 55%;
- boost enrolment in the studies of science and technology;
- develop programmes to enhance the entrepreneurial spirit and knowledge;
- systematically revamp programmes to stimulate creativity and innovation in order to facilitate the absorption of technological and organisational innovations (flow of knowledge) and broaden the base of potential innovators;
- ensure a balance between the supply of educational institutions and the needs of the labour market and the business sector by promoting social-partner dialogue in upgrading the national education strategies and by adjusting the curricula so as to ensure the transparency of professional qualifications at national and EU level;
- in the area of lifelong learning, stimulate people's demand for education and training and encourage employers to invest more in it;
- increase the attractiveness and accessibility of education and training and create mechanisms for the recognition of any skills acquired through informal or casual work, particularly those that can provide workers for the new and developing sectors according to the core EU processes (European Qualifications Framework, Copenhagen Process 'Education and Training 2010', credit system);

- develop and connect networks of vocational and career-related consultancy and integrate them with the existing systems of education, training and mediation of work;
- improve access to education and training by using new technologies (ICT-supported regional/local centres of lifelong learning);
- prepare programmes and systematically promote the use of ICT in active and creative work environments;
- decentralise tertiary education, especially in the segment of post-secondary vocational and higher professional schools that have a close connection with regional economic development needs, and with regard to lifelong learning;
- encourage visits of Slovenian lecturers from abroad and neighbouring countries and attract foreign lecturers and students to Slovenia;
- train educators to acquire new skills (OECD indicators); and
- prepare education and training programmes; educate and train teachers regarding sustainable development.

30. Effective generation, two-way flow and application of the knowledge needed for economic development and quality jobs – Action Plan for 2005 and 2006

Raising the economic efficiency of R&D activity

- adopt a national R&D plan in line with the Strategy and carry out a public tender for investment in R&D activity (MHEST, autumn 2005);
- change the system of financing public research organisations (PRO) in such a way as to award partnerships with the business sector (including the establishment of spin-off enterprises), international co-operation and recognition, and enable researchers to participate in profits (MHEST, ME, autumn 2005);
- adopt legal measures to increase the share of revenue generated by PRO in the market (MHEST, ME, by end-2006);
- change the financing system and amend regulations to increase the mobility of researchers between faculties/institutes and the business sector and generally encourage the flow of researchers into business (MHEST for science, ME for business, spring 2006);
- allocate additional public funds for research, technological development and innovation to promote technological development and innovation (MHEST, ME, permanently);
- remove administrative barriers to being entered in the register of researchers (MHEST, autumn 2005);
- create a national innovation system (NIS) and implement the Slovenian regional innovation strategy (SLORITS) linking universities, research institutes, support institutions, the government and enterprises (MHEST, ME, GOLSRP, autumn 2006); adopt implementing regulations for the establishment of a central register of organisations acting as knowledge transfer mediators (ME, MHEST, autumn 2006);
- stimulate the creation of an environment conducive to innovation through financial aid to enterprises for technological development; prepare new

technological partnership programmes for enterprises, research institutions and the government for the next 3-5 years; prepare a call for tenders for investment in new technologies and products and co-ordinate activities to determine technology priorities (MHEST, ME, by end-2005);

- comprehensively revise regulations unstimulative to innovation and promote the establishment of domestic and foreign high-tech and innovative enterprises (MHEST, ME, Ministry of Public Administration (MPA), MF, by end-2006);
- within the overall tax reform, examine whether higher tax incentives for investment in R&D and the recruitment of researchers in the business sector are reasonable (MF, ME, MHEST, by end-2006); stimulate the flow of researchers from scientific and technical PRO to the business sector by subsidising salaries and financing projects outside of the public sector (MF, ME, MHEST, spring 2006);
- train the implementing institution in systematic and target-oriented implementation of programmes and measures in the area of technological development and innovation (creating links with the business sector and development policy, acting according to business principles, creating modern mechanisms to support technological development and innovation) (ME, MHEST, by end-2005);
- encourage researchers to participate in ‘technology clubs’ (uniting researchers from companies and faculties/institutes that conduct company-directed research) and young researchers to work in the business sector while preparing their PhD theses and to remain in the business sector thereafter (ME, MHEST, permanently);
- establish a risk fund for financing high-technology SMEs by combining the existing funds, revenue from privatisation and the private sector’s participation (MF/ME, spring 2006) – conduct an invitation to tender and involve at least 50 enterprises (ME, spring 2006);
- establish a programme designed to enhance international co-operation and Slovenia’s reputation in the areas of R&D and innovation, including support in engaging foreign researchers in Slovenian enterprises and universities (MHEST, ME, spring 2006);
- simplify the procedures for employing foreign researchers, provide organisational (regulative) and financial support to top researchers and projects capable of not only establishing domestic companies but also attracting global ‘players’ to set up research centres in Slovenia (MHEST, spring 2006); and
- ensure financial incentives for Slovenian experts to return from abroad, and at least 200 one-year scholarships for foreign guest researchers or for research work of domestic researchers abroad (MHEST, by end-2006).

Improving the quality of education

- adopt a national programme of higher education (MHEST, by end-2005);
- launch a credit study system with flexible modular curricula in all higher education institutions (MHEST/Universities, autumn 2006);
- change the system of financing higher education so that it rewards research work that has a link to the users of research results, and change the habilitation

- criteria so that applied research and projects carried out in co-operation with the business sector are given more prominence and the flow of experts from the academic to the business sphere is not hindered; consistent international comparability of habilitation criteria and procedures and restriction of in-breeding (MHEST, Universities, 2006);
- base increased budgetary expenditure on higher education on the fulfilment of reference criteria and progress in international comparisons (amend the legal basis – Higher Education Act); accordingly adjust the tasks of universities and the regulations (MHEST, Council for Higher Education (CHE), Universities, 2006);
 - amend the act regulating the accreditation of higher education programmes so as to ensure international comparability and competitiveness of programmes; PhD programmes may only be provided by those institutions that achieve top results in their field of activity (MHEST, CHE, by end-2005);
 - promote development accomplishments in science and scientific careers (MHEST, permanently);
 - introduce differentiated scholarships and differentiated criteria for financing higher education institutions (including greater expenditure on research infrastructure) aimed at encouraging enrolment in science and technology studies, including information technology (MHEST, MLFSA, ME, autumn 2005);
 - encourage the establishment of high-quality universities of science and technology (either new ones or by reorganising the existing ones) that will also provide enterprise studies at tertiary level (MHEST, by end-2006);
 - make changes to the courses and their implementation at all education levels in order to stimulate educational institutions to plan and carry out programmes that will arouse young people's interest in innovation, science and changes (MES, MHEST, ME, autumn 2006);
 - develop entrepreneurial skills at all education levels, particularly in science and technical schools; encourage the entrepreneurial spirit of young people and establish a positive notion of entrepreneurship; provide training programmes for running small enterprises and entrepreneurial knowledge for young people (MES, MHEST, ME, permanently);
 - accelerate the development of enterprise incubators at universities (MHEST, ME, permanently);
 - prepare the legal basis for recruiting practising experts in higher education institutions (MHEST, Universities, autumn 2006);
 - adopt provisions to gradually remove the differences between full-time and part-time studies and reduce the benefits arising from the student status and student work to such an extent that they no longer stimulate prolonged studies;
 - modernise post-secondary vocational education, mainly by reforming the curricula of post-secondary technical schools, introduce the ECTS credit system (MES, autumn 2006); and
 - increase the mobility of students and researchers, upgrade the ARNES academic network to a globally comparable level, develop and launch distance learning at higher education institutions, ensure the necessary ICT equipment at schools (MHEST, MES, autumn 2006).

31. The third development priority: an efficient and less costly state

Increasing the state's institutional competitiveness and efficiency

- reduce the state's direct role in the economy;
- withdraw state ownership from companies and financial institutions as part of the public sector's modernisation; reduce the role of KAD (pension fund) and SOD (restitution fund) in company management;
- launch 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;
- determine the procedure for the general public's participation in the preparation of regulations (consultation methodology);
- introduce private-public partnerships (PPP) to the provision, performing and financing of public services and investment in infrastructure;
- partly privatise administrative tasks through public commissioning and outsourcing; apply the private sector's management practices in the public sector (new public management); introduce performance and efficiency standards and comparisons between different bodies; improve the flexibility of promotion and reward systems;
- raise the standards of professionalism and transparency in the public administration; improve the quality of its services and strengthen its consulting function;
- decentralise the administration; and
- improve the conditions for the operation of non-governmental organisations.

Development-oriented restructuring of public finances

- change the structure of expenditure according to the Strategy's priorities and the absorption of EU funds;
- gradually reduce the share of general government expenditure in GDP by at least 2 percentage points; and
- carry through a comprehensive tax reform based on the principles of relieving labour, stimulating competition and employment, and generally simplifying the system.

Improving the judicial system's functioning

- ensure greater legal certainty;
- improve the efficiency of courts, public prosecutors and state attorneys;
- prepare a comprehensive programme to reduce court backlogs and ensure the resolution of cases within reasonable periods of time, and ultimately eliminate the backlogs;
- additionally train judges and state prosecutors in conducting judicial proceedings and particularly for work in the fields of economic crime, corruption and organised crime;

- simplify and standardise judicial proceedings at both regulatory and practical levels (e.g. by exchanging good practices) in order to improve the efficiency of judicial proceedings and professional adjudication by the state as conducted by prosecutors and judges; and
- strive for the full computerisation of courts (set up computerised registers, establish full e-communication between clients and courts) to reduce the duration of procedures and simplify the monitoring of efficiency, court backlogs and periods of limitation.

32. An efficient and less costly state – Action Plan for 2005 and 2006

Increasing institutional competitiveness

- improve the co-ordination of development policies and draw up the National Development Programme based on the SDS (GOLSRP, autumn 2006);
- examine the barriers to competition in the Slovenian economy (ME, 2006) and gradually remove them (ME, competent ministries, permanently);
- introduce the assessment of the administrative burden of proposed regulations (MPA, autumn 2005) and a comprehensive assessing system for the economic, social and environmental impacts of regulations and policies (MPA, autumn 2006);
- carry out a step-by-step sale of the KAD's and SOD's shares in enterprises and transform these two companies in institutional portfolio investors (MF, partly by end-2006);
- finalise the 'one-stop-shop' project (ME, MPA, autumn 2005) and reduce the administrative burden on the setting-up of companies (ME, spring 2006);
- apply the principle of simpler regulations and administrative procedures to small enterprises (ME, permanently);
- establish a single, rational information system for small enterprises that will satisfy the needs of internal and external information users and will be based on internationally comparable accounting standards (MF, ME, by end-2006);
- systematically analyse spatial regulations, propose amendments and simplifications to be made to meet the demands of the market economy and make provisions for the active monitoring of their implementation (MESP, ME, spring 2006);
- facilitate access to the real estate needed to carry out investment projects by effecting changes in the real estate market; increase the supply of developed building land, prepare a strategy for the creation of enterprises zones, simplify and shorten the procedures to obtain building permits, amend regulations to prevent unjustified hindrance to the freeing up of land (MESP, by end-2006);
- continue strengthening civil dialogue by creating regulatory and financial conditions for bolstering the non-governmental sector (MPA, permanently);
- adopt the consultation methodology (MPA, by end-2005);
- systematically improve the public administration's efficiency and performance by promoting the use of modern managerial techniques to bring about change

- and achieve business excellence in the public sector; develop human resources and knowledge management; develop strategic management (MPA, 2006);
- systematically raise the quality of the public administration's services by applying the European excellence model (CAF – Common Assessment Framework and EFQM – European excellence model) (MPA, MHEST, permanently);
 - use the EFQM to assess the largest organisations in the public sector and those enterprises in which the state is a major owner (MPA, Ministry of Health (MH), ME, MHEST, MF, permanently); and
 - increase the use of ICT and consequently e-Government services in households (launch the Home Computer Initiative as a pilot scheme) (MHEST, 2005 and 2006, thereafter permanently).

Development-oriented restructuring of public finances

- prepare a set of measures aimed at achieving the Strategy's objectives regarding the structure and amount of general government expenditure (MF, end-2005);
- improve and simplify the tax legislation (MF, autumn 2005);
- prepare the tax administration's code of conduct (MF, autumn 2006); reform the tax administration to create an efficient and citizen-friendly service; obligatory publication of clarifications and inspection practices; criminal responsibility of inspectors and compulsorily effective official clarifications and instructions; examine the reasons for lost decisions and amend the instructions for inspectors and heads of local tax offices at least once a year; focus on major evasions; observe the principle of taxpayer credibility (MF, Tax Administration);
- prepare a comprehensive tax reform aimed at reducing the tax burden on labour and encouraging competition, investment, housing construction, employment and sustainable behaviour; set up a transparent tax environment (MF, autumn 2006);
- systematically screen the tax and social transfers systems for their overall impact on people's income in different life situations (MF, MLFSA, spring 2006);
- amend the drafting and implementation of the budgetary procedure according to the principles of result-oriented budgeting and more efficient public expenditure; make legal provisions for decentralisation of the public sector's governance and goal-oriented budgeting; draft the budget on the basis of budgetary programmes and priorities (MF, by end-2006);
- determine the expected amount of budget revenue conservatively on the basis of macroeconomic forecasts; increase the share of automatic stabilisers and flexible expenditure; improve transparency (MF, by end-2006);
- draft a law on public-private partnerships (MF, autumn 2005) and procure at least three large projects (MF, competent ministries, spring 2006);
- transfer the provision of some public services to the private sector and co-funding (MF, competent ministries, by end-2006); and
- accelerate the outsourcing of different services provided by the public sector and control the quality of services and the maintenance of high standards by service providers (MF, competent ministries, by end-2006).

Improving the judicial system's functioning

- eliminate backlogs in administrative proceedings (MPA, autumn 2005), speed up the adjudication procedures and increase clients' satisfaction in administrative proceedings (MPA, permanently);
- improve the level of legal certainty by amending regulations (Notary Act, State Attorney Act, Act on the Execution of Judgements in Civil Matters and Insurance of Claims) and adopt other necessary measures (Ministry of Justice (MJ), 2006);
- consistently implement legislation in the area of minor offences by amending the Minor Offences Act and establish an inter-ministerial working group that will monitor the implementation of regulations (MJ, 2006);
- resolve denationalisation-related cases more swiftly (MJ, MPA, Ministry of Agriculture, Forestry and Food (MAFF), ME, MESP, permanently);
- reduce backlogs in cases dealing with the redressing of injustices (MJ, permanently);
- train judicial staff, especially in the areas of EU law, commercial law and the conduct of judicial proceedings (MJ, permanently);
- set up an electronic system to ensure the monitoring of efficiency, backlogs and periods of limitations in court procedures (Supreme Court of the Republic of Slovenia, 2006); and
- prepare a three-year plan for setting up the public administration's centrally co-ordinated and planned main ICT systems that will facilitate the administration's greater efficiency (MPA, 2006).

33. The fourth development priority: a modern social state and higher employment*Increasing the labour market's flexibility*

- improve the flexibility of employment and employment relationships (annual calculation of hours worked, part-time work, flexispace, working at home, telework and other atypical types of work);
- replace passive labour market measures with active ones to activate people and stimulate employment and social inclusion; combine passive and active measures;
- reduce absences due to sickness and occupational disability, preserve workers' employability through protective measures, protect workers' health and enable their active ageing;
- reduce structural imbalances in the labour market by pursuing an appropriate formal education policy, by speeding up the launching of other forms of education and training, and by recognising the acquired knowledge and skills in employment;
- reduce employers' social security contributions for workers with low employability, first-time employees and the long-term unemployed in depressed regions;

- facilitate the balancing of work and family life: apply family-friendly policies, promote extended working lives, adjust the patterns related to workplace and working culture, allow the distribution of hours worked over one's total active life;
- prepare the necessary changes to the labour market's institutional framework on the basis of a comparative analysis to ensure a sufficient level of competitiveness; and
- improve the employability of those population groups with low employment prospects by combining the employment-education status and part-time employment within non-market employment opportunities.

Modernising the social protection systems

- institutionalise people's greater personal responsibility for their own social status;
- adjust the social protection systems to the needs of the long-living society, tailor the system of collecting social security funds to modern jobs and adopt new regulations in the area of long-term care;
- launch activation systems of social security: more precisely define the target recipients of social benefits and services so as to encourage people to seek and accept work; prevent the unjustified accumulation of benefits by a single recipient, decentralise employment services and combine them with the granting of social benefits;
- link social protection with the promotion of an active life and social cohesion (with the emphasis on 'flexicurity');
- focus social policy more on the transition between different periods of life (from school to work and from work to retirement; support geographical mobility);
- achieve a more equal distribution of labour market risks and social risks which currently affect young generations to an above-average extent;
- reform the health protection system to ensure its solidarity, accessibility, transparency, quality, efficiency and fiscal sustainability; and
- use public-private partnership in programme financing and implementation.

Reducing social exclusion

- ensure equal access to social protection, health, education and cultural services;
- expand people's possibilities to raise their education levels and involve the unemployed in active employment policy programmes;
- build over 2,000 non-profit dwellings and enhance their accessibility; and
- improve the status of disabled people.

34. A modern social state and higher employment – Action Plan for 2005 and 2006*Making the labour market more flexible*

- improve regulations in the labour market to increase the adaptability of employment levels: reduce the rigidity of labour legislation, promote flexible forms of employment (flexitime, temporary employment etc.), reduce restrictions imposed on recruiting retired people, cut severance pay amounts and shorten the duration of entitlement to unemployment benefits, facilitate dismissals for business reasons, simplify administrative procedures for hiring foreigners, especially those who are highly qualified (MLFSA, autumn 2006);
- adjust the minimum wage and social transfers system so as to motivate employees to work and employers to create new jobs (MLFSA, autumn 2006);
- redirect active employment policy schemes towards addressing the problems of the most disadvantaged groups in the labour market – those long-term or frequently unemployed, people aged over 55, young people who have finished or dropped out of school, women, people who have been granted asylum (MLFSA, autumn 2005); expand the retraining, vocational guidance and career planning schemes (MLFSA, spring 2006);
- create or expand programmes that stimulate employers to recruit young people without work experience (MLFSA, spring 2006); promote schemes of flexible employment and retirement of the elderly, including early, partial, gradual retirement and retirement conditional on hiring young people; encourage employment in the social economy (MLFSA, autumn 2006);
- provide subsidies for adult education financed in equal shares by the employer, the employee and the state (MLFSA, autumn 2006); adopt special measures to stimulate the education and training of lower-skilled workers (MLFSA, spring 2006); speed up the verification of national vocational qualifications (MES, spring 2006);
- prepare a programme aimed at promoting the establishment of study clubs country-wide (MLFSA, MES, MHEST, spring 2006); set up at least five centres of lifelong learning and connect them with regional education centres (MHEST, GOLSRP, MES, MLFSA, by end-2006);
- ensure public access to information about occupations with supply shortages and occupation-specific unemployment rates; adjust education programmes; match scholarships with labour market needs and launch regional scholarship schemes; develop programmes to popularise technical vocations (MES, MHEST, MLFSA, spring 2006);
- invest in tenant dwellings to attract labour to regions where it is lacking (MES, by end-2006);
- promote the search for employment possibilities within local non-market employment opportunities; compile catalogues of potential jobs available within non-market employment opportunities that will enable a temporary flow to employment into the non-market segment by providing levers enabling a return to the job market (MLFSA, 2006); and

- prepare a scheme to eliminate deficits in individual occupational segments through selective immigration (MLFSA, autumn 2006).

Modernising social protection and reducing exclusion

- reduce the dependency on financial social assistance and provide incentives for the employment of long-term recipients of financial social assistance; prevent the unjustified entitlement of a single recipient to multiple benefits and improve the targeting of social benefits and services so as to stimulate the reactivation of affected people (MLFSA, 2006);
- increase the rates of (functional, computer) literacy and pursue an active policy to close the digital gap; improve public accessibility of the Internet and information mediators (MHEST, MLFSA, permanently); develop and promote forms of employment that exploit the potential of information and communication technologies, including those adjusted to people with special needs (MHEST, MLFSA, permanently); improve access to quality jobs in rural areas by promoting the combined employment and decentralisation of public services made possible by modern technology (MLFSA, permanently);
- frame an experiential learning scheme based on an analysis of the possibilities of voluntary work and other forms of experiential learning in NGOs (MLFSA, autumn 2006); add donations to NGOs to the existing items subject to personal and corporate income tax relief and allow the possibility to ‘donate’ work to an NGO (MF, autumn 2005); regulate public-private partnerships in the area of implementing and financing social protection schemes (MLFSA, autumn 2006);
- enhance employment opportunities for disabled people (early inclusion in vocational rehabilitation programmes; introduction of quotas, protective and support employment etc.) and ensure equal opportunities for disabled people (provide cash benefits to stimulate their participation in society, improve the accessibility of the built environment and communications, develop and pluralise programmes and their providers etc.) (MLFSA, 2006);
- set up a system of long-term care insurance (MH, MLFSA, 2006);
- improve access to health care services, shorten patient waiting times, improve the quality of services and efficiency of service providers by investing in greater efficiency of the system, including in health care facilities (MH, 2006);
- improve the provision of emergency health services at all levels (MH, 2006); and
- introduce a national health care quality system (MH, 2006).

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

Sustained population growth

- create adequate working and societal conditions for active elderly citizens and mutual interest on the part of this group and society as a whole;

- ease the time pressure through cross-generational assistance and more balanced employers' demands regarding the intensity of work at the beginning of one's career;
- create the conditions for easier balancing of family and work obligations of both parents, including more flexible forms of child care, and ensure the competition and non-discrimination of parents in the labour market;
- public services as well as formal and informal social networks should support the creation and better functioning of families rather than merely help some individuals become more productive;
- adjust spatial management to the general demographic and social policy objectives and the anticipated migration developments;
- increase the supply of tenant dwellings and housing and lower the prices of dwellings by enhancing the supply of land and the efficiency of the housing market; and
- develop mortgage banking in order to increase the supply of favourable housing loans and subsidise the repayment of some level of interest at the beginning of the repayment period for young people; reduce some of the structural deficits in the population through integration policy and the control of migration levels.

Balanced regional development

- establish regions with their own competencies and resources to promote their development (according to the fiscal decentralisation principle);
- support the development of a polycentric urban system and of regional centres (particularly centres of national significance); create (innovative) city regions and foster regional economies through technology parks and business incubators;
- establish regionally spread-out networks of tertiary and lifelong education and other public services;
- provide municipal financial incentives for the development of local economies, social activities and infrastructure (keeping some of the collected taxes in the local communities' budgets), increase the quality of spatial acts in line with development needs, simplify spatial regulations, boost expenditure on housing construction, regulate the area of public utilities;
- ensure the supply of pure drinking water and promote local self-sufficiency in food;
- upgrade the existing regional development programming and closer co-operation between urban and rural areas based on binding partnerships and active endeavours of the government to establish regions; reinforce cross-border regional co-operation, among other things by involving the Slovenian national minorities;
- upgrade measures aimed at preserving the population's density and cultural landscape and strengthening the developmental vitality and attractiveness of the countryside;
- improve the connections of outlying, backward areas with the main traffic corridors; expand and promote the use of public transport and sustainable

- mobility (the 'modal split');
- establish regional partnerships for the development of the information society and its integrated regional strategies; and
- with regard to maintaining the population's density and regional development consistently bear in mind the risk of natural or other disasters in certain areas.

Ensuring optimal health conditions

- integrate health protection measures and criteria with sectoral policies and reduce the differences in health across regions and population groups;
- promote healthy lifestyles and prevent high rates of disease incidence early in life; and
- improve the accessibility and quality of health care services and modernise health care facilities.

Improving spatial management

- establish a record of the highest-quality agricultural land sites and protect them;
- continue expanding areas of land intended for organic farming;
- accelerate the merging of agricultural land and upgrade land for higher quality production while keeping the highest-quality agricultural land intact;
- increase the supply of building land for industrial and housing construction through the rational expansion of urban areas on populated land, better utilisation of populated areas (concentration of buildings) and revitalisation of degraded urban and other land for renewed use;
- provide economic incentives for a better utilisation of the disposable building fund, support the internal development of populated areas (prioritise the condensing of extensively exploited populated areas over the expansion of new areas);
- develop the real-estate market (registers, taxation, mortgage loans); and
- stimulate settlement in towns with 7,000 to 30,000 inhabitants.

Integrating environmental standards with sectoral policies and consumption patterns

- reduce industry's contribution to climate changes and adjust the economy and settlements to the anticipated climate changes;
- promote the sustainable use of natural resources, decrease energy and material intensity and stimulate waste recycling, raise ecological awareness and the quality of living;
- increase energy efficiency and the use of renewable energy resources in the public sector, in particular at the local level;
- press forward with the environmental tax reform and introduce 'green' public procurement procedures;
- promote environmentally suitable, sustainable entrepreneurial and consumer practices;

- encourage the development and use of environmental technologies;
- resolve the environmental problems of transport corridors at the EU level, including by developing intelligent transport systems;
- promote sustainable mobility and increase the 'modal split' in favour of public transport; improve the co-ordination between transport supply and the needs or public interest; set up and maintain a national electronic land system as a vital support instrument for spatial planning, groundwater protection (preventing the leaching of nitrates, pesticides and pollutants), the production of quality food and ensuring a healthy environment;
- ensure a satisfactory condition of waters (by 2015) and their proper management, increase the protection of the sensitive maritime ecosystem and the coastal zone;
- stop the decline in biodiversity by 2010 and establish Slovenia's natural spatial quality as a quality for the whole EU, which also involves care for its maintenance; create protective regimes that will enable the protection of plants and animals and their biocenoses, along with overall economic and social development in protected areas (Natura 2000);
- strengthen administrative capacity in the areas of environmental law and environmental economics; and
- bolster the role of consultative and advisory bodies in the procedure of drafting proposals (council for sustainable development, inter-sectoral consultative bodies, inter-sectoral working and project groups).

Developing the national identity and culture

- develop culture in its entirety, i.e. including its ethical, social, economic and political dimensions established throughout history and open it up to the modern world;
- develop cultural diversity and national identity as a synthesis of cultural objectives and aims;
- strengthen the awareness that culture is the historical basis of the national identity and that Slovenia's modern image in Europe consists of different cultural identities from national to local, from universal to individual;
- enhance the Slovenian cultural space and preserve and develop the Slovenian language;
- promote the cultural development of the Italian and Hungarian national minorities, the Romany community and other minorities in Slovenia, as well as immigrants;
- set up an environment conducive to creativity and greater accessibility of cultural goods, and open up the media space;
- systematically preserve and develop the overall cultural heritage and link it to the modern way of living and creating since present-day society must assume its responsibility for natural and cultural heritage to repay its moral debt to future generations;
- establish a cultural environment in which a knowledge-based economy can prosper;

- with regard to the country's development, knit culture and science more closely together and transfer their achievements and surpluses to the economy, thereby securing the basis for social welfare;
- intertwine culture, science and education more closely in order to lift the quality of studying and teaching and thus stimulate each individual's talent and creativity;
- promote investment and develop public-private partnerships in culture;
- focus on the ethical principles central to individuals and society in the planning of different areas; ethics must co-direct decisions that will affect the exploitation of natural and cultural resources, of space and the living world; and
- care for the conservation of nature should not only include the cultural, educational and scientific tasks of restricting human intervention in nature known as the protection of nature, but also trust in nature itself and its pre-and post-cultural abilities. We must change the anthropocentric view of the world and the way people treat it and adopt a respectful attitude to living nature, rooted in the belief that people must do everything within their power for its preservation.

36. Integration of measures to achieve sustainable development – Action Plan for 2005 and 2006

Sustained population growth

- facilitate the balancing of work with family and private life and improve the position of young people and first-time job-seekers in the labour market (MLFSA, permanently);
- improve young people's possibilities to acquire their own dwelling – halls of residence, non-profit flats, subsidised profit rents; tax unused housing facilities heavily (MESP, MF, by end-2006);
- provide a variety of subsidising schemes within the housing supply system, primarily for young families, first-time job-seekers (premiums for savings and interest on loans, subsidies for construction, purchase or lease of dwellings, granting loans, guarantees etc.) and re-examine tax relief models (relief for interest on housing loans, investment in mortgage bonds, investment in new construction, renovation, purchase of dwellings etc.) (MESP, 2006); and
- provide the regulations and other conditions needed to engage institutional and financial investors (investment funds) in financing the supply of housing and the development of mortgage banking (MESP, spring 2006).

Balanced regional development

- raise the efficiency of institutions in the regional development area by amending the legal framework for regional policy's implementation: adopt a new law regulating the promotion of balanced regional development and continue with the establishment of a unit for project funding at the national Public Fund for Regional Development (GOLSRP, autumn 2005);
- strengthen developmental assistance to priority regional policy areas: allocate additional incentives for the development of regional roads and public utilities

infrastructure, increase aid to areas populated by the Italian and Hungarian national minorities, Romany settlements and border areas (particularly along the EU external border with Croatia), strengthen cross-border developmental co-operation, create new instruments and schemes for the co-operation of business, science and research with Slovenians around the world (GOLSRP, 2006);

- higher education network, business incubators and technology parks in regional centres; connect economies in clusters and establish links with other institutions in the region to strengthen regional innovation systems; establish regional partnerships for the development of the information society and its integrated regional strategies (GOLSRP, ME, MES, MHEST, permanently);
- prepare measures to stimulate the establishment of enterprise and small business zones, including locations that are currently not highly suitable: offer technical assistance in the preparation of documentation, partially resolve the problem of own shares, include production zones in regional and municipal plans (GOLSRP, ME, by end-2006);
- in all promotion policies (small and medium-sized enterprises, tourism, employment) pay special attention to the regional component in terms of promoting faster development in less developed regions (all competent ministries, permanently);
- upgrade the system of local self-government by amending the Local Self-Government Act (GOLSRP, autumn 2005);
- revise the system of financing municipalities (GOLSRP, autumn 2005); prepare expert and regulatory solutions for the earliest possible establishment of regions (GOLSRP, autumn 2006); and
- set clear criteria for determining the prices of public utilities and stimulate partnerships and competition between the providers of these services (e.g. temporary concessions); abolish the financing of budgetary expenditure on local government from the excessive contributions charged for public utilities or the costs of providing utility services to construction sites (MESP, ME, spring 2006).

Improving spatial management

- boost the efficiency of spatial management for settlement purposes by planning and adopting active land policy measures (record and commercially activate building plots) (MESP, autumn 2006);
- ensure that records and land registers are regularly updated and improve electronic public access to them; complete the digital register of buildings and connect it with other records and the electronic land registry (MESP, autumn 2006), introduce a tax on real estate (MF, by end-2006);
- simplify administrative procedures (MESP, autumn 2005);
- prepare a national programme to modernise state roads of national significance (MT, autumn 2005); draw up national and regional action programmes to increase the quality and competitiveness of integral public passenger transport (MT, autumn 2005);
- speed up the modernisation of the 5th and 10th railway corridors, start the

construction of the second track on the Divača-Koper line (MT, by end-2006); and

- prepare expert grounds and implementing acts to ensure access to public passenger transport to all population categories (provision of public transport services) (MT, 2005).

Integrating environmental policy with sectoral policies

- draft and adopt the National Environmental Action Programme (MESP, summer 2005);
- prepare and adopt the Operational Programme for the Preservation of Biodiversity along with a programme for the management of Natura 2000 areas (MESP, by end-2005);
- prepare and adopt the Operational Programme for the Protection of Natural Resources (MESP, by end-2006);
- build a sewerage network and purification plants in accordance with the Operational Programme for the Collection and Treatment of Municipal Waste Water (MESP, permanently);
- establish water-protection zones in populated areas with a PE of more than 15,000 (MESP, by end-2006);
- prepare and adopt the Operational Programme for the Protection of Natural Resources (MESP, by end-2006);
- modernise and comprehensively organise the national service for the protection of coastal waters (MESP, by end-2006);
- prepare the Operational Programme for the Collection of Solid Waste (MESP, by end-2005);
- close the existing landfills and reconstruct and expand the existing landfills that will operate until the end of 2008 in line with the Operational Programme (MESP, permanently);
- draw up the Operational Programme for Hazardous Waste Management (MESP, by end-2005);
- promote energy saving and the reduction of energy intensity, particularly in the public sector (MESP, permanently);
- prepare the Operational Programme for the Reduction of the National Emissions of SO₂, NO_x, HOS and NH₃ and the Achievement of Target Values (MESP, by end-2005);
- fulfil the obligations under the Kyoto Protocol concerning the reduction of greenhouse gas emissions and launch a greenhouse gas emissions trading scheme (MESP, by end-2005);
- analyse the environment's vulnerability to climate change and adapt to them (MESP, by end-2006);
- expand the gas pipeline network, biomass-fired district heating and the co-production of electricity and heat (ME, permanently);
- consistently apply environmental standards in financing agricultural measures (MAFF, autumn 2006); expand areas suitable for organic food production, adopt

protection standards in animal production and the traceability of products (MAFF, spring 2006);

- abolish exceptions within environmental taxation; apply the criteria of environmental harmlessness in granting subsidies (MF; by end-2006);
- co-operate with non-governmental organisations in raising the general public's environmental awareness; promote ecological products, energy saving, Internet shopping; co-finance eco-product manufacturing entrepreneurial projects and home-based work (MESP, permanently);
- prepare cross-sectoral (cross-topical) educational schemes on sustainable development (integrate environmental principles and topics with sectoral policies) for the general public and for the public administration (MPA – Administration Academy, MESP, MAFF, MT, ME, permanently);
- amend the Public Procurement Act by integrating the criteria of sustainable development and introducing green public procurement procedures (MF and MESP, spring 2006);
- prepare and adopt the Operational Programme for Promoting the Use of Environmental Technologies (MESP, by end-2006);
- draft and adopt the National Programme for Radioactive Waste Management (MESP, summer 2005);
- ensure the implementation of the National Programme for the Protection against Natural and Other Disasters by 2007 and adopt a new programme for the period up until 2013 (MESP, permanently); and
- establish projects within the European Framework Architecture for Intelligent Transport Systems (MT, MHEST, by end-2006).

Health as an integral part of the quality of living

- create guidelines to ensure the protection and strengthening of health and reduce differences in health across regions and population groups (MH, by end-2005);
- provide and carry out health protection schemes regarding lifestyles (food policy, physical activity, alcohol, smoking etc.) (MH, 2006);
- increase the system's efficiency by improving the accessibility and quality of health care services and building up health care programmes (MH, 2006); and
- modernise health care capacities at all levels of health care, including emergency medical services (MH, 2006).

Culture as a factor of identity and development

- ensure the implementation of the National Programme for Culture 2004-2007 and adopt a new programme for the period up until 2013 (Ministry of Culture (MC), permanently);
- enhance the protection of cultural heritage – prepare a law on the protection of cultural heritage (MC, MESP, 2006);
- ensure the pluralism of the media by amending the Public Media Act (MC, 2005) and the Radio and Television of Slovenia Act (MC, 2005);
- promote Slovenia's competitiveness in the film industry by amending the Film Fund of the Republic of Slovenia Act (MC, 2006) and drafting a law to regulate

the film industry (MC, 2005);

- carry out activities for the assertion of the Slovenian language (MC, permanently);
- stimulate investment in culture by adding in suitable provisions to the abovementioned act (MC, 2006);
- improve the protection of documentary files and historical archives by adopting a new law regulating this area (MC, 2005);
- regulate publishing by adopting a law on ‘obligatory copy’ (MC, 2005); and
- integrate activities to strengthen the national identity and culture with the education and training system (MES; permanently).

Appendix: Attainability of the Strategy's economic objective

37. This appendix defines the basic quantitative framework of Slovenia's Development Strategy to examine how realistic is the strategic economic objective, according to which Slovenia should exceed the average level of economic development of the enlarged EU in the next ten years. For now, the appendix focuses on the economic area and the basic determinants of economic growth. In the next phase, during preparation of the programme appendix, the scenario will be elaborated to include the quantitative objectives in other areas of development as well.

38. The methodological approach used in making projections of possible economic growth rests on the analysis of the supply potential based on an econometric analysis of Slovenia's aggregate production function, i.e. analysis of the effects of factors of production. In long-term projections, the basic approach is always the analysis of the supply potential. First, we used data for the transition period to determine and test the Slovenian economy's production function, which is based on four factors of production: labour (employment), human capital (education), physical capital (capital stock) and technological progress (general factor productivity). Second, we made a basic projection of economic growth based on the assumption that the future development of production factors will follow the historical trends, disregarding possible effects of changes in development policy. We also analysed the sensitivity of the basic projection to the uncertainty regarding the actual impact of individual factors on growth, which mainly concerns methodological questions with regard to the quality of historical data or their estimates and the projections' statistical reliability. Third, we analysed the responsiveness of economic growth to changes in the projected growth of those inputs (factors of production) that can be manipulated by changes in development policy in future. Detailed national accounts will be prepared in the forthcoming months, drawing on the Spring Report and Development Report.

39. *In order for Slovenia to catch up with the average development level of the enlarged EU by 2013 it should on average record three percentage points higher growth than the more advanced EU member states throughout the 2006-2013 period. This is an ambitious goal set at the upper end of what is deemed achievable.* It represents the upper potential growth limit of Slovenia's economy that is only achievable with the optimal implementation of the SDS measures. The leap in the economic growth rate needed to close the gap with the EU average by 2013 hence also requires a leap in the mindset and the raising of potential economic growth from the current 3.7% to above 5%.

40. *Regarding the dynamics of economic growth, the entire period can be further divided into three sub-periods.* In the first period (up to 2007), when the short-term measures set out in the Strategy are to be carried out and macroeconomic policies will be aimed primarily at stabilising the economy to ensure the fulfilment of the Maastricht convergence criteria, economic growth is expected to accelerate moderately while inflation should fall to below the Maastricht reference value.

Productivity growth in this period would not substantially exceed the growth achieved in the last ten years. Similarly, no significant changes are anticipated in the structure of GDP in this time. The breakthrough to a higher development level with economic growth exceeding 5% is foreseeable in 2007 when the short-term measures planned in the Strategy are to yield their first results and accelerate the growth of productivity and competitiveness of the economy. The period of accelerated economic growth, ending around 2010, would be followed by a period of a relative slowdown in growth to a level of around 5%, which would, provided that the SDS measures are implemented, represent the new potential GDP growth while inflation could dip closer to the average European level.

41. On the supply side, the development breakthrough will require a restructuring of the economy in favour of stronger services (increasing the share of services in the structure of value added to 67% by 2013), where the level of knowledge-based services will grow appreciably faster than the level of other services. Within knowledge-based services, financial, business and telecommunication services will grow at the fastest pace. The lag of Slovenia's financial sector behind the EU financial sector's development level measured by selected indicators is bigger than its relative gap in GDP. Financial intermediation therefore has good possibilities for swift development and could, in addition to business activities, record the highest value-added growth rates by activities that would substantially exceed the rate of overall economic growth. Public services will similarly observe the fastest growth of knowledge-based services – health and social work, and education. The former will be due to the ageing population and growing need for health and social work services, while the latter will be triggered by the expected high growth rates in higher and adult education.

42. Simultaneously, optimal implementation of the SDS measures could also stimulate a development breakthrough in Slovenian manufacturing providing the grounds for the advance of high-tech and medium-high-tech industries. These industries would thus increase their share in manufacturing's total value added to close to 50%, while the overall share of manufacturing industries within the GDP production structure is not projected to rise. Similar development breakthroughs were achieved by Finland and Hungary: the latter effected it with foreign direct investment, the former by engaging human capital and through effective and substantial investment in R&D.

43. Manufacturing's restructuring and the expansion of knowledge-based activities will be underpinned by the rapid growth of expenditure on research and development and investment in human capital. The average annual growth of expenditure on R&D totalled 6.5% in 1998-2002. In order to achieve the target value (3% of GDP for R&D in 2010), this expenditure would have to grow even faster, i.e. by 13.7% a year. Higher investment in education will result in the increased inclusion of youth and adults in education – the inclusion of young people (aged 15-19) in secondary education will approach 80% while the inclusion of young people (aged 19-23) in tertiary education will rise to 55% of the generation. Further, the share of adults involved in education will rise with the implementation of measures set out in the national adult education programme. The average number of schooling years of active people would rise from 11.8 in 2003 to 12.6 in 2013. There is a need for incentives to employ graduates of tertiary education primarily in the private sector.

Without increased investment in human capital, Slovenian manufacturing will not withstand the demanding restructuring and faster productivity growth. Empirical analyses for other countries indicate that an increase in the average number of years of schooling by one year raises the aggregate productivity by 0.45 of a percentage point.

44. The economy's growth and investment in knowledge will also induce a rise in employment, although the Lisbon objectives will be met later than planned. In the period of accelerated economic growth, the annual growth of total employment could thus exceed 1% while Slovenia could achieve the 70% target employment rate in 2013. This will also enable a gradual decrease in unemployment to around 3% by the end of the period. Although demographic estimates project a slight increase in the birth rate, they also indicate problems related to the population's ageing and the fall in the population of working age after 2006. The employment rate can therefore only be raised by reducing the unemployment rate and increasing the employment rate of elderly people (aged 50-64), and particularly of the population aged 55-64 where the Lisbon objective is 50% in 2010 while Slovenia has the lowest employment rate in the EU. Since the education yield in this age group is low, higher activity rates of the elderly can be achieved only through their slower withdrawal from the labour market. The average retirement age has already begun to rise in Slovenia after the delivery of the pension reform. The Lisbon objective in this area, however, is to extend the retirement age by 5 years by 2010. In the context of the decline in demographic potential after 2006 and the population's ageing, it will be particularly important to prepare an active ageing programme (similarly as in Finland in 1998) in order to raise the rate of active elderly people. Quantity in the area of human capital should be replaced by quality (a more skilled and more experienced labour force).

45. The target development scenario assumes that demand is not a limiting development factor. On the demand side, we expect a strengthening in foreign demand and growth of market shares in the main export markets on the back of more competitive exports of goods and services with higher value added. On the other hand, domestic demand is also projected to increase in both private and investment consumption where structural shifts are expected. The growth of merchandise exports will go hand in hand with the restructuring of manufacturing where the high- and medium-high-tech industries' contribution to value added is set to increase. Regarding the projected developments in services, the share of services exports in total exports is also expected to record a relative increase. In the period of strongest growth, total exports could thus rise by 9%-10% per year. Bearing in mind the capital deepening (the increase in the share of investment in GDP) observed over the past few years, the capital-output ratio, which is already close to the EU average, will be approximately at the level recorded at the beginning of the scenario period in 2013. In the first period, this ratio is still expected to grow at a slightly faster pace due to the lowering of interest rates and stronger housing construction. In the next years, investment in machinery and equipment would predominate. The growth of private consumption will be boosted by faster rises of wages and by employment growth. Wages should gradually draw near the level of the comparable economies; the real gross wage per employee are projected to rise at a faster pace in the private than in the public sector throughout the 2005-2013 period. These dynamics will

result from increased investment in human knowledge, which will be more pronounced in the private sector. In contrast to the public sector, the share of employees with a higher education is still relatively low in the private sector. However, it will have to be raised if Slovenia wants to increase its level of high-tech production and knowledge-based services.

The process of preparing Slovenia's development Strategy

Preparation of the Draft Strategy. Preparation work for Slovenia's Development Strategy (SDS) started on 7 July 2003 when the government adopted the decision to launch preparations to draft the Strategy and assigned its expert co-ordination to the Institute of Macroeconomic Analysis and Development (IMAD). The Prime Minister then appointed a group of experts who submitted the first outline of the document in September 2003. The outline set out the Strategy's ten main programme areas (Economy; Human Capital, Labour Force and Labour Market; Research, Innovation and Technology; Knowledge for Development; Regional and Spatial Development; Environment; Social Aspects of Development; National Identity and Culture; Slovenia in the International Community and the European Union; An Efficient State). The drafts of the Strategy by individual programme areas were prepared by expert groups appointed especially for this purpose whose work was co-ordinated by: *Dr Frane Adam, Dr Janez Bešter, Dr Aleš Debeljak, Dr Bogomir Kovač, Polona Kovač, MSc., Dr Ivo Lavrač, Dr Dušan Plut, Dr Ivan Svetlik, Dr Zlatko Šabič and Dr Pavel Zgaga.* The following experts participated in the work of the expert groups: *Margita Adamič, MSc., Luka Arsenjuk, Maja Bednaš, MSc., Dr Bojko Bučar, Dr Maja Bučar, Dr Jože Pavlič Damijan, Dr Emil Erjavec, Dr Miroljub Ignjatović, Dr Marko Jaklič, Dr Boštjan Jazbec, Sabina Kajnc, MSc., Dr Alenka Kajzer, Dr Mojca Kovač-Šebart, Dušan Kidrič, Andrej Klemenc, Dr Anja Kopač, Dr Janez Krek, Dr Tomaž Krpič, Dr Matej Lahovnik, Dr Ljubica Marjanovič-Umek, Dr Zdenko Medveš, Alojz Pluško, Dr Andrej Pogačnik, Dr Peter Raspor, Dr Borut Rončević, Dr Petra Roter, Dr Pavle Sicherl, Dr Metka Stare, Marko Starman, MSc., Dr Matevž Tomšič, Martina Trbanc, MSc., Dr Urban Vehovar, Peter Wostner, MSc., Dr Katarina Zajc.* The expert groups prepared the first drafts of the strategy by individual programme areas.

In March and April 2004, the IMAD organised workshops for most programme areas at which a broader circle of experts and representatives of ministries discussed the drafts. The discussions, workshops and close inter-ministerial co-ordination resulted in the Draft Strategy that the government adopted as the proposal for public debate at its session on 16 June 2004.

The scope and breadth of the public debate. Public debate started with a consultation meeting held by the Prime Minister at the beginning of July 2004. The participants were representatives of business, science, culture and other social stakeholders. This opening consultation was followed by a number of spontaneous debates in the media and in diverse interest groups which held discussions on the Strategy on their own initiative. The Draft was also discussed by the Economic and Social Council, the government's Social Security Council etc. Following the IMAD's appeal to submit comments, several institutions and individuals sent in written comments and recommendations to supplement the document. Due to the document's strategic nature and the need to test its contents in wider public debate, the government assigned the organisation of a broad public debate to the Secretariat of the Sustainable Development Council. Five topic-specific discussions were organised with individual

groups of social stakeholders (employers, employees, non-governmental organisations, social activities, regional and local interests). Alongside these activities, a number of other debates on the development of Slovenia took place. Particularly notable and resounding were the Roundtable Discussions on the Future organised by the President of the Republic.

The IMAD's website. The complete draft SDS text, all supporting expert documents (first draft texts by programme areas prepared by expert groups and final reports of studies and research analyses), copies of the public debates' outcomes collected by the Secretariat of the Sustainable Development Council and all written comments submitted to the IMAD by individuals or institutions were published on the IMAD's website (<http://www.gov.si/umar/>). In addition, an independent evaluation of the preparation process of the draft SDS and an analysis of the public debate were carried out.

Report on the public debate. The public debate generally signalled that the Strategy's main objectives were broadly accepted while the government is expected to further elaborate the SDS objectives and planned measures and make a clear political commitment to realisation of the Strategy. After the public debate was closed, the IMAD prepared the Report on the Public Debate, which included key recommendations for finalisation of the Strategy's text. In January 2005, the IMAD sent the draft SDS and the Report on the Public Debate to all ministries, asking them to make submissions based on these two documents and bearing in mind the priorities and the new government's work programme in order to fine-tune the key development priorities and the action plan for their realisation in 2005-2006. During the finalisation of the text, it was impossible to accept all the proposals and reach a consensus on all the issues. For example, no agreement was reached with non-governmental organisations on the questions of waste incineration (the proposed moratorium on building incineration plants until 2013), an over 3.5% annual improvement of energy efficiency and an increase in organic farming's share to at least 15% by 2013.

Adoption of Slovenia's Development Strategy: Development Vision and Priorities. The IMAD incorporated the relevant proposals arising from the public debate, the suggestions and comments received from ministries and the government's strategic councils within the Strategy and, in co-operation with the heads of expert groups who were involved to the extent possible, prepared the draft final version of the document entitled *Slovenia's Development Strategy: Development Vision and Priorities*. The draft Strategy was also discussed at a special 'Roundtable Discussion on the Future' held by the President of the Republic, which voiced the broad expert and political support for the Strategy's key policies and measures. On 23 June 2005, following extensive inter-ministerial co-ordination, the government adopted the Strategy which clearly defines the vision and objectives of Slovenia's development and the five development priorities with action plans for their realisation in 2005 and 2006.

Expert groundwork. In co-operation with expert groups and ministries the preparation of *Slovenia's Development Strategy: Development Vision and Priorities* ran parallel to finalisation of the more detailed strategies by individual programme

areas, something which is still in progress. These strategies will serve as some of the expert bases for the Reform Committee, a body in charge of implementing the key reforms needed for realising the Strategy. The specific strategies by programme areas will also be used as supporting expert groundwork in preparation of the National Action Plan for implementation of both the Lisbon Strategy and the National Development Programme.

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