

BUSINESS MEMORANDUM



November 2014

DIAGNOSIS OF THE SITUATION IN SLOVENIA

In 2014, the economy recorded growth primarily on account of two factors: economic growth on our export markets and the local growth of investments resulting from local (mayoral) elections. However, export markets are cooling down significantly, which is especially true of the German market. Global forecasts at this time are least favourable for the EU and Russia, in addition to those for Latin America. And to top it all off, there will be no local elections next year. Both key reasons for a higher GDP growth in 2014 than the one envisaged have thus mostly evaporated. Despite the growth, Slovenia continues sliding down the international competitiveness rankings, meaning that it is still losing its relative advantages over competitor countries.

The medium-term horizon must also not be overlooked. Slovenia is still at a crossroads, i.e. in a paradoxical situation of being out of the recession but still deep in crisis. GDP per capita is 7.5% below the pre-crisis figure in real terms despite this year's growth. New jobs which managed to be created represent only a small share of the 90,000 jobs lost after 2008. Deleveraging is evident; though, numerous companies are over-indebted and bankruptcies are still purging the economic arena. There is not enough money for research and development. Development-oriented restructuring of public spending is urgently being awaited; as are reforms.

The Chamber of Commerce and Industry of Slovenia (CCIS) points out that the crisis can be overcome assuming the following:

1. **Slovenia urgently requires new private sector jobs.**
2. **Such jobs will only be created with a new development impetus.**
3. **A new development impetus will not be possible without disburdening the economy.**
4. **Burdens on the economy cannot be decreased without structural reforms.**

The fact is that the Slovenian business environment is not investor-friendly. Foreign investors have an aversion to investing in Slovenia, resulting in a lack of jobs contributing to the public finance crisis. Due to this the bank and public finance recovery will have been in vain if financial support is not provided for employment in the private sector.

To contribute to a new economic policy the CCIS prepared three key documents over the summer 2014: How to Achieve New Jobs, overhaul of the Small Business Agenda and the CCIS Business Agenda for the New Government of the Republic of Slovenia (more information available at: www.gzs.si/slo/skupne_naloge/za_uspesno_slovenijo). The proposed measures were mainly established on the basis of interactive cooperation between the Chamber of Commerce and Industry of Slovenia and the broader private sector and its experts, and professional governmental services, as well as a review of foreign practices and their transposition.

An interactive discussion between business people, experts and various representatives of the Government was organised at the Slovenian Business Summit held on 14 October 2014, which resulted in the formulation of proposals for priority measures according to the "less is more" principle. The contributions of the Slovenian Business Summit participants as well as the proposals received in the days that followed were reviewed, and recorded in the CCIS Business Memorandum on Priorities.

The above document is the umbrella document of the CCIS. As it is an important document representing the views of stakeholders from the private sector, the CCIS suggestions and requests are expected to be considered and responded to by the Government of the Republic of Slovenia within the shortest time possible. The Chamber of Commerce and Industry of Slovenia is prepared to work actively with all stakeholders in the formulation of concrete solutions to achieve the common goal: an economically independent Slovenia.

RULE OF LAW

1. YES to financial discipline, NO to shadow economy

In the commercial contract enforcement category the country holds a low 122nd place requiring 1,270 days in Slovenia, and only 150 days in Singapore.

Source: *Doing Business, 2015*

Basic premise: *Improvement of financial discipline and curtailing shadow economy must not pursue the objective of filling the state treasury, but should be aimed at reducing burdens to fair economy, i.e. the channelling of money from tax defaulters to those paying their taxes.*

- 1. More expedient procedures: enforcement proceedings, bankruptcies, offsetting** ... through predictable and lean legislation (withdrawal of tax secrecy). The public administration should operate in accordance with the same laws prescribed for the private sector (it should observe payment deadlines, the same rules on offsetting, etc.).
- 2. Successive establishment of companies for the purpose of evading liabilities.** Decisive prosecution of company owners transferring operations to newly established successive companies while leaving debts in preceding existing companies. The above should be combined with closer cooperation between the Financial Administration of the RS, the National Bureau of Investigation, the Police, etc. Supervision of societies, cooperatives and institutes should also be part of the fight against such companies. The transition from one legal form to another should not be possible by simple bankruptcy of one legal form of company and the establishment of another legal form of company.
- 3. Fair payment of lower taxes.** Lowering of tax rates and abolition of unnecessary bureaucracy by combining the introduction of certified cash registers with a real-time online link between the Financial Administration of the RS and all taxable persons according to the Croatian model (with the option of upgrading), and lump sum taxation. Greater transparency of inspections and supervision according to the Lithuanian model (publication of the contents of inspections in a straightforward manner on the web). Higher number of short inspections.

2. YES to a lean public sector, NO to bureaucratic obstacles

The ratio between employees in the public sector and those in the private sector has deteriorated from 2.7:1 in 2008 to 2.4:1 in 2014.

Source: *Statistical Office of the Republic of Slovenia*

- 1. De-bureaucratisation and investment.** This especially involves the removal of obstacles preventing investment. Economically viable sustainable development within the Natura 2000 areas should not be expanded any further. Adoption of new spatial, construction and environmental legislation, and

organisational improvement within agencies that shorten administrative procedures hindering the process of kick-starting investments.

- 2. Shortening deadlines** for granted permits and consents to a level comparable to Austria, with the introduction of professional management at the state administration including a remuneration system linking the efficiency of public officials and measurable objectives. Setup of a system establishing the responsibility of the heads of organisational units and employees in hierarchically higher positions. Introduction of short and binding deadlines for the issue of substantiated opinions by public officials. Administrative procedures should be governed by the rule that, after a certain period of time following the lodging of a motion and the request from the client, a decision (consent) is deemed granted if the responsible public official fails to provide a timely reply.
- 3. Faster implementation of the “Stop the Bureaucracy” programme** with measurable indicators and the introduction of a professional review of effects of adopted regulations and administrative procedures on business (SME tests and the Business SOS). Elimination of task duplication and lack of coordination between different services within and between ministries. Professional training of public servants to ensure provision of assistance to clients in procedures within the bounds permitted by the law. Introduction of “queues” at the Slovenian Environment Agency and the inclusion of other stakeholders.

3. YES to improved corporate integrity, NO to bad practices

Slovenia is on the tail end of the international competitiveness rankings in terms of efficacy of corporate governance (135th place among 148 countries).

Source: *World Economic Forum*

- 1. Comprehensive approach to the enforcement of ethical operations.** Zero tolerance to corruption by observing the models from the top of the hierarchy down (inclusion of all stakeholders: politics, private and public sectors, the judiciary, local communities). Promotion of ethical operations (public campaigns, codes, introduction of guidelines, etc.).
- 2. Integrity of public officials and integrity at state-owned companies.** Commitment on the part of the managing personnel of companies in which the State has a dominant influence that they will adopt the Slovenian Corporate Integrity Guidelines and implement them. Consistent implementation and elimination of conflicts of interest within the scope of operations and decision-making of public officials pursuant to the Integrity and Prevention of Corruption Act.
- 3. Transparent and professional management of state investments.** This includes accelerated adoption of the classification of management and transparent and professional sales based on the analysis of the effects on the national economy. The proceeds should be spent on ensuring a new development impetus.

IMPROVED BUSINESS ENVIRONMENT

4. YES to the disburdening of the economy, NO to a rigid labour market

Slovenia is at the top of the labour cost per value added rankings in the EU. The contraction of value added was not followed by a contraction in labour cost.

Source: Eurostat

Basic premises:

- Labour costs should be lowered urgently, i.e. in terms of the high tax and contribution rate burdens. Labour costs must not rise faster than productivity.
 - The current rate of company taxation should be set as the bar for the highest acceptable company burden presented by effective tax and excise duty, while a strategy should be formulated for lowering tax burdens.
1. **Disburdening of labour cost** by at least 3 percent by the end of 2016.
 2. **Flexibility of employment and lay-offs:** enactment of a special form of seasonal work employment, adjustment of legislative regulation concerning employment contract terminations due to incompetence, the right to a 50% unemployment benefit for a period of 3 months in case of a consensual termination of employment contract; by the end of 2016.
 3. **Measures aimed at de-stimulation of unwillingness to work:** lowering the number of sick leave days financed by the employer, introduction of a so-called waiting day, lower sick leave benefit financed by the employer, abolition of the years of service bonus; by the end of 2016.

5. YES to improved public procurement, NO to corruption

In terms of the unsuccessful fight against corruption, Slovenia ranks second among Central European countries, just behind Bosnia and Herzegovina.

Source: German Chamber of Commerce and Industry, 2014

1. **Public procurement reform.** The Government of the Republic of Slovenia should immediately commence the reform of the public procurement and should, within the scope of these efforts, transpose the provisions of the EU directive on public procurement into national law no later than in 2015.
2. **Good practices and guidelines.** Upon the transposition of the new EU directive, the Government of the Republic of Slovenia should grant to the Ministry of Finance and the Public Procurement Directorate suitable responsibilities and powers to analyse bad practices in conjunction with the key stakeholders, and publish examples of good practice and guidelines. The Government of the Republic of Slovenia should study all options to root out the lowest price as the only criterion for the selection of the most advantageous bidder in the public procurement of services.

3. **Training contracting authorities.** Assurance of professional and qualified contracting authorities. Contracting authorities should be qualified and their qualifications should be verified by a test.

6. YES to quality public spending, NO to a non-developmentally oriented budget

Slovenia takes the high 4th place in the EU in terms of the growth of the share of public spending in the GDP with respect to 2008.

Source: Eurostat

1. **Increase in the efficiency of the operations of the state and broad public administration** – immediate commissioning of an internationally comparable and in-depth analysis of the public sector and its procedures to be performed by an external provider with extensive international references. On the basis of this analysis, measures should be formulated and introduced immediately to improve quality, optimisation and the international competitiveness of the Slovenian public sector.
2. **Adoption of national programmes** in the areas of energy, traffic infrastructure and environmental protection by the end of April 2015. A decision on key infrastructural development projects, and systematic revitalisation of infrastructural investment planning and implementation i.e. efficient and rational investments with manifold, positive economic and environmental effects. The above includes accelerated and prudent investment in the energy-saving renovation of buildings.
3. **Reforms.** Immediate commencement of a health and pension insurance reform (no later than in the first quarter of 2015).

NEW DEVELOPMENTAL BOOST

7. YES to efficient restructuring, NO to bad reorganisation

Half of the companies employing 150,000 workers are overextended, carrying the burden of as much as 80% of all company financial liabilities.

Source: KAPOs-Financial Indicators of the CCIS, Agency of the Republic of Slovenia for Public Legal Records and Related Services

Basic premise: A master priorities plan should be drafted by the end of 2014 for the restructuring of companies.

- 1. Coordination of restructuring.** Uniform and transparent conditions for the restructuring of companies should be ensured by a centralised approach of all key stakeholders (banks, BAMC, Financial Administration of the RS, Slovenian Sovereign Holding, Ministry of Economic Development and Technology), including the Government of the RS which is to act as coordinator or grant powers of coordination to a competent institution.
- 2. Guarantee and financial facilities.** Facilities should be ensured for adequate liquidity and equity company financing by foreign and domestic investors by setting up government guarantee facilities (primarily to support the new mainly export-oriented operations) and equity capital funds.
- 3. Crisis managers.** Crisis management skills should be acquired through intensive education of crisis managers financed by the Government of the RS, mainly for the needs of companies that have come or are coming under the (indirect or direct) ownership of the State. This should be combined with the simultaneous amendment or withdrawal of the Act Governing the Remuneration of Managers of Companies with Majority Ownership Held by the RS or Self-Governing Local Communities.

8. YES to attracting fresh capital, NO the investment crunch

The share of foreign investment in GDP in Slovenia is half of the share in Central European countries. Slovenia's share is fourth lowest in the EU-28.

Source: UNCTAD

- 1. National priorities.** Adoption of strategies (energy concept, traffic, environmental and other strategies) and the specification of national priorities in the implementation of strategic investments with a timeline thereof. Review of the possibilities for the construction of infrastructural projects in Slovenia, including through public-private partnerships. Designing of infrastructural investment financing models with public, European and private resources. Special procedure for strategic investments with priority inter-ministerial treatment.
- 2. Simplification and de-bureaucratisation of procedures for project sites.** Recasting of the legislation regulating the area of spatial planning and constru-

ction; de-bureaucratisation according to the »make it simple« principle: simplification of procedures for the inter-ministerial harmonisation of activities affecting the physical environment and shortening of the time required for this.

- 3. Lowering the net environmental and energy-related excise duty,** contributions and other burdens to the level of the EU average as a share of GDP (channelling of the said dues to development projects); the current high burdens including the costs undermine the development potential of energy-intensive companies..

9. YES to the faster development of small businesses, NO to the stigmatisation of entrepreneurship

Micro and small-sized enterprises in Slovenia employ 44% of the working population, while this figure is 49% at EU level. These companies generate 35% of the total value added in Slovenia and 39% in the EU.

Source: Eurostat, KAPOs-Financial Indicators of the CCIS, Agency of the RS for Public Legal Records and Related Services

- 1. Systemic support for internationalisation.** Government support for small businesses to jointly enter actual foreign markets, which should be organised through an economic association that is the most familiar with the issue of internationalisation. Financial assistance should urgently be provided for the setup of Slovenian »show rooms« organised by the aforementioned association in close cooperation with embassies.
- 2. Co-financing of training for small businesses** (such as the Go International SME programme). Micro and small-sized enterprises require training, familiarisation with modern views and practical approaches for an effective entry into international markets with the help of experts in specific areas. Such training should not be free-of-charge, but must be partially incentivised by government subsidies. This includes the transfer of experience and consulting SMEs by companies that are well-established on foreign markets, and support for internationalisation business models in the area of innovation and technological development.
- 3. Transfer of knowledge from the academic sphere to SMEs and the transfer of entrepreneurship to schools.** Cooperation between institutions of higher education and the economy should be ensured so that young people can engage in economic contents as early as during their studies (concrete topics for papers, BA theses and research assignments should be published). In accordance with the recommendations of the European Commission, curricula of schools, ranging from primary school to university level, should include entrepreneurial contents, entrepreneurial code of ethics as well as quality and process management with practical training. This should be mandatory at least from secondary school onwards: it should be provided on all levels, be programme-based, include stakeholders from the private sector, and feature workshops for educators, etc.

4. FIRM SUPPORT TO THE EXPORT SECTOR

10. YES to efficient investing of EU funds, NO to gardens

We have improved our relative ranking in terms of the EU on the Innovation Scoreboard over the last six years, but the share of high technology-intensive products in exports is lower by a fifth than in the EU.

Source: *Institute of Macroeconomic Analysis and Development*

Basic premises:

- Improved global business competitiveness.
- The current Smart Specialisation Strategy draft should be upgraded to actualise investments into specialisation priority areas including industries and companies achieving a high level of competitiveness both in terms of the EBITDA and value added, and those exhibiting accelerated investment into development, especially if the said development features partnerships in the supply chain at home and abroad. Priority should be given to entities that already have the best global competences, both developmental and marketing.

1. **The Smart Specialisation Strategy (SSS) should be upgraded and completed by the end of 2014**, and the Partnership Agreement and the Operational Programme for Drawing on EU Funds should be harmonised with the SSS:
 - Formulation of measurable objectives, criteria for the selection of priorities, and instruments for the concentration of competences and the strengthening of the culture of inclusion.
 - Ensuring open vertical/horizontal association of global competences into value chains to deliver products to the market (suppliers, institutes, etc.), including niche innovation.
2. **Effective management of the cohesion policy and integration into other EU development programmes and projects** (Horizon 2020 etc.):
 - Elimination of administrative obstacles, procedure simplification, targeting content and combining measures and financing sources with other policies.
 - Effective staffing for an open and adaptable planning system.
3. **Implementing environment**
 - Independent, professional, investment-capable and competent development and innovation agency for the implementation of the SSS, also in line with the model of contractual public-private partnerships as foreseen under Horizon 2020.
 - Educational system changes at secondary and tertiary levels (dual system) according to the German and Austrian models.

11. YES to improved support for companies, NO to the contraction of support funding

Slovenia's market share in global exports has shrunk by 18% compared to 2008. The exception to this development was high-tech products.

Source: *Institute of Macroeconomic Analysis and Development*

1. **Virtual platform:** integration of all state institutions and foundations (Spirit, Office of the President of the Republic, Office of the Prime Minister, Chamber of Commerce and Industry of Slovenia, ministries, etc.) to merge strategy, exports implementation and offer greater one stop shop training support. Setting clear-cut assignments for individual state institutions and supporting organisations (ministries, agencies, chambers, etc.) in the area of internationalisation.
2. **Systemic building of ties between Slovenian companies and the design of entry points** in individual key countries with a special emphasis on bordering markets (primarily for micro and small-sized enterprises). Systematic promotion of the Slovenian small business on neighbouring cross-border markets. Systemic regulation to support company promotion at organised presentations at fairs, and establishment of marketing and investment ties between export companies.
3. **Verification of the diplomatic consular network** from the point of view of improved flow of people, and in the light of the determination of key markets for Slovenian exports and economy.

12. YES to higher number of visits by foreign tourists, NO to ineffective promotion

Over a period of 12 months (from August 2013 to July 2014) 0.6% fewer overnight stays by foreign tourists were recorded.

Source: *Statistical Office of the Republic of Slovenia*

1. **Promotion.** Independent Slovenian tourism agency, stable source of financing (state budget, increase in the tourist fee, tourism membership fees – a total of EUR 20 million), single information and communication portal for cultural and tourist events.
2. **Accessibility.** Additional flight connections, system of tourist signposts, sea terminal, Slovenian cycling path network, improved public passenger transport, etc. New charter and scheduled flight connections from key target tourism markets. Improved organisation of passenger transport to Slovenian tourist destinations (shuttle, etc.). Arrangement of the visa regime, especially at certain key propulsive markets (Russia, Arabic countries, etc.), strengthening cooperation with foreign embassies abroad and building new partnerships, to obtain visas for businesspeople.
3. **Conditions for competitiveness.** Funding for product improvement, new strategic foreign partners in the hotel industry for the expansion of the market, state secretary for tourism.

