



FDI'S DECLARATION

Mission

To create a globally competitive and attractive investment environment in Slovenia.

Challenge

To identify and clear the main obstacles for domestic and foreign investors.

Objective

To increase the FDI stock from EUR 10.5 bn to EUR 15 bn within 5 years.

FDI'S DECLARATION

The FDI's declaration clearly outlines current status, challenges as well as proposals for improvement of business environment in Slovenia.

The intention of this document is to raise awareness of key state stakeholders and notify them about real concerns foreign investors are facing. While the concerns are more or less similar to those faced by domestic owned companies, the FDI's declaration brings additional insights. Companies in foreign ownership face global and regional challenges and are better able to make cross-country comparisons when making important decisions.

This brings the opportunity as well as responsibility to improve Slovenia's image as an FDI destination. Being a small and an OECD relatively highly developed country, Slovenia cannot offer the advantage of a big market or high potential domestic demand growth.

It does, however, have a competitive edge in several industries based on competent workforce, well-established sales channels and other intangibles. Nevertheless the business world is a world of numbers, which do not lie and this document emphasizes those numbers all stakeholders should be aware of.

When implementing the proposals, it should be noted, that the proposal should, in general, be adopted on the basis of its intention, not on new complex out-of-box regulations. "Keep it simple" does seem to be the right approach based on experience in other countries.

ID OF SLOVENIAN FOREIGN INVESTORS FORUM

The Slovenian Foreign Investors Forum (SFIF) comprises 30 Slovenia's companies in foreign ownership. This group was formed with the intention to improve the business environment for all Slovenian companies. In the last reporting period (2014) SFIF reached sales of EUR 5.3 bn, representing almost a third of sales of all foreign companies and 7% of the private sector as a whole. They employ more than 24 thousand employees and have a value added per employee of 60% above the average of the private sector. Their investments stabilized at EUR 320 m, representing 40% of total foreign investment. Total social contributions from salaries paid to the state amounted to EUR 200 m. Last but not least, they paid EUR 24 m in profit taxes.

	2014	as of total of foreign companies	as of total of private sector
Sales (m EUR)	5,332	31.9%	7.0%
Number of employees in Slovenia	21,395	31.6%	4.9%
Value added (m EUR)	1,555	50.4%	8.9%
Value added per employee (EUR)	64,766	142.0%	160.6%
Investments (m EUR)	316	38.6%	8.6%
Social contributions (m EUR)	194	66.9%	11.4%
Profit tax (m EUR)	24	22.7%	5.6%

Source: KAPOŠ GZS, based on annual financial account from Ajpes, Eurostat

The main authors of this document are members of the Slovenian Foreign Investors Forum, particularly members of its executive board:

Chairman:

Vojmir Urlep (Lek).

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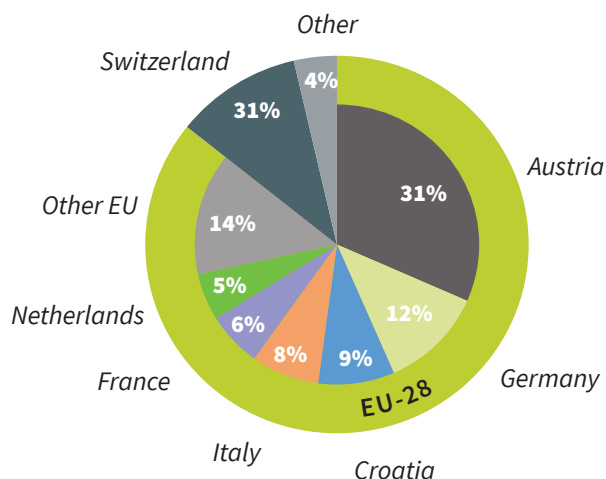
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IMPORTANCE OF FOREIGN OWNERSHIP FOR SLOVENIA

Geographical origin of FDI in Slovenia



Distribution by equity.
Source: Bank of Slovenia



93,000 employees
21.5% of total

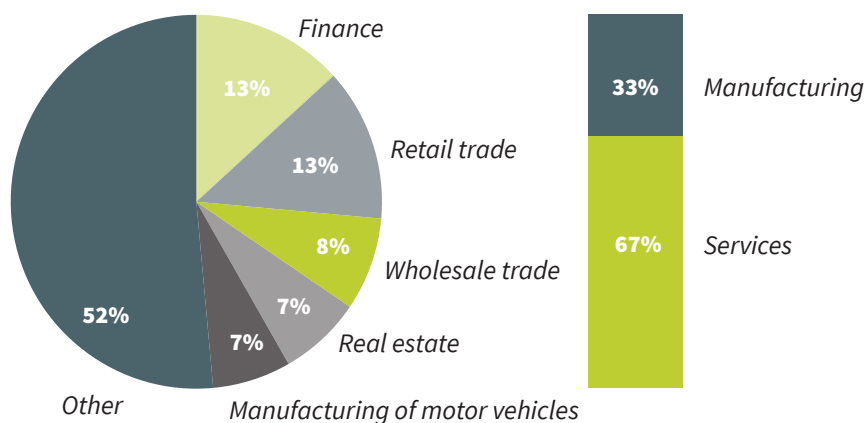


9,470 enterprises
14.9% of total



EUR 5.8 bn value added
33.0% of total

Sectors of FDI



Distribution by total value of FDI (equity and debt) at end of 2014.
Source: Bank of Slovenia



EUR 1.2 bn EBITDA
30.0% of total



EUR 926 m net profit
28.0% of total

Source: Agency of the Republic of Slovenia for Public Legal Records

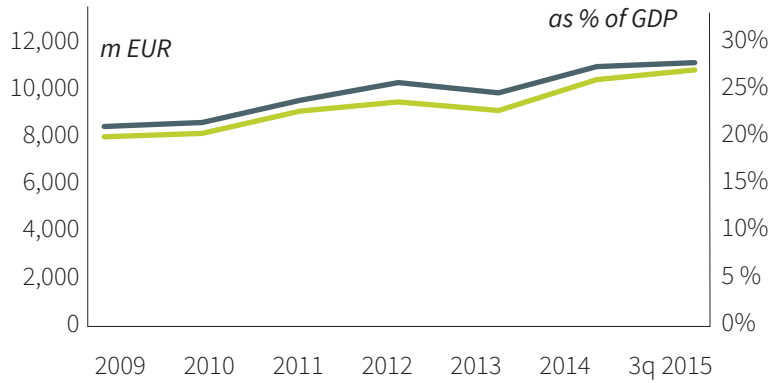
SLOVENIA'S COMPETITIVE EDGE

Would you choose Slovenia as an investment destination again?

77 % say YES

Service oriented companies are more optimistic on this issue than manufacturing ones.
Source: survey of members of Slovenian Foreign Investors Forum

FDI trend in Slovenia



Source: Bank of Slovenia

Main reasons for investment

Survey of SFIF

Access to knowledge, qualified labour force, technology	54%
Access or increase of market share in Slovenia	46%
Qualified labour force	38%

% of companies that agreed on a specific reason.
Source: survey of members of Slovenian Foreign Investors Forum

National survey

1. Qualified labour force
2. Cost of labour force
3. Access to knowledge, technology
4. Access or increase of market share in Slovenia
5. Good geographical location and transport infrastructure

At the time of decision; in order of descending importance; factors vary between different sectors.
Source: Rojec, Jaklič, Koleša, International Relations Research Centre, Faculty of Social Sciences, 2015

Value chain importance

% of products procured locally

50% goods **70%** services

Source: Rojec, Jaklič, Koleša, International Relations Research Centre, Faculty of Social Sciences, 2015

Factors of importance to multi-national corporations

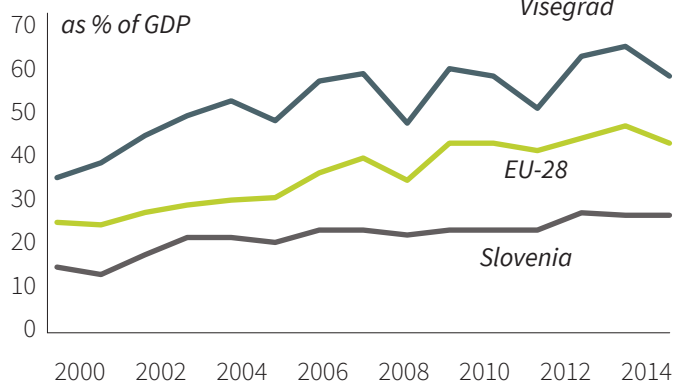
- 4.3 Quality of products and services
- 4.2 Flexibility
- 4.1 Reliability of delivery
- 3.9 Price (low one)
- 3.8 Technological competences
- 3.7 Geographical proximity

5: most important, 1: least important.

Source: Rojec, Jaklič, Koleša, International Relations Research Centre, Faculty of Social Sciences, 2015

CHALLENGES FACED BY FOREIGN INVESTORS

Divergent trend in FDI across countries



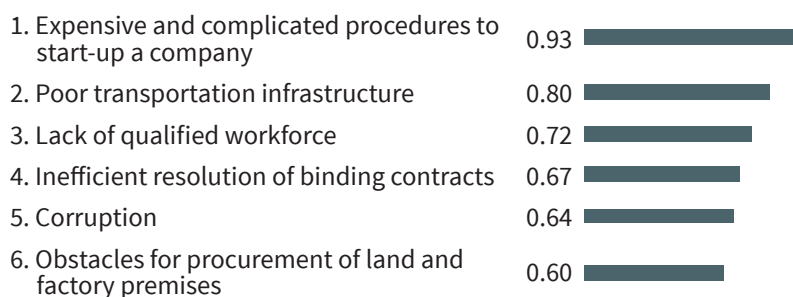
Slovenia is a clear laggard in terms of nominal and relative FDI (to GDP). Its share began to gradually increase in 2012 mostly due to the acquisition of some important companies in state ownership by foreign companies. No significant greenfield investments were made in Slovenia in recent years. On the contrary, FDI increased much more in EU-28 as well as in Visegrad countries.

Most important hurdles for FDI

1. High labour taxes
2. High profit and personal taxes
3. Poor payment discipline
4. Lack of qualified workforce
5. Inefficient judicial system

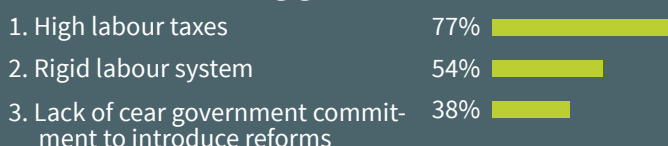
By descending importance.
 Source: Rojec, Jaklič, Koleča, International Relations Research Centre, Faculty of Social Sciences, 2015

Largest declines in business environment



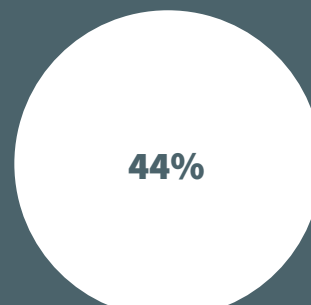
Descending by the difference between importance of a particular obstacle in the period between 2015 and 2009.
 Source: Rojec, Jaklič, Koleča, International Relations Research Centre, Faculty of Social Sciences, 2015

Obstacles hindering growth

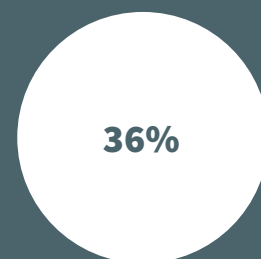


% of companies that agreed on specific reason.
 Source: survey of members of Slovenian Foreign Investors Forum

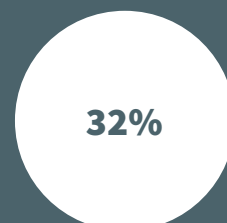
% of companies in foreign ownership with difficulty attracting specific profiles of employees



Engineering and metallurgy



Specialized fields



Electronics



Commercial, export-oriented, marketing

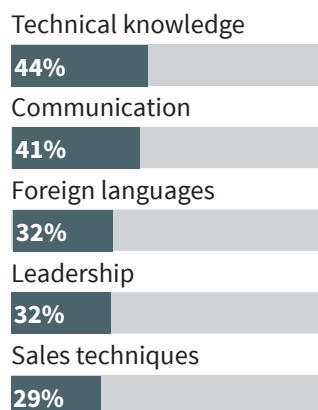


IT

1. LABOUR MARKET AND REGULATION

International comparisons show that the tax burden on labour in Slovenia is too high. The aim of the announced tax reform should be to create more quality jobs in the economy, including industry. However, this cannot be achieved without lowering the burden on labour, requiring lower current public spending.

% of companies in foreign ownership lacking the following skills of their employees



1.1 Flexibility of employment contracts.

Increase employment contract flexibility and level-off the playing field between new employees and those with long-term contracts.

1.3 Immigration. Improve immigration, administration and social environment to accommodate foreign managers.

1.2 Cooperation between educational and private sector.

Increase the interaction between educational institutions and private sector by:

- introducing curricula that better suit the needs of the private sector;
- fostering more practical experience during regular study time.

Share of graduates from technical fields (in %)

31.6 40.2 34.9

Slovenia Visegrad EU

Engineering, manufacturing, construction.
Source: Eurostat, 2013

2. TAXATION

Taxation is not only a source of state's income to support the well-being of the society but also provides important incentives for private investors when choosing where to invest, how many to employ, how much to invest in R&D etc. The larger the investment scope of a big domestic or international company, the larger the incentive to look for better terms elsewhere.

Social security contributions in GDP (in %)

14.8 13.3 10.9

Slovenia Visegrad EU-15

Data for year 2013.
Source: OECD Economic Surveys, May 2015

2.1 Labour taxation. Decrease high personal taxes and provide incentives for high-skilled employees:

- introduce a social cap at 200% of average salary;
- decrease the progressiveness of personal tax above 1.8 average gross salary;
- remove the top 50 % personal income tax.

2.2 Advanced pricing arrangement (APA) mechanism. Accelerate their practical implementation.

2.3 Alternative ways of taxing corporations. Implement alternative solutions, how to tax corporations e.g. through higher government related fees (registration fees, stamp duties, permissions).

2.4 Tax measures which promote Slovenia as an Adriatic hub. Implement tax regimes which would stimulate foreign companies to establish holding, financing and management centres in Slovenia (e.g. rulings and taxation of capital gains).

3. BASIC BUSINESS CONDITIONS

Improving the legal system, broadening the basic infrastructure and reducing numerous erroneous bureaucracy procedures are necessities that make a country attractive for regular business.

3.1 Legal system. Improve functioning of the judicial system and strive to:

- decrease the time for completion of judicial proceedings;
- guarantee judgement enforceability;
- close legislative loopholes allowing emergency exit of debtors resulting in breach of commercial and insolvency law.

3.2 Infrastructure. Improve the basic business infrastructure in remote areas with higher unemployment to:

- provide roads and electricity to deprived areas where the labour force is relatively cheap and abundant;

- offer and provide the required infrastructure for a selected location in case of large investments.

3.3 Bureaucratic burden. Reduce red tape to make things easier for investors to:

- simplify procedures with the aim to substantially decrease time and effort needed; especially for employment and residence permits for foreign key personnel;
- form a working group with members from various ministries which can help accelerate procedures for larger investors.

Inefficiency of red tape (bureaucracy)

2nd most problematic factor (1/6th of companies)

Source: World Competitiveness Report 2014/2015, WEF

4. ATTRACTIVENESS FOR INVESTMENT

Simplifying procedures that bother investors when implementing their investment, promoting Slovenia's key advantages and taking a strategic approach towards new and existing investments is the critical milestone to attract new investors and investments. The opportunity of increased regionalization needs to be taken advantage of.

4.1 Strategic approach. Make Slovenia a fashionable country for FDI by:

- identifying distinctive features (strategic sectors);
- setting key priorities by government;
- developing a differentiated approach for corporate investors with long-term development plans vs. that of financial investors.

4.2 Memorandum for Slovenia's Investment Attractiveness. Government and parliament should approve it. Procedures for attracting and implementing private domestic and foreign investments following the principle of "One-stop shop" with special focus on marketing of industrial zones should be put in place. Objective of measures:

- to establish a system of rapid response and support for interested investors;

- to make it easier for municipalities to successfully attract investors and expand industrial zones, for instance by establishing a more flexible system of land prices.

4.3 Promotion. Enhancing promotion of Slovenia as an attractive investment destination by:

- advertisements in top business media and specialized road shows;
- promoting good experience of existing foreign investors.

4.4 Investment procedures. Simplification of investment procedures would remove an important barrier for successful realization of investments.

High-tech exports stagnation



Source: Statistical Office of the Republic of Slovenia

5. FINANCIAL ENVIRONMENT

Depth of credit information index (0-8)

4.0 **6.3**

Slovenia comparable countries

Measures depth and accessibility of credit information.

Source: Doing Business 2016

A well-functioning financial environment stimulates supplier - buyer relations and increases confidence in systemic fairness. Enforced payment discipline and post measures should encourage confidence and self-regulation for business.

5.1 Enforceability of legal agreements. Legal agreements should be efficiently enforced as e.g. by confiscation of pledged security in case of default.

5.2 Credit registry coverage*. Increase transparency of operations by increasing the coverage of the credit registry.

*Database on credit quality of corporates.

5.3 Best practices in risk management.

Implement best practices on risk management from abroad.

6. TECHNOLOGY ADOPTION

Adopting advanced state-of-the art technology is a vital tool for companies to improve their value added and remain competitive towards labour-intensive non-EU countries. This is the area where Slovenia has a competitive edge.

6.1 Specialized competency centres. Prepare ground for establishing sectoral competency centres across Slovenia (e.g. IT, pharmaceutical, energy, automotive).

6.2 New technology adoption. Support investment in new technologies, develop additional advanced technologies in niches in e-mobility and smart grid.

6.3 Support of R&D centres. Support multi-national R&D centres, also those in the process of privatization/acquisition.

Global Innovation index (0-100)

48.5

Slovenia's score

19th in Europe

Source: The Global Innovation Index 2015

7. CORE COMPANY ASSETS

Core assets are the hallmark of each successful company. Their mix enables the company to grow, invest, employ and penetrate new markets or broaden its scope of operations.

7.1 Management practices. Improve management practices and reduce inefficiency of labour and capital allocation. This is the core competency of each successful company and should be improved by:

- improving conditions to attract foreign managers;
- breaking monopolies and linking manager's remuneration to their performance at state-owned companies;
- accelerating the privatization process.

7.2 Final products.

- Subsidize training for employees working on advanced products;
- adopt a clear set of guidelines in favour of strategic investors vs. financial ones;

- support companies to shift more complex products through Export Credit agencies.

7.3 Brands.

- Define strategic markets and promote the "Made in Slovenia" brand;
- support the preservation of well-known Slovenian brands.

7.4 New markets. Facilitate penetration of strategic markets through:

- local support and established business channels;
- Free Trade Agreements (subject to EU limitation).

Management practices

58th place out of 61

Source: IMD World Competitiveness Yearbook