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SLOVENIA

FINANCE AND INVESTMENT

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OECD Investment Policy Reviews

SLOVENIA

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Foreword

Slovenia became eligible for adherence to the OECD Declaration on International Investment and Multinational Enterprises on 20 December 2001. This Declaration promotes national treatment of foreign direct investment, proposes voluntary standards of behaviour to multinational enterprises and encourages moderation and restraint in the use of investment incentives and conflicting regulatory requirements.

The OECD has invited Slovenia to join the Declaration in view of the liberal orientation of Slovenia's policies, notably as regards foreign direct investment (FDI). Since it declared its independence in 1991, Slovenia has made impressive progress in developing and implementing policies for its transition to a market economy and preparing for EU accession. The encouragement of FDI is a central element of Slovenia's current internationalisation strategy. It is crucial to the success of the privatisation of the financial and utilities sectors currently under way. Slovenia has a strategic position between established European markets and developing former Yugoslav economies. Its knowledge of these markets make it a competitive platform for investment into this region.

Association with the OECD standards will reinforce Slovenian programmes to address remaining barriers to investment and facilitate the contribution of foreign direct investment to its economic development. It also represents a significant step towards expanding Slovenia's co-operation with the Organisation and its Members. Upon adhering, Slovenia will be entitled to participate in the work related to the Declaration implemented by the OECD's Committee on International Investment and Multinational Enterprises, a Committee composed of officials from Ministries of Economic Affairs, Finance, Foreign Affairs, Trade and Industry.

This report assesses the role that foreign direct investment has played in Slovenia's economic transformation since 1991. It is based on information current as of mid-October 2001. It has been prepared under the auspices of the OECD Centre for co-operation with non-Members by Marie-France Houde and Rosemary Morris of the Directorate for Financial, Fiscal and Enterprise Affairs of the OECD Secretariat, with statistical assistance from Isabelle Ynesta, editorial

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Director
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Overview

A small transition economy with a population of slightly less than 2 million, Slovenia was the most developed member of the former Yugoslav Federation. Since declaring its independence in 1991, the country has made very substantial progress in its "double transition" to nationhood and to a market economy. The combination of its already developed manufacturing sector and skilled workforce, coupled with numerous structural reforms, limited the country's initial recession to the first two years of its independence and permitted it to enjoy steady levels of economic growth since 1993. As one of the best economic performers of the transition countries in Central and Eastern Europe, its GDP per capita (US$9.105) was estimated in 2000 at 70 per cent of the EU average.

At the same time, Slovenia has become an active member of the international community, joining the United Nations and the Organisation for Security and co-operation in Europe, the Council of Europe, the Central European Free Trade Agreement (CEFTA), EFTA, the IMF, the World Bank and the World Trade Organisation. Slovenia has also concluded bilateral trade agreements with Croatia, Macedonia, Estonia, Latvia, Lithuania, Israel and Turkey. Slovenia opened accession negotiations with the EU in 1998; it belongs to the first round candidates for EU membership.

Slovenia is a stable parliamentary democracy. The country's comprehensive regulatory reforms, particularly those designed in more recent years to bring the country into line with the EU *acquis* in preparation for EU membership, have resulted in a generally liberal trade regime, and a largely open and non-discriminatory framework for foreign direct investment (FDI). The country's infrastructure is well developed, its foreign exchange regime is practically free and it has one of the lowest corporate tax rates in the region. This, in combination with Slovenia's comparative advantage of easy access to former Yugoslav markets, underlies its attractiveness as an FDI destination and a base for access to South-East European markets.

Despite these very positive features, Slovenia has not, to date, attracted foreign direct investment flows comparable to other transition economies. At the end of 2000, FDI inflows were less than 1 per cent of GDP, whereas countries such as the Czech Republic, Hungary and Poland, have recorded FDI inflows of at least 2-3 per cent or higher over recent years. Even when FDI into Slovenia peaked at

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US$375 million in 1997, this figure, measured as a percentage of GDP, was small in comparison with other transition economies in the region. The principal reason for this is the choice of mass privatisation methods in the first phase of privatisation, which relied heavily on internal buy-outs by managers and employees. Given the long Slovenian tradition of employee participation in management, this method ensured a privatisation process that contributed to both economic and social stability. However, in addition to limiting foreign participation, it has also induced corporate governance problems. Now that the privatisation process has entered its next phase, methods that are more conducive to the participation of strategic investors, including foreign investors, are being promoted, notably in the context of the privatisation of the financial and utilities sectors.

Due to its proximity and their history of economic co-operation, EU investors dominate FDI in Slovenia, accounting for approximately 84 per cent of total FDI at the end of 2000. Austria is by far the leading investor, with a share of over 45 per cent of the total FDI stock in Slovenia, followed by Germany (12.5 per cent), France (10.7 per cent) and Italy (5.4 per cent). The United States accounted for less than 4 per cent of total FDI at the end of 2000. Manufacturing attracted the lion's share of investment. The typical foreign investor is a small to medium-sized company, but in terms of value, FDI is concentrated in a handful of multinational enterprises (MNEs), mostly of EU origin. Slovenia's outward FDI has recently expanded rapidly, largely directed towards establishing an early presence in the developing markets of countries of the former Yugoslav Federation, with lesser amounts being directed towards Poland and Germany.

The manufacturing sector accounted for 43 per cent of FDI stock at the end of 2000, with paper, pharmaceuticals, motor vehicles and parts, rubber and plastic products being the dominant industries. Other sectors that benefit from FDI are financial intermediation, retail trade and business services. Foreign investors tend to make investment decisions in Slovenia based on specific characteristics of individual companies, however, (chosen as target companies or joint-venture partners) rather than by industry.

Foreign-invested enterprises in Slovenia are reported to have a positive impact on the economy. In the period 1994-1999, foreign-invested enterprises recorded higher operating profit per equity and higher value-added per employee than their domestic counterparts. In the non-financial corporate sector, while foreign-invested enterprises represented fewer than 4 per cent of the total number of enterprises in this sector at the end of 1999, they accounted for over 25 per cent of total exports. They employed almost 9 per cent of workers in the sector, held 12 per cent of total assets and 11 per cent of total equity. This influence is particularly marked in the manufacturing sector, in which most foreign-invested companies operate.

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1999 was a key year for developments in FDI policy. The government adopted a new programme for the promotion of foreign direct investment, and reinforced this commitment with a number of important legislative reforms. In particular, amendments were made to the *Commercial Companies Act* and the *Foreign Exchange Act*. Together with the *Take-Overs Act* of 1997, these three pieces of legislation provide for an open and non-discriminatory legal regime that extends the national treatment secured under the Europe Agreement (which entered into force in 1999) to all foreign investors. Only a few investment restrictions – largely similar to those maintained in many OECD countries – remain, such as in the production of armaments, and in gambling, which are essentially based on public order and national security considerations.

Slovenia has undertaken comprehensive reforms in practically all areas that affect economic activity. The legal regimes for establishment, foreign exchange transactions, competition, labour relations, and securities trade have been revised and modified according to international standards, notably the EU *acquis*. In this connection, Slovenia is one of the most advanced countries included in the first accession wave, having already closed 21 of 29 chapters. Like all economies in transition, however, Slovenia faces something of an "implementation gap" in some areas. Administrative barriers, complicated procedural requirements and an overloaded court system create implementation challenges for the country. Another significant problem is that of land use and development, due to inconsistencies in the legal regime inherited from the Yugoslav era, the country's restitution process and scarcity of land for industrial purposes. The Slovenian government is taking action to combat these problems. It has already adopted a number of new laws aimed at procedural fairness and simplicity, and has set up education programmes for court personnel to enable quicker processing of disputes. In terms of real estate, the government is modernising its property registration system, with the assistance of the World Bank and the EU.

The Government recently adopted its renewed Programme for the Promotion of Foreign Direct Investment for 2001-2004. Apart from a system of non-refundable incentives, tax deductions, and customs zones, the government's programme for the promotion of FDI focuses upon rectifying remaining problems that foreign investors encounter. For example, efforts will be concentrated on simplifying business registration requirements. A new law for the employment of foreigners came into force early in 2001 and another, concerning the recognition of foreign qualifications, is in preparation.

Acceleration of the privatisation process has been identified as an FDI policy priority, with positive results: by the end of May 2001 FDI flows had already exceeded the total for 2000, in large part due to the privatisation of a mobile telecommunications operator and the foreign acquisition of one of the recently privatised banks. The government's target is to raise annual net FDI inflows to 3 per

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cent of GDP by 2003. Privatisation procedures are under way for the country's two largest banks, with the completion date for the first planned before the end of 2001 and the second early in 2002. The authorities are ready to embark on important transactions in the telecommunications sector as soon as market conditions permit.

The OECD Committee on International Investment and Multinational Enterprises reviewed Slovenia's legal regime in December 2001 and concluded that the country is willing and able to adhere to the *Declaration on International Investment and Multinational Enterprises* and its related Decisions and Recommendations. The Committee encouraged Slovenia to complete its privatisation process, to continue its programmes that address barriers to investment, and to facilitate the participation of foreign investment in its economic development on an *erga omnes* basis. Slovenia's adherence to the Declaration will undoubtedly contribute to these ongoing reforms. It also represents an important achievement for Slovenia in its overall programme for greater participation in OECD work. As an adherent to the Declaration, which is directed at the improvement of the business environment and the promotion of good corporate behaviour, Slovenia will be entitled to participate in the work related to the Declaration and Related Acts, as a counterpart to the obligations undertaken under these instruments.

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Chapter 1

Foreign Direct Investment – Trends and Prospects[1]

Recent macroeconomic performance

Slovenia is a small economy with a population of approximately 2 million. With a GDP per capita of US$9,105 in 2000, it is the most developed of the transition countries of Central and Eastern Europe. After an initial transitional recession, reflected in decreasing GDP growth rates in 1991-1992, Slovenia succeeded in considerably reducing the inflation rate in 1993 and regained economic growth the same year. GDP growth rates are expected to remain between 4-5 per cent in the near future, and the inflation rate is expected to drop from 8.9 per cent (annual average) in 2000 to 5.1 per cent in 2003. Throughout the entire transition period Slovenia has more or less sustained fiscal and external balance.

The 59.0 per cent share of exports of goods and services in GDP (in 2000) demonstrates that the country has a distinctive export-oriented economy. This is true primarily for its manufacturing sector (see Table 1 for details). Most exports are destined for EU countries. In 2000, 63.9 per cent of Slovenia's exports went to EU countries (Germany 27.2 per cent, Italy 13.6 per cent, and France 7.1 per cent), 15.6 per cent to the successor states of the former Yugoslavia (Croatia 7.9 per cent and Bosnia and Herzegovina 4.3 per cent), 11.2 per cent to transition countries of Central and Eastern Europe (Poland 2.6 per cent, Russia 2.2 per cent, etc.), and 4.6 per cent to non-European OECD member countries (the United States 3.1 per cent).[2]

Flows and stocks of FDI

FDI stock – foreign equity and reinvested profits plus net liabilities of foreign investment enterprises (FIEs)[3] in Slovenia at the end of 2000 amounted to US$2 808.5 million. Taking into account US$199.8 million of FDI inflows in January-August 2001, the stock of inward FDI in Slovenia in September 2001 stood at about US$3 billion.

The stock of inward FDI in Slovenia during the period 1993-2000 almost tripled, increasing from US$954.3 million to US$2 808.5 million,[4] FDI inflows and stock grew rapidly up until the end of 1997. Slovenia subsequently experienced a

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Table 1. **Main macroeconomic indicators of Slovenia in 1991-2003**

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001[1]	2002[1]	2003[1]
GDP per capita; US$	6 331	6 275	6 366	7 205	9 431	9 480	9 163	9 878[2]	10 109	9 105	9 461	10 290	11 244
GDP real growth rate; %	–8.9	–5.5	2.8	5.3	4.1	3.5	4.6	3.8	5.2	4.6	4.4	4.2	4.5
Exports of goods and services; % of GDP	n.a.	63.1	58.5	58.9	55.3	55.6	57.4	56.8	52.4	59.0	60.2	59.8	59.6
Current account balance; % of GDP	n.a.	7.4	1.5	3.8	–0.1	0.2	0.1	–0.8	–3.9	–3.3	–1.8	–2.0	–2.0
Rate of unemployment by ILO; %	n.a.	8.3	9.1	9.1	7.4	7.3	7.4	7.9	7.6	7.0	6.7	6.5	6.2
Gross fixed capital formation; % of GDP	n.a.	18.4	18.7	19.6	21.4	22.5	23.4	24.6	27.4	26.7	26.2	26.8	27.2
General government account balance; % of GDP	2.6	0.2	0.3	–0.2	0.0	0.3	–1.2	–0.8	–0.6	–1.4	n.a.	n.a.	n.a.
Inflation rate (annual average);[3] %	117.7	201.3	32.3	19.8	12.6	9.7	9.1	7.9	6.1	8.9	8.5	6.4	5.1

1. Estimate.
2. GDP per capita purchasing power in US$ in 1998 was 14.800.
3. Retail prices as a measure of inflation until 1998, after 1998 consumer price index.

Source: *i*) For 1995-2003, IMAD 2001*a*; *ii*) for 1992-1994, IMAD 1996; *iii*) for 1991, WIIW 1999.

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Table 2. **Flows, stock and changes of stock of inward FDI[1] in Slovenia in 1993-2000[2]**

	1993	1994	1995	1996	1997	1998	1999	2000
Values, in millions of US$								
Year-end stock – total	954.3	1 325.9	1 763.4	1 998.1	2 207.3	2 765.8	2 656.5	2 808.5
Equity and reinvested earnings	709.7	966.5	1 203.5	1 274.9	1 559.4	2 011.6	1 893.9	1 883.2
Net liabilities to foreign investors	244.4	359.4	559.8	723.1	647.9	754.2	762.6	925.3
Changes of stock – total[3]	n.a.	371.6	437.5	234.7	209.2	558.5	–109.3	152.0
Annual inflow – total[3]	112.6	128.1	177.4	194.0	375.2	247.9	181.2	175.5
Inflows from abroad	112.6	128.1	176.0	185.5	320.8	165.4	83.4	83.4
Reinvested earnings	n.a.	n.a.	1.4	8.5	54.4	82.5	97.8	97.6
Growth rates, in %								
Year-end stock – total	n.a.	38.9	33.0	13.3	10.5	25.3	–4.0	5.7
Annual inflow – total	1.4	13.7	38.5	9.4	93.4	–33.9	–26.9	0.0

n.a. = not available.

1. FDI whereby a foreign investor holds a 10 per cent or higher share in a company.
2. From 1996 onwards direct investments with indirectly affiliated enterprises are also included.
3. Inflows are in principle smaller than changes in stocks since international payments transactions comprise only part of the changes in stock; most notably, inflows data do not include changes in net liabilities to foreign investors. Furthermore, inflows do not include data on directly affiliated companies. From 1995 onwards data on reinvested earnings are also included in inflows and, thus, in the balance of payments.

Source: Bank of Slovenia.

slowdown in FDI inflows that recovered only in 2001. The first half of 2001 brought about an important positive change in FDI inflows in Slovenia; in January-August 2001, FDI inflows amounted to US$199.8 million, compared to only US$44.0 million in the same period of 2000. Higher inflows are predominantly due to a limited number of foreign acquisitions, two of which are most notable – the French bank Société Générale acquired a majority share in SKB Bank and the Austrian company Mobilkom acquired a majority share in the mobile phone operator Simobil.

Until the end of 2001 a continuation of higher inflows of FDI in Slovenia can be expected. FDI projects already realised or announced for 2001 indicate FDI inflows in the approximate amount of US$500 million, by far the highest annual FDI inflow to Slovenia recorded so far. In the years to come, the same or even higher inflows of FDI can be expected. The major reason for this is the forthcoming privatisation of state property, mostly in the financial sector and public utilities. The government is strongly motivated to involve foreign investors in the forthcoming privatisation for both strategic development and fiscal reasons. The participation of foreign investors in privatisation, accompanied by the support of the investment incentives policy embodied in the government Programme for the Promotion of FDI in 2001-2004,[5] is expected to have a positive influence on the perception of Slovenia as investment location and, consequently, on the increase of FDI inflows in general.

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The increasing share of net liabilities in FDI stock indicates the growing importance of the consolidation of existing FDI versus new FDI projects. This pattern is also confirmed if FDI inflows are broken down into new inflows from abroad and reinvested earnings. The latter's share is increasingly relevant, representing approximately 54 per cent of total inflows in 1999 and 2000. It would appear that existing foreign investors in Slovenia appreciate the investment environment in the country more than potential new investors.

As far as the mode of entry of foreign investors in Slovenia is concerned, the Bank of Slovenia's data distinguishes between greenfield FDI, acquisitions, and other investments (in institutions, subsidiaries and foundations). By number, greenfield FDI is the most frequent type, accounting for 55.8 per cent of all foreign investments at the end of 1999, whereas 41.9 per cent of foreign investments have been acquisitions. In terms of equity the situation is the opposite. Acquisitions account for 68.7 per cent of all foreign equity, while greenfield FDI accounts for 31.0 per cent. Other investments are negligible. The average value of foreign equity in acquisitions is US$1.8 million and in greenfield US$0.6 million.

In 2000, Slovenia registered a record US$66.0 million outflow of FDI. At the end of 2000 the stock of Slovenian outward FDI was US$794 million. In the period January-August 2001, the outflows were US$40.6 million, compared with US$24.1 million in the same period in 2000. In 2000, the stock of Slovenian outward investment increased by US$189 million, which was higher than the increase in inward FDI stock in the same year (US$152 million). This increase was due more to higher equity and reinvested earnings (up by US$106.6 million) than to increased net claims to companies abroad (up by US$82.4 million). In fact, 2000 was the first year since 1994 that saw a considerable increase of equity and reinvested earnings. In 1994-1999, equity and reinvested earnings only grew by US$17.2 million, while net claims to companies abroad in the same period increased by US$233.7 million. These trends seem to indicate that in the 1994-1999 period Slovenian investors

Table 3. **Flows, stock and changes of stock of outward FDI[1] from Slovenia in 1993-2000**

US$ million

	1993	1994	1995	1996	1997	1998	1999	2000
Year-end stock – total	280.6	354.0	489.9	459.5	459.4	608.3	605.0	794.0
Equity and reinvested earnings	241.7	342.4	366.2	342.9	324.7	367.8	359.6	466.2
Net claims to companies abroad	38.9	11.7	123.7	116.5	134.7	240.5	245.4	327.8
Changes of stock – total	n.a.	73.4	135.9	–30.4	–0.1	148.9	–3.3	189.0
Annual outflow[2]	–1.3	2.9	5.1	–6.3	–35.6	1.7	–37.5	–66.0

n.a. = not available.
1. FDI whereby a foreign investor holds a 10 per cent or higher share in a company.
2. "–" means outflow.
Source: Bank of Slovenia.

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were mostly consolidating their existing investments abroad, while in 2000 and especially in 2001, there is evidence of more dynamic activity in establishing new FDI projects abroad, mostly related to the successor countries of the former Yugoslavia.

Countries of origin and destination

Investors from EU countries dominate FDI in Slovenia. At year end 2000 no less than 84.0 per cent of total inward FDI stock was accounted for by EU countries, the major investors among them being Austria (45.6 per cent of total foreign equity stock at year-end 2000), Germany and France, followed by Italy, the United Kingdom and the Netherlands. FDI from other EU countries lags behind. Of non-EU countries, only the United States, the Czech Republic, Switzerland and Croatia are significant investors. The share of EU countries in inward FDI stock in Slovenia in 1994-2000 increased significantly, *i.e.* from 62.0 per cent to 84.0 per cent.[6] By far the highest increase, *i.e.* 23.2 percentage points, was made by Austrian investors.

Table 4. **Distribution of end-year stocks (total value) of FDI in Slovenia by investing countries[1] in 1994 and 2000**

US$ million and per cent

	1994		2000		Change of share
	Value	Share	Value	Share	1994-2000
Austria	296.9	22.4	1 279.4	45.6	+23.2
Germany	196.3	14.8	350.5	12.5	–2.3
France	154.2	11.6	299.2	10.7	–0.9
Italy	136.0	10.3	152.0	5.4	–4.9
United Kingdom	5.5	0.4	101.5	3.6	+3.2
Netherlands	11.0	0.8	82.9	3.0	+2.2
Denmark	16.9	1.3	42.4	1.5	+0.2
Luxembourg	0.2	0.0	29.6	1.1	+1.1
Sweden	0.2	0.0	13.5	0.5	+0.5
Belgium	4.9	0.4	7.1	0.3	–0.1
Ireland	–0.1	0.0	1.2	0.0	0.0
Finland	0.0	0.0	0.5	0.0	0.0
EU – Total	**821.7**	**62.0**	**2 359.8**	**84.0**	**+22.0**
United States	12.2	0.9	109.3	3.9	+3.0
Czech Republic	0.1	0.0	104.9	3.7	+3.7
Switzerland	62.9	4.7	102.0	3.6	–1.1
Croatia	409.8	30.9	48.0	1.7	–29.2
Liechtenstein	1.7	0.1	14.4	0.5	+0.4
Cyprus	0.3	0.0	14.4	0.5	+0.5
Other countries	17.2	1.3	55.7	2.0	–0.7
TOTAL	**1 325.9**	**100.0**	**2 808.5**	**100.0**	**0.0**

1. All countries with higher than US$10 million end-2000 stock are included, plus other EU countries.
Source: Bank of Slovenia.

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Slovenia's proximity to the EU and its traditionally strong economic co-operation with Austria, Germany, Italy and France, are the major reasons for the domination of investors from these countries.

Although a typical foreign investor in Slovenia is a small to medium-sized company from one of the nearby EU countries, especially Austria, FDI in Slovenia is heavily concentrated on a relatively small number of large FDI projects mostly with

Table 5. **Distribution of end-year stocks (total value) of Slovenian FDI abroad by host countries[1] in 1994 and 2000**

US$ million and per cent

	1994		2000		Change of share
	Value	Share	Value	Share	1994-2000
Austria	9.6	2.7	27.7	3.5	+0.8
Germany	30.6	8.6	70.5	8.9	+0.3
France	–0.8	–0.2	8.0	1.0	+1.2
Italy	6.2	1.8	8.2	1.0	–0.8
United Kingdom	0.4	0.1	10.4	1.3	+1.2
Denmark	0.0	0.0	8.3	1.0	+1.0
Other EU countries	–4.8	–1.4	–7.6	–1.0	+0.4
EU – Total	**41.2**	**11.6**	**125.5**	**15.8**	**+4.2**
Croatia	193.0	54.5	357.7	45.1	–9.4
Macedonia	15.9	4.5	66.1	8.3	+3.8
Bosnia and Herzegovina	14.8	4.2	61.9	7.8	+3.6
Yugoslavia	27.9	7.9	26.6	3.4	–4.5
Successor countries of former Yugoslavia – Total	**251.6**	**71.1**	**512.3**	**64.5**	**–6.6**
Czech Republic	2.4	0.7	10.4	1.3	+0.6
Poland	13.3	3.8	55.7	7.0	+3.2
Russia	4.8	1.4	15.8	2.0	+0.6
Ukraine	5.0	1.4	7.4	0.9	–0.5
Romania	0.3	0.1	5.5	0.7	+0.6
Slovakia	0.3	0.1	5.2	0.7	+0.6
Other transition countries	4.7	1.3	6.6	0.8	–0.5
Transition countries – Total	**30.8**	**8.7**	**106.6**	**13.4**	**+4.7**
United States	13.9	3.9	22.1	2.8	–1.1
Switzerland	11.8	3.3	8.4	1.1	–2.2
Liberia	16.6	4.7	23.7	3.0	–1.7
Iraq	0.0	0.0	9.9	1.2	+1.2
Other countries	–11.9	–3.4	–14.5	–1.8	+1.6
TOTAL	**354.0**	**100.0**	**794.0**	**100.0**	**0.0**

1. All countries with higher than US$5 million end-2000 stock are included. Data concerning real estate owned by Slovenian households abroad (mainly real estate in Croatia) are not included. Also claims on other successor countries of the former Yugoslavia, subject of negotiations on succession, expatriate assets in these countries, and other assets transferred to the Slovenian government during the process of privatisation are not included.

Source: Bank of Slovenia.

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European multinational enterprises (MNEs). These projects determine the investing country as well as the industrial breakdown of FDI stock in Slovenia. The five largest FDI projects (out of 1,726) accounted for 23.1 per cent of total 1998 end-year stock of FDI in Slovenia, the largest ten for 35.4 per cent, the largest 15 for 45.6 per cent, while 46 FDI projects with foreign equity above US$10 million account for 68.6 per cent.[7] Of the latter only five are of non-EU (mostly United States) origin.[8]

While inward FDI from Austria into Slovenia is increasing (45.6 per cent of end-2000 inward FDI stock), Slovenia's outward FDI is as much concentrated on Croatia (45.1 per cent of Slovenia's end-2000 outward FDI stock). In addition to Croatia, countries that are increasingly attractive for Slovenian investors are Macedonia, Bosnia and Herzegovina, Poland, and Germany. The gradual increase in outward investment from Slovenian firms is related mostly to their activity in the successor countries of the former Yugoslavia (64.5 per cent of end-2000 outward FDI stock). Transition countries of Central and Eastern Europe and the EU are far less represented as host countries.

Slovenian firms are increasingly aware of the necessity of intensified internationalisation in which outward FDI is an important method. Successor countries of the former Yugoslavia (proximity and familiarity with the environment, previous business connections, knowledge of languages) and, to a certain extent transition countries, represent a kind of logical first step in this direction.[9] The establishment of a regional investment fund for South-East Europe, to be initiated by the Slovenian government, seems to indicate that the government is aware of the strategic importance of Slovenian investment in the region, as well as of the problems facing investing firms.

Distribution by economic activity

With 43.1 per cent of total FDI stock at the end of 2000, manufacturing is by far the most important recipient sector of FDI in Slovenia. Within the manufacturing sector, FDI is heavily concentrated in paper and paper products, chemicals and chemical products, machinery and equipment, rubber and plastic products, and motor vehicles and trailers. Apart from the manufacturing sector, FDI is concentrated in trade, financial intermediation and other business services. Industrial distribution of FDI is to a major extent determined by a handful of large FDI projects, which as a rule emerged out of previous co-operation between foreign investors and the Slovenian companies they had invested in. Foreign investors in Slovenia have been far more attracted by individual Slovenian companies (as target companies or joint venture partners), that is, by their specific characteristics, than by individual industries as such.[10]

In the manufacturing industry the major investments are by the French company Renault in car manufacturing (Revoz), the Austrian paper companies Meyr Melnhof (Količvo karton) and Brigl and Bergmeister (Papirnica Vevče), PB from

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the Czech Republic also in paper (VIPAP Videm Krko), E.G.O. from Switzerland in electro-thermic apparatus (ETA Cerkno), and Siemens from Germany in telecommunications equipment.[11]

In 1994-2000, there have been some interesting shifts in the relative importance of individual industries as FDI recipients (see Table 6). Most manufacturing

Table 6. **Distribution of end-year stocks (total value) of FDI in Slovenia by industries[1] in 1994 and 2000**

US$ million and per cent

NACE industries	1994		2000		Change of share
	Value	Share	Value	Share	1994-2000
15 Food products and beverages	15.8	1.2	38.5	1.4	+0.2
17 Textiles	8.4	0.6	12.7	0.5	–0.1
19 Leather and leather products	0.1	0.0	12.4	0.4	+0.4
21 Pulp, paper and paper products	120.0	9.1	178.7	6.4	–2.7
22 Publishing and printing	6.8	0.5	12.8	0.5	0.0
24 Chemicals and chemical products	80.5	6.1	173.2	6.2	+0.1
25 Rubber and plastic products	14.9	1.1	141.4	5.0	+3.9
26 Other non-metal mineral products	26.7	2.0	73.3	2.6	+0.6
27 Basic metals	6.8	0.5	53.2	1.9	+1.4
28 Fabricated metal products	4.6	0.3	35.3	1.3	+1.0
29 Machinery and equipment n.e.c.	82.8	6.2	144.7	5.2	–1.0
31 Electrical machinery and apparatus	21.9	1.7	57.3	2.0	+0.3
32 Radio, television and equipment	14.0	1.1	31.5	1.1	0.0
33 Medical and precision instruments	8.6	0.6	32.4	1.2	+0.6
34 Motor vehicles and trailers	142.4	10.7	131.8	4.7	–6.0
Other manufacturing industries[2]	46.3	3.5	80.3	2.9	–0.6
D Manufacturing – Total	**600.6**	**45.3**	**1,209.5**	**43.1**	**–2.2**
40 Electricity, gas, steam and water supply	296.6	22.4	17.2	0.6	–21.8
50 Sale and repair of motor vehicles/fuel	66.7	5.0	44.8	1.6	–3.4
51 Wholesale and commission trade	90.9	6.9	261.6	9.3	+2.4
52 Retail trade and other repairs	37.9	2.9	87.9	3.1	+0.2
55 Hotels and restaurants	8.6	0.6	17.4	0.6	0.0
63 Supporting and aux. transport activities	9.5	0.7	28.4	1.0	+0.3
64 Post and telecommunications	0.0	0.0	10.3	0.4	+0.4
65 Financial intermediation	84.7	6.4	712.6	25.4	+19.0
66 Insurance, pension funds	10.7	0.8	10.7	0.4	–0.4
70 Real estate business	2.0	0.2	24.0	0.9	+0.7
74 Other business services	91.8	6.9	337.8	12.0	+5.1
92 Recreational, cultural and sport activ.	0.2	0.0	18.8	0.7	+0.7
Other activities	25.7	1.9	27.5	1.0	–0.9
TOTAL	**1 325.9**	**100.0**	**2 808.5**	**100.0**	**0.0**

1. Only industries with more than US$10 million 2000 end-year FDI stock.
2. Industries with less than 3 FDI entities are all included here. The major part relates to tobacco products.

Source: Bank of Slovenia.

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Table 7. **Distribution of end-year stocks (total value) of Slovenia's FDI abroad by industries[1] in 1994 and 2000**

US$ million and per cent

NACE industries	1994		2000		Change of share
	Value	Share	Value	Share	1994-2000
NACE industries					
15 Food products and beverages	30.4	8.6	63.4	8.0	–0.6
17 Textiles	–3.0	–0.8	6.0	0.8	+1.6
18 Wearing apparel, dressing fur	3.2	0.9	9.7	1.2	+0.3
19 Leather and leather products	24.8	7.0	10.6	1.3	–5.7
20 Wood and wood products, exc. furniture	11.2	3.2	9.0	1.1	–2.1
21 Pulp, paper and paper products	7.9	2.2	7.5	0.9	–1.3
22 Publishing and printing	4.1	1.1	6.0	0.8	–0.3
24 Chemicals and chemical products	43.2	12.2	121.9	15.4	+3.2
26 Other non-metal mineral products	–2.0	–0.6	19.0	2.4	+3.0
28 Fabricated metal products	8.1	2.3	47.2	5.9	+3.6
29 Machinery and equipment n.e.c.	14.3	4.0	81.2	10.2	+6.2
31 Electrical machinery and apparatus	0.7	0.2	17.9	2.3	+2.1
32 Radio, television and equipment	1.3	0.4	5.6	0,7	+0.3
33 Medical and precision instruments	6.1	1.7	10.8	1.4	–0.3
34 Motor vehicles and trailers	–13.4	–3.8	16.4	2.1	+5.9
Other manufacturing industries	10.8	3.1	0.1	0,0	–3.1
D Manufacturing – Total	**147.7**	**41.7**	**431.9**	**54.4**	**+12.7**
40 Electricity, gas, steam and water supply	49.7	14.0	42.3	5.3	–8.7
45 Construction	8.7	2.5	16.2	2.0	–0.5
51 Wholesale and commission trade	58.2	16.4	26.1	3.3	–13.1
52 Retail trade and other repairs	10.1	2.9	62.2	7.8	+4.9
63 Supporting and aux. transport activities	5.6	1.6	19.3	2.4	+0.8
65 Financial intermediation	41.1	11.6	94.7	11.9	+0.3
66 Insurance, pension funds	4.3	1.2	24.3	3.1	+1.9
74 Other business activities	19.7	5.6	47.0	5.9	+0.3
Other activities[2]	8.9	2.5	30.0	3.8	+1.3
TOTAL	**354.0**	**100.0**	**794.0**	**100.0**	**0.0**

1. Only industries with more than US$5 million 2000 end-year FDI stock.
2. Industries with less than 3 FDI entities are all included here.

Source: Bank of Slovenia.

industries either retain or increase their shares in FDI stock. The highest increase was in rubber and plastic products due to the entrance of Goodyear in car tires manufacturing. On the other hand, a decrease of shares is noticeable in motor vehicles and trailers, and in paper and paper products. Outside the manufacturing sector, shifts have been more intensive. Due to the removal of the nuclear power plant Krško (a Croatian-Slovene joint venture) from the list of FIEs, FDI in electricity supply almost disappeared. In contrast, there was a considerable increase in the share of financial intermediation and other business activities in FDI stock.

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Table 8. **Motives of foreign investors in Slovenia**

Motive	% of FIES quoting individual motive[1]
Access to Slovenian market	41.5
Access to other markets	36.3
Technology and know-how	29.8
Quality of labour	26.9
Financial support	25.1
Recognised trade mark	17.0
Purchasing of material and parts	10.5
Low cost of labour	1.8
Acquisition of company in bankruptcy procedure	1.8
Other	7.0

1. 183 FIEs answered the question. Each respondent was allowed to quote several motives.
Source: Dedek and Novak, 1998.

As much as 54.4 per cent of Slovenia's end-2000 outward FDI stock is accounted for by manufacturing, 12.7 percentage points more than in 1994. This indicates the increasing ability of Slovenian manufacturing enterprises to internationalise.[12] Industries that account for the largest part of Slovenia's manufacturing outward FDI are chemicals and chemical products (notably pharmaceuticals), machinery and equipment, food products and beverages, and fabricated metal products. Outside the manufacturing sector, Slovenian investors are most active in financial services, retail trade and other business activities.

Major explanatory factors behind FDI and future prospects

Motivation for investing in Slovenia *and strategic pattern of* FDI *in* Slovenia: *factor cost advantages versus market seeking* FDI

From the point of view of the motivation and strategic behaviour patterns of foreign investors in Slovenia it is possible to distinguish between market-seeking (horizontal FDI) and factor cost advantages-seeking (vertical FDI, such as resource-seeking, efficiency-seeking and strategic asset-seeking). The latter are motivated by differentials in factor endowments, or by different kinds of capabilities, expertise and skills, advantage of economies of scale and scope, and by differences in consumer tastes and supply capabilities. Factor cost advantages-seeking FDI consists of geographical separation of different stages of the value-added chain with forward and backward integration. On the other hand, market-seeking or horizontal FDI is motivated by market access. The orientation of sales to local markets in the case of market-seeking, and to exports in the case of factor cost advantages-seeking FDI, is one of the major distinguishing characteristics between these two types of FDI.[13]

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The economic literature on foreign investors in Slovenia shows that gaining access to or enlarging their market share has traditionally been their most important motive. However, foreign investors generally list multiple objectives (growth, profitability, expansion of exports, etc.) in their ventures in Slovenia. They also ranked such important motives as the reduction of production costs and having an export base for third countries (see, for instance, Rojec 1998). Table 8 shows that access to local and other (adjacent, neighbouring) markets remain the two most important single motives. Nonetheless, the relevance of other motives such as technology and know-how, quality of labour, recognised trade marks, financial support of the Slovenian target company/joint venture partner, and securing material and parts – denoting factor cost advantages-seeking FDI – seem to prevail. Interviews with foreign investors, therefore, seem to indicate that most FDI in Slovenia is of the factor cost advantages-seeking type. As far as the role of labour is concerned, it is clear that it is not the low cost (only 1.8 per cent of interviewees quote it as a motive) but rather the quality of labour (26.9 per cent of interviewees) that motivates foreign investors in the case of Slovenia.

Case studies of FIEs give another set of information on the motivation and strategic pattern of FDI in Slovenia. Eight cases of FDI offer a variety of motivations and strategies of foreign firms when investing in Slovenia:

a) The German company Hella acquired the motor vehicle lighting equipment manufacturer Saturnus Avtooprema in the context of Hella's recognition of the need for more rapid growth and globalisation, *i.e.* having a direct presence in all the major countries in which its major customers (final car assemblers) establish production. In this context Hella particularly needed a company that would be able to handle the Italian market competently. By acquiring Saturnus, the idea was to combine Hella's R&D capabilities with Saturnus' lower (labour) costs to penetrate the Italian market. Saturnus has in fact succeeded in penetrating FIAT's suppliers.

b) Polyamide filaments and chips manufacturer Yulon was acquired by the Italian company Gruppo Bonazzi in the context of the industry's increasing concentration and globalisation that prompted Bonazzi to speed up growth as quickly as possible. Bonazzi's major motivation for buying Yulon was basically strategic, *i.e.* the rapid increase of its capacities by acquisition, thus improving its position in a highly oligopolised industry. Strategic motivation was combined with other reasons of a market, costs, etc. nature; in spite of labour costs not being particularly low in Slovenia, the relation between the labour costs and labour quality/productivity was considered as favourable.[14]

c) The Danish company Danfoss acquired a compressors' manufacturing company Danfoss Compressors with the motive of obtaining access to relatively inexpensive skilled labour. The investment was aimed at a relatively

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low-cost location from which to serve a very competitive market. The investment was a relocation of part of Danfoss' manufacturing capacity in Germany. Almost all the output is exported, with the EU being the major market. Danfoss is grooming its subsidiary to assume sole responsibility for the European compressor market.

d) The German company Bosch-Siemens took over MGA, which produces small household appliances sold under the various Bosch-Siemens brand names, because it was attracted by the lower cost of skilled labour in Slovenia and wished to consolidate existing unprofitable sites. MGA exports its entire output. MGA's competitive advantage is its workforce, which is more highly trained than in Southeast Asia (Lorentzen, Moellgaard and Rojec 1998).

e) The acquisition of Papirnica Količevo (paper mill) by the Italian company Saffa was made in the context of Saffa's programme to strengthen its position in the international cardboard industry. By acquiring Količevo, Saffa hoped to gain control over the South European markets, to create a strategic position for future penetration into CEE markets, and to acquire production capacities that could be expanded substantially at reasonable cost.[15]

f) Siemens' reasons for becoming a minority shareholder in Iskratel, which produces switching devices for telecommunication systems, were to obtain a foothold in the regional market, to acquire access to skilled labour and manufactured inputs, as well as to try to exercise control over third markets (in the then CMEA), to gain access to indigenous technology, and first mover advantages. This investment is not the relocation of an existing facility. Siemens extensively uses the services of Iskratel's engineers, who produce customised software solutions for Siemens systems.[16]

g) Two of the major factors that influenced the German company Reemtsma to acquire cigarette manufacturer Tobaèna Ljubljana were to strengthen Reemtsma's position in the CEE region and to increase its market share in the former Yugoslavia. The whole project was in the context of efforts to strengthen the position of European cigarette manufacturers faced with increasingly aggressive penetration by leading US cigarette MNEs into the European cigarette market. The collapse of the former Yugoslav market has made Tobačna mostly an exporter of cigarettes.[17]

h) Renault's major motive for investment in Revoz in 1991 was the then Yugoslav market. Lower labour costs and the availability of skilled labour were additional relevant motives. After the collapse of the Yugoslav market, Renault had to reorient to export markets. This basically changed the type of FDI

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from market-seeking into factor cost advantages-seeking, making the factor costs determinants of investment dominant. In spite of losing the Yugoslav market, Renault obviously assessed Revoz as being competitive enough to be fully integrated into Renault's industrial system.[18]

These cases suggest three basic conclusions. The first conclusion relates to the pattern of foreign investors' motivation and strategic behaviour in the case of Slovenia, which is characterised by the following: *i*) investing in Slovenia is not just an isolated operation, but is conducted in the context of foreign investors' internationalisation strategy, which they feel to be increasingly urgent; relocation/restructuring via FDI in the context of globalisation becomes a necessity and not a matter of choice; *ii*) foreign investors do not follow a single motive but, in principle, a multiple set of market-seeking, factor cost advantages-seeking and strategic motives; *iii*) cheaper labour is an important motive but the accent is always on the favourable price of skilled labour; *iv*) a good opportunity, especially the possibility of buying a company in the privatisation process, and good previous co-operation between the prospective foreign investor and a target company/local joint venture partner are important stimulators for a foreign company to decide to invest.

The second conclusion is that, in spite of the relevance of local (ex-Yugoslav) markets as a motivating factor, cost advantages-seeking FDI is predominant in Slovenia.

The third conclusion is that in the framework of factor cost advantages-seeking FDI, four kinds of FDI can be distinguished, notably among FDI such as *i*) Danfoss Compressors and MGA, which involved the relocation of existing facilities or consolidation of existing unprofitable sites; *ii*) Saturnus and Yulon with no actual relocation, but it could be supposed that, theoretically, an alternative option of domestic investment did exist;[19] *iii*) Sarrio and Iskratel, which are essentially a combination of market-seeking, factor cost advantages-seeking and strategic considerations; and *iv*) Tobačna and Revoz, where, due to the collapse of the ex-Yugoslav market, the initial market-seeking motivation switched to factor cost advantages-seeking motivation.[20]

One set of factors that co-determine the extent of export-oriented factor cost advantages-seeking FDI versus (local) market-seeking FDI relates to host country characteristics. The issue here is, to what extent Slovenia's specific characteristics as a host country stimulate factor cost advantages-seeking FDI as compared to market-seeking FDI. Four host country characteristics seem to be especially relevant for export propensity of FIEs: *i*) most of the evidence suggests that the smaller the host country market the more export-oriented are FIEs, *ii*) a higher host country development level is generally correlated with factor cost advantages-seeking rather than market-seeking FDI, *iii*) FDI projects in Central and Eastern European countries that are in a more advanced stage of transition reforms are more likely to be export-oriented and integrated into foreign parents' multina-

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tional production process, characteristic of factor cost advantages-seeking FDI, *iv*) liberalisation of FDI and trade regimes, and economic integration (free access to foreign markets) have proved to be crucial stimulators of export-oriented FDI.[21]

These host country characteristics clearly qualify Slovenia for export-oriented factor cost advantages-seeking rather than market-seeking FDI. Slovenia is a very small market; it is a relatively developed country at an advanced stage of transition reform, and has an export-oriented economy.

Actual export data of FIEs in Table 9 strongly confirm the above conclusions, *i.e.* the increasing importance and prevalence of export-oriented factor cost advantages-seeking FDI in the Slovenian manufacturing sector and the prevalence of market-seeking FDI in the service and public utilities sector. In 1999, FIEs in Slovenia exported 42.6 per cent of their sales. This was to a major extent due to the situation in the manufacturing sector, which was responsible for no less than 88.0 per cent of all FIEs exports. In 1999, manufacturing FIEs exported as much as 68.2 per cent of their overall sales (in 1994 62.9 per cent). The situation in non-manufacturing activities is considerably different, since on average they exported only 11.4 per cent of their sales, mostly in the field of transport and communications, trade and business services. Of the 20 manufacturing industries in Table 9, FIEs in five of these have an exports to sales ratio of more than 80 per cent (medical and precision instruments, electrical machinery and apparatus, machinery and equipment, wearing apparel and basic metals), in another two it is higher than 75 per cent (textiles, fabricated metal products) and in three more it is higher than 70 per cent (leather, footwear and leather products, rubber and plastic products, motor vehicles). There are, therefore, at least ten manufacturing industries in Slovenia that clearly attract factor cost advantages-seeking FDI. The major two are motor vehicles and trailers, with exports to sales ratio of 74.5 per cent and a 32.8 per cent share in total FIEs exports, and machinery and equipment with an 82.8 per cent exports to sales ratio and an 11.9 per cent share in total FIEs exports. Also, in no less than 15 of the 20 manufacturing industries in Table 9, FIEs have a higher exports to sales ratio than domestic enterprises (DEs). On average, export orientation of FIEs in the Slovenian manufacturing sector is 43 per cent higher than that of DEs. This is additional confirmation of the distinctively high export orientation of FIEs in the Slovenian manufacturing sector.[22]

In summary, although local and adjacent (neighbouring) markets are important motives for investing in Slovenia, consideration of specific characteristics of Slovenia as a host country, case studies of foreign investors' strategy in Slovenia, and especially the actual very high export orientation of FIEs in the manufacturing sector, all support the view that factor cost advantages-seeking FDI dominates in the manufacturing sector of Slovenia. It is exactly the opposite in the service and public utilities sector, where market-seeking motivation clearly prevails.

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Table 9. **Export to sales ratio in FIEs and DEs by industries in per cent; 1999 income statements/balance sheets data**

NACE industries	Exports to sales ratio (%)			FIEs – Distribution of exports by industries (%)
	FIEs	DEs	FIEs/DEs (Index)	
15 Food products and beverages	17.3	13.4	129	1.0
17 Textiles	76.5	70.1	109	2.2
18 Wearing apparel, dressing fur	98.9	54.8	180	0.0
19 Leather, footwear and leather products	72.3	61.8	117	0.4
20 Wood and wood prod., exc. Furniture	37.7	51.8	73	0.3
21 Pulp, paper and paper products	68.0	52.2	130	6.6
22 Publishing and printing	48.1	6.8	706	0.7
24 Chemicals and chemical products	65.5	65.9	99	7.6
25 Rubber and plastic products	73.2	53.5	137	4.5
26 Other non-metal mineral products	44.0	39.1	112	2.6
27 Basic metals	80.8	63.6	127	3.5
28 Fabricated metal products	78.4	48.4	162	2.1
29 Machinery and equipment n.e.c.	82.8	62.7	132	11.9
31 Electrical machinery and apparatus	84.8	62.3	136	4.8
32 Radio, television and equipment	48.9	59.3	82	3.3
33 Medical and precision instruments	84.4	61.4	137	1.8
34 Motor vehicles and trailers	74.5	64.5	116	32.8
35 Other transport equipment	40.7	49.8	82	0.0
36 Furniture, manufacture n.e.c.	24.5	50.3	49	0.0
Other manufacturing industries[1]	47.8	12.1	395	2.0
D Manufacturing – Total	**68.2**	**47.6**	**143**	**88.0**
Non-manufacturing activities	**11.4**	**9.1**	**126**	**12.0**
A Agriculture, hunting, forestry	11.3	5.9	192	0.0
C Mining and quarrying	2.0	3.3	59	0.0
E Electricity, gas and water supply	6.6	1.4	475	0.0
F Construction	7.0	2.6	272	0.1
G Wholesale and retail trade, certain repair	10.4	7.5	139	8.8
H Hotels and restaurants	0.0	14.8	0	0.0
I Transport, storage, communications	28.5	28.8	99	1.3
J Financial intermediation services	0.8	0.3	258	0.0
K Real estate, renting, business services	24.9	7.4	336	1.7
M Education	0.0	3.2	0	0.0
N Health services and social work	10.7	7.5	142	0.0
O Other community and personal services	2.9	36.3	8	0.0
TOTAL	**42.6**	**21.4**	**199**	**100.0**

1. Sum of industries with less than 3 FIEs (16 – tobacco manufactures, 30 – office machinery, 37 – recycling).

Source: Institute for Macroeconomic Analysis and Development; based on Bank of Slovenia and Agency for Payments data.

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Wages as a determinant of FDI *in Slovenia*

Surveys of the motivations of foreign investors in Slovenia show, as far as labour is concerned, that it is the quality and not the low cost of labour that motivates foreign investors. This is not surprising, given that labour costs in Slovenia are by far the highest among Central and Eastern European countries in transition. In 1997, monthly labour costs in Slovenia were US$980, compared to US$536 in Hungary, US$461 in the Czech Republic, US$458 in Poland, US$400 in the Slovak Republic, US$158 in Romania and US$126 in Bulgaria.[23]

The finding that it is the quality rather than the cost of labour that motivates foreign investors in Slovenia is further confirmed by sectoral distribution of FDI in Slovenia, characterised by FIEs' tendency to locate in capital – rather than in labour-intensive manufacturing industries. In addition, not only do they tend to locate in capital-intensive industries, FIEs also tend to use much more capital-intensive techniques than DEs in the same manufacturing industries. In as many as 17 out of the 20 manufacturing industries listed in Table 11, FIEs have more machinery and equipment per employee than DEs. On average, manufacturing FIEs use 2.33 times more machinery and equipment per employee than DEs.

It could be expected that more capital-intensive techniques in FIEs also require the use of more skilled labour than in DEs. The data, however, do not seem to support this. If FIEs in the manufacturing sector use as much as 2.33 times more machinery and equipment per employee than DEs, they pay on average

Table 10. **Growth of real gross wages per employee and of labour productivity in the manufacturing sector of Slovenia in 1992-1999**

	Monthly gross wages per employee (in US$)	Growth of real gross wages per employee[1] (chain index in %)	Growth of labour productivity[2] (chain index in %)	Ratio between growth of productivity and growth of wages (in %)
1992	532.7	95.6	96.4	100.8
1993	551.8	108.6	107.2	98.7
1994	616.0	104.9	111.9	106.7
1995	783.6	103.2	108.4	105.0
1996	784.1	104.0	106.7	102.6
1997	744.9	103.4	104.5	101.1
1998	795.0	102.9	105.3	102.3
1999	792.8	102.8	101.8	99.0

1. Deflated with consumer price index.
2. Volume of industrial production per employee.

Source: Institute for Macroeconomic Analysis and Development; based on Bank of Slovenia and Agency for Payments data.

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only 17 per cent higher labour costs per employee. The existing evidence suggests that a relevant part, if not most of the difference in wages, is due to the fact that for the same skills FIEs tend to pay somewhat higher wages, approximately 10 per cent more than DEs. For instance, in Tobačna Ljubljana after the acquisition, the policy has been to keep wages approximately 10 per cent above the Slovenian average (Rojec and Svetličič 1998*b*), in Biterm (thermostats producing company with minority share of Danish Danfoss) wages are claimed to be slightly higher as compared to other companies in the local community (Rojec and Svetličič 1998*c*), in Saturnus Avtooprema, the foreign parent company's policy is that wages should be approximately 10 per cent above the Slovenian average, in Yulon the level of wages is also quoted to be higher than average in Slovenia (Rojec and Stanojevič 2001).

It can therefore be concluded that in the Slovenian manufacturing sector FIEs tend to use much more capital-intensive production techniques than DEs, but these techniques are rather standardised and, in principle, do not require more skilled labour. FIEs and DEs use more or less equally skilled labour, but FIEs pay somewhat higher wages. FIEs are able to achieve much higher labour productivity, in terms of value added per employee, than DEs. Surveys of workers in a typical FIE indicate that the workload has increased (considerably) since the foreign investor took over the company.[24] The indicator of value added per labour costs is very persuasive in this regard. With 1 SIT (Slovenian Tolar) of labour costs, manufacturing FIEs are able to produce 1.84 SIT of value added, which is 33 per cent more than DEs.[25] Labour issues are discussed further in Chapter 4.

What is the rationale of foreign investors in the above context? If increasing labour costs at home make certain types of production non-viable, one of the possible solutions to the problem is to relocate production abroad. By moving production facilities abroad, the company continues to utilise its existing industry specific assets, including its given production technique, but swaps the home country labour force with a cheaper one in a host country.

In a situation of a given production technique, a company would make a relocation/restructuring decision on the basis of value added to labour costs ratio criteria. The maximum amount of value added per employee that could be produced by a certain production technique is more or less fixed and, therefore, with increasing labour costs per employee at home, the value added to labour costs ratio decreases. To prevent a decrease in the value added to labour costs ratio, or more to the point, to increase it, a company would establish production capacities abroad, in a country whose labour force is able to produce the expected amount of value added per employee with a given production technique, but at lower labour costs per employee. There are therefore two basic conditions to

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Table 11. **Machinery and equipment per employee and labour costs per employee in manufacturing FIEs; 1999 income statements/balance sheets data**

NACE industries	Machinery and equipment Per employee		Labour costs Per employee		Value added[1] Per employee		Value added[1] Per labour costs	
	FIEs, mill. SIT	FIE/DE Index, %[2]	FIEs, mill. SIT	FIE/DE Index, %[2]	FIEs, mill. SIT	FIE/DE Index, %[2]	FIEs (Ratio)	FIE/DE Index %[2]
15 Food products and beverages	4.8	126	3.6	129	4.3	105	1.17	80
17 Textiles	3.6	277	1.9	100	3.8	162	1.98	162
18 Wearing apparel, dressing fur	0.1	20	1.4	82	1.3	7.2	0.93	86
19 Leather, footwear and leather products	1.2	171	2.4	126	3.8	185	1.58	150
20 Wood and wood prod., exc. furniture	6.1	469	2.4	120	4.7	189	2.00	161
21 Pulp, paper and paper products	17.6	677	3.1	1.41	6.3	205	2.04	149
22 Publishing and printing	5.4	225	2.7	71	4.1	82	1.54	117
24 Chemicals and chemical products	7.4	224	3.2	84	7.9	113	2.47	134
25 Rubber and plastic products	2.1	42	2.5	96	3.5	85	1.44	91
26 Other non-metal mineral products	6.9	256	3.0	130	7.1	201	2.35	157
27 Basic metals	5.0	143	3.0	120	4.9	148	1.66	123
28 Fabricated metal products	2.4	104	2.4	104	3.7	116	1.51	110
29 Machinery and equipment n.e.c.	2.6	163	2.4	100	4.2	132	1.76	132
31 Electrical machinery and apparatus	2.6	153	2.8	112	4.7	135	1.68	120
32 Radio, television and equipment	1.1	85	3.6	164	5.5	198	1.53	120
33 Medical and precision instruments	1.7	155	2.1	81	3.3	99	1.58	122
34 Motor vehicles and trailers	6.6	388	2.9	138	6.0	250	2.06	184
35 Other transport equipment	2.8	311	1.9	79	2.3	96	1.20	125
36 Furniture, manufacture n.e.c.	1.9	158	1.8	90	2.5	95	1.40	106
16, 30, 37 Other manufact. industries[3]	7.8	433	4.0	138	13.5	304	3.35	220
D MANUFACTURING – Total	**4.9**	**233**	**2.8**	**117**	**5.1**	**153**	**1.84**	**133**
TOTAL – All activities	**4.4**	**148**	**3.0**	**115**	**5.3**	**146**	**1.78**	**125**

1. Value added is gross value added, calculated as difference between sales and costs of merchandise, material and services.
2. Index between indicator for FIEs and indicator for DEs.
3. Sum of industries with less than 3 FIEs (tobacco manufactures, office machinery, recycling).

Source: Institute for Macroeconomic Analysis and Development; based on Bank of Slovenia and Agency for Payments data.

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relocate/restructure via FDI abroad; the first is the adequate quality of the labour force in the host country, meaning that it is capable of realising the expected amount of value added per employee with a given production technique, and the second is lower wages than at the existing location.

Table 12 clearly demonstrates that a relocation/restructuring, i.e. an investment decision, cannot be made only on the basis of labour costs per employee. Slovenia does have much lower labour costs, i.e. labour costs per employee, than any of the major EU investing countries, but it also lags behind very much in terms of productivity, i.e. quality of labour measured by value added per employee. The only possible basis for making a decision is a comparison of productivity and cost of labour in terms of value added per labour costs. Ex ante, and from the point of view of prospective foreign investors, this means that, when a foreign investor makes a decision to relocate/restructure abroad, he is confident that with the given production technique, he will achieve approximately the same productivity as at home but at lower labour costs.

It is not that prospective foreign investors are looking at the value added per employee data in a host country; instead they check whether the conditions that enable achieving the required level of productivity are in place. E*x post*, successful foreign investor decisions about relocating/restructuring abroad should in fact be demonstrated by higher value added per labour costs in foreign subsidiaries than at home. The case of Slovenia seems to confirm this rationale. The value added

Table 12. **Value added per employee, labour costs per employee and value added per labour costs in the manufacturing sector of Slovenia and major EU investing countries in Slovenia in 1998; national accounts data**

	Value added per employee (euro)	Labour costs[1] per employee (euro)	Value added per labour costs (ratio)
EU – 15	48 800	33 400	1.46
Austria	58 072	34 736	1.67
Germany	56 120	39 078	1.44
Italy	38 552	27 722	1.39
France	62 952	38 744	1.63
Slovenia	16 680	10 624	1.57
FIEs[2] in Slovenia	22 565	11 784	1.92

1. Remuneration in the case of EU countries and compensation of employees in the case of Slovenia.
2. Calculated by applying FIEs/All enterprises indexes from company financial statements data (Institute for Macroeconomic Analysis and Development; based on Bank of Slovenia and Agency for Payments data) to national accounts data for Slovenian manufacturing as a whole.

Source: Eurostat 2000; Statistical Office of the Republic of Slovenia 1999.

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per labour costs ratio in foreign FIEs involved in manufacturing in Slovenia is much higher than in the manufacturing sector of any of the major EU countries investing in Slovenia.[26]

Investment opportunities and competitive advantages of Slovenia *as an investment location*

Existing analysis of foreign investors' motivations[27] and of Slovenia's competitive advantage as an investment location[28] suggest that it is reasonable to distinguish between *i*) investment opportunities open to foreign investors that represent a direct incentive, *i.e.* a factor causing foreign investors to begin to consider investment in Slovenia, and *ii*) natural and created factors/environment and investment climate in Slovenia in the framework of which the potential investment is realised. The latter constitutes a framework that determines to a considerable degree whether an investor will decide to take up an investment opportunity.

Investment opportunities for foreign investors in Slovenia can be classified into five groups:

a) *Acquisitions of and joint ventures with Slovenian companies* where investment opportunities arise from:

- High domestic purchasing power (GDP per capita higher than in any other Central and Eastern European country in transition; approximately at the level of Greece and Portugal) and growth potential of its small domestic market (4-5 per cent GDP growth rates in the last mid-term period).
- High export propensity of Slovenian companies with relevant market shares in EU countries.
- Strong trade and business links of Slovenian companies with other parts of the former Yugoslavia and with Central and Eastern European countries in transition.
- High level of managerial and technical skills in companies.
- Local industrial environment assures technological capabilities that enable speedy mastering of the technology transferred by foreign investors.
- Transport costs are low; main investing countries are near, transport connections are good.
- Good acquisition opportunities (of not yet privatised) Slovenian companies in the process of rehabilitation (companies in the portfolio of Slovenian Development Corporation, companies of Slovenian Ironworks etc.).

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b) *Subsidiaries in Slovenia as part of the integrated international production of multinational enterprises*. Investment opportunities arise from:

- Quality of the workforce: well educated and trained, dedication to work, industrial tradition, language skills, high level of computer literacy.
- Low labour costs if compared to productivity level (high value added to labour costs ratio).
- Relatively high level of managerial and technical skills in companies.
- Central geographical position (proximity) making transport costs low (good international transport and communication linkages).
- Trade links with other countries; liberal foreign trade regime and integration in the EU and CEFTA.
- Industrial tradition and especially experience in manufacturing middle technology level products.

Opportunities for location of parts of integrated international production in Slovenia exist particularly in production requiring a higher level of workforce quality, industrial experience, middle technology level, and low transport costs.

c) *Investment in infrastructure sectors – public utilities*. Investment opportunities arise from the following considerations:

- Slovenia is just about to start privatising public utilities.
- The gap between Slovenian investment needs in infrastructure facilities and available financial sources requires more intensive engagement of private capital in infrastructure investment.

d) *Slovenia as a location for regional headquarters*, as a regional rather than a local market. Investment opportunities arise from:

- Its geographic location between EU countries (Slovenia is among the most advanced candidates for EU membership), CEFTA countries (Slovenia is a member of CEFTA) and successor countries of the former Yugoslavia (Slovenia has free trade agreements with Croatia and Macedonia, is about to sign one with Bosnia and Herzegovina, and is eager to improve the framework for doing business with the Federal Republic of Yugoslavia; it has excellent knowledge of the markets and long established business links) as well as well developed business links with all three groups of countries.
- High level of managerial and technical skills in companies.
- High quality of living for representatives and executives of foreign investors, including high level of security.
- Good international transport and communication links.
- Political stability.

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e) FDI *in services, especially in business infrastructure.* Investment opportunities arise from:

– Fast growing economy and market with very high demand for business services.

– Forthcoming privatisation of the financial sector.

– Full liberalisation of capital flows, introduction of funded pension schemes, changes in the population's savings habits, and modes of investment financing in companies, strongly increase the need for financial intermediation, especially via capital market.[29]

Factors that create an attractive and friendly environment for investing in Slovenia are:

a) *Market factors* consisting of:

– A growing and open economy. In 2000, the GDP growth rate was 4.2 per cent and the exports to GDP ratio 59.0 per cent (IMAD 2001*a*).

– Economic and political stability with the highest international ratings among Central and Eastern European countries in transition. In 2000 the inflation rate was 8.9 per cent, general government deficit 1.4 per cent of GDP, current account deficit 3.3 per cent, unemployment rate 7.0 per cent; IMAD 2001*a*).

– Good access to markets in West, East and South-East Europe. Slovenia has signed a Europe Agreement with the EU and is among the most qualified candidates for EU membership, is a member of CEFTA and has free-trade agreements with numerous countries.

b) *Production factors* consisting of:

– Location in the heart of Europe with a maritime cargo port.

– Developed infrastructure with extensive transport grid and telecommunications network.

– Long industrial tradition coupled with ability to implement new technologies.

– Well educated, flexible and motivated workforce with good command of foreign languages – model industrial relations.

– Experienced managers.

– High quality of living.

c) *Regulatory framework* consisting of:

– Intensive adoption of EU legal and system framework. Slovenia expects to be ready for EU membership by the end of 2002.

– A liberal regime of international economic relations, characterised by WTO membership and European Agreement with the EU.

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– A liberal FDI regime, based on the national treatment principle and unlimited profit and equity repatriation.
– A low, 25 per cent corporate profit tax and other incentives for FDI.

Barriers to FDI

In spite of the above mentioned investment opportunities and positive aspects of the investment climate in Slovenia that resulted in rapid increases of FDI in the last decade, it seems that other transition countries of Central and Eastern Europe, notably those who are members of the OECD, have succeeded in attracting relatively higher amounts of FDI. This is not the case in terms of FDI stock per capita, where Slovenia with US$1.411 (2000 data) is before Poland with US$828 and Slovakia with US$686, and does not lag much behind Hungary with US$1.900 and the Czech Republic with US$1.752. However, in terms of FDI stock as a share of GDP, Slovenia with 15.5. per cent (2000 data) lags behind the other four countries. The respective figure for Hungary is 43.2 per cent, for the Czech Republic 40.4 per cent, for Poland 20.1 per cent and for Slovakia 19.3 per cent.[30] If FDI inflows are broken down into inflows from abroad and reinvested earnings, it is obvious that low inflows in recent years were mainly due to a low number and value of new FDI projects. The increasing amount of reinvested earnings by existing foreign investors in Slovenia, on the other hand, tends to show that existing foreign investors strengthen and increase their operations in Slovenia, indicating their positive appreciation of Slovenia as an investment location.

What are the reasons for FDI inflows not being as high as in countries like Hungary and the Czech Republic? Studies undertaken by the Slovenian Institute for Macro-economic Development (IMAD), the Foreign Investment Advisory Service (FIAS), and experts at the university of Ljubljana[31] suggest the following factors:

a) S*mall local market*. The small size of Slovenia's domestic market is the major constraint preventing more FDI inflows.

b) M*onetary considerations* have for a long time been one of the major scruples of the Bank of Slovenia regarding foreign capital inflow. Under a regime of a managed floating foreign exchange rate where money came into circulation almost exclusively through foreign exchange transactions, in a situation where Slovenia was faced with the problem of a small monetary area with a positive current account balance up until the end of 1997, capital inflows represented a constant pressure on domestic currency appreciation. In these circumstances the central bank embarked on various measures to counteract exchange rate pressures, including various measures to cope with the risks associated with capital inflows.[32] Although these measures have served their monetary purpose, *i.e*. preventing a negative impact of excessive speculative capital inflows, and although they were not directed against FDI, they have tended to discourage it.[33]

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c) *Privatisation and enterprise restructuring*. There are several aspects responsible for privatisation not having contributed enough to FDI inflows. *i*) The first was the (mass)privatisation concept in industry and trade that implicitly favoured internal (employee and management) buy-outs. Foreign acquisitions were only exceptional in privatisations dominated by distribution through the use of ownership certificates and internal buy-out at considerable discounts. *ii*) The second aspect was that the (transition) restructuring process in privatised companies was not rapid enough and did not encourage them to search for strategic foreign partners. *iii*) The third was the hesitant and late privatisation of state ownership in the financial and public utilities sector, where more decisive moves have been initiated only recently.

d) *Political instability due to the collapse of the former Yugoslavia* was for a long time an important constraint to attracting more FDI into Slovenia. According to various country risk assessments, political risk is no longer an inhibiting factor in the case of Slovenia. For instance, in *Euromoney*'s political risk assessments, Slovenia has a better rating than Poland, Hungary, the Czech Republic and Slovakia.[34]

e) *Unfinished transition process*. Incomplete transition increases the costs of establishing and operating a company. This is especially reflected in the so-called implementation gap, *i.e*. the gap between formally adopted regulation and inability to (fully) implement it. Economic and legal systems are now fast approaching EU standards, and this process is likely to be completed with integration into the EU.

f) *Administrative barriers* to investment and company operations are a relevant constraint to more active engagement by domestic and foreign investors as they increase the costs of setting up and running a company. Although in a number of areas (like tax administration, customs procedures, industrial property rights and standardisation procedures, and to a certain extent also procedures for establishing businesses and foreign exchange transaction reporting requirement) definite or important breakthroughs have already been made, in some areas administrative procedures still remain too long and complicated. FIAS made specific recommendations to the Slovenian government on how to ease and improve administrative procedures in the field of company registration, business activity permit, acquiring land, site development, expatriate work permit and employment regulation.

g) *Problems in acquiring industrial locations*. Access to business premises and land, especially for industry, obtaining clear title to land, acquiring the necessary permits to build and operate a factory, are often complex and time consuming. Problems also stem from the high price and low availability of land and industrial and business premises in general (FIAS 2000).

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h) *Relatively rigid and unbalanced labour legislation* that does not take sufficient account of the interests of employers, *i.e.* in general, the rules governing the relationship of employers and employees is biased towards employees (FIAS 2000).

i) *Relatively rigid labour market*. Slovenia has a relatively well-educated and productive labour force, but labour costs are relatively high compared to competitive investment locations, and labour force mobility in Slovenia is relatively low (in certain regions there is a lack of certain professions which are in surplus in other regions) (FIAS 2000).

j) *The policy of promoting* FDI *has long been rather passive* (insufficient funds and staff for serious FDI promotion activity). Since 2000, the government has put more effort and devoted more resources to attracting foreign investors. These activities are to be further strengthened in the future [Trade and Investment Promotion Office (TIPO) 2001].

Determinants of future inward FDI trends in Slovenia

Apart from the elimination of the barriers to inward FDI mentioned above, two major determinants of future FDI inflows in Slovenia will be: *i*) the process of integration into the EU and *ii*) the privatisation process of the financial sector and public utilities. In this framework, of course, a number of other factors will be relevant, particularly the completion of the transition process. An adequate framework for macroeconomic and macro-organisational policies (see Dunning 1992) is extremely important in attracting the type of export-oriented FDI projects that dominate in Slovenia.

Slovenia's integration into the EU. The EU integration process is not only a strong incentive for FDI among member countries, but also for FDI from non-member to member countries. The accession of a new country into the EU is an even stronger incentive for increasing FDI flows into the accessing country. With its accession into the EU, the accessing country becomes an integral part of the internal market and adopts the internal market's common rules of the game (*acquis communautaire*) that stimulate FDI inflows from EU member countries as well as from other countries. With accession into the EU the problem of Slovenia's small local market as the most important constraint for more FDI inflows will also cease to exist.[35]

Privatisation of the financial sector and public utilities. The dynamics and mode of privatisation in the financial sector (banks and insurance companies) and public utilities (telecommunications, airline company, energy sector etc.) will be the second most crucial factor of future FDI inflows into Slovenia. There is no doubt that foreign investors will be included in these processes. The final modalities of privatisation are, however, not yet clearly defined, except in the banking sector. In any

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case it is safe to conclude that privatisation will lead to considerable FDI inflows in the near future.

Completion of the transition process. Another important factor affecting future FDI inflows in the country will be the dynamics of transition reforms and reforms related to integration into the EU. The fact that Slovenia is among the forefront candidate countries for EU membership considerably reduces the perception of risk of doing business in Slovenia by potential foreign investors. This is mostly because potential foreign investors are sure of what the future economic and legal system will look like (*acquis communautaire*) and the timing of the adoption of this system is also known (National Programme for the Adoption of the *Acquis*). Adoption of an appropriate normative framework is, however, not enough; the catchword is implementation of this framework. The completion of transition thus depends to a great extent on enforcing and implementing changes, establishing an enterprise sector that will be able to viably compete on the internal market of the EU, efficient corporate governance, competition and competitiveness of public utilities, and a competitive banking sector. In short, the completion of transition means the establishment of (fully) functioning market economy institutions. For Slovenia, the process of EU accession is nothing less than an acceleration of the transition process, a guarantee that the transition process will be faster and more thorough.

Slovenia as a springboard for South-East Europe. The Stability Pact for South-East Europe and the changes that have taken place in the Federal Republic of Yugoslavia, in combination with the gradual long-term integration of the area into the European integration process, have definitely demonstrated Slovenia's possibilities in the region. (The Stability Pact for South East Europe is an international framework agreement adopted in June 1999 to promote political stability and economic growth in SEE countries. The Stability Pact partners include SEE countries, EU member States, 22 OECD countries, four members of the G-8 and major international and regional organisations. One of its main components, the SEE Compact for Reform, Investment and Growth, is aimed at economic revitalisation through private sector investment.) The affirmation of Slovenia as a springboard for doing business in the successor countries of the former Yugoslavia does therefore provide a definite possibility of increasing future FDI inflows into Slovenia. Slovenia should try to persuade foreign investors to let it handle the markets of other parts of former Yugoslavia from Slovenia (establishing of regional headquarters for successor countries of the former Yugoslavia in Slovenia). Slovenia has undeniable advantages in this regard, *i.e.* much lower country risk, knowledge of circumstances, language, culture, people, high reputation of Slovenian products in these countries, geographical location, etc.

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Chapter 2

The Economic Impact of Foreign Direct Investment

The importance of FIEs for the Slovenian non-financial corporate sector

Comparisons of Slovenia with developed market economies and with the most successful countries in transition show the relatively low importance of FDI in the Slovenian economy, measured by the share of annual FDI inflows in GDP or gross fixed capital formation. A more detailed insight into the importance of FIEs for the Slovenian economy by selected income statement/balance sheets items confirms, on the one hand, the foregoing conclusion on the relatively low importance of FDI in the Slovenian non-financial corporate sector. On the other hand, however, in some items, FIEs stand out with a surprisingly high share (especially exports, operating profit, and sales, see Table 13).

At the end of 1999, FIEs accounted for only 3.8 per cent of the total population of companies in the Slovenian non-financial corporate sector and had 11.4 per cent of total equity, 12.1 per cent of total assets and 8.8 per cent of all employees in this sector. With this equity, assets and employees, FIEs realised 15.0 per cent of total net sales, 19.7 per cent of total operating profit and 11.6 per cent of total operating loss. FIEs stand out the most in exports, realising as much as 26.1 per cent of the total exports of the Slovenian non-financial corporate sector. It is therefore safe to conclude that FIEs already represent a relatively important category in the Slovenian enterprise sector, especially as far as exports are concerned, as well as profits and sales. This is especially true for manufacturing, where most FIEs are located. At the end of 1999, FIEs accounted for 20.7 per cent of total assets, 21.8 per cent of total equity, 23.3 per cent of total sales, 28.0 per cent of total profit and as much as 30.3 per cent of total exports of the Slovenian manufacturing sector.

Table 13 also shows that the importance of FIEs in the non-financial corporate sector increased considerably in the 1994-1999 period. This is demonstrated in all individual items, especially in exports and equity. It is also clear that the importance of FIEs in the manufacturing sector is higher than in other sectors, and that it has been increasing more rapidly in the manufacturing than in other sectors. In 1995-99 the importance of FIEs (measured as a share of

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Table 13. **Importance of FIEs[1] in total non-financial corporate sector (in %) by selected income statement/balance sheet items in 1999**

	Values (mill SIT)	Share (%)	Change of share in 1994-99 (percentage points)
Total – all activities			
No. of enterprises	1.439	3.8	+0.2
Equity	538 812	11.4	+4.8
Assets	1 134 246	12.1	+4.1
Investment outlays	151 330	12.8	n.a.
No. of employees	40 547	8.8	+3.5
Net sales	1 092 928	15.0	+4.3
Exports	465 997	26.1	+7.0
Value added[2]	214 739	12.3	+4.7
Operating profit	50 468	19.7	+4.1
Operating loss	18 322	11.6	+4.1
Manufacturing			
No. of enterprises	280	4.5	–0.4
Equity	335 292	21.8	+10.3
Assets	561 239	20.7	+9.0
Investment outlays	69 574	22.3	+8.3[3]
No. of employees	27 461	13.0	+5.2
Net sales	600 630	23.3	+6.4
Exports	409 927	30.3	+9.2
Value added[2]	140 870	18.6	+7.9
Operating profit	29 815	28.0	+10.3
Operating loss	6 484	13.9	+0.4

n.a. = not available.
1. Enterprises with 10 per cent or higher foreign equity share.
2. Calculated as difference between sales and "costs of merchandise, material and services".
3. Change of index 1999-1995.

Source: Institute of Macroeconomic Analysis and Development; based on Bank of Slovenia and Agency for Payments data.

FIEs' assets in the total assets of an industry) increased much more in the manufacturing sector (from 12.5 to 20.7 per cent) than in total (from 8.2. to 12.1 per cent) (see Table 14).

There was not a single manufacturing industry in which the share of FIEs did not increase in the 1995-1999 period. The increases were the most outstanding in motor vehicles, basic metals, other non-metal mineral products, rubber and plastic products, and in paper and paper products. Outside manufacturing, the increase was the highest in financial intermediation, real estate business, other business activities, supporting and auxiliary transport activities, and in wholesale trade. At the end of 1999, foreign penetration was the highest in tobacco products (100 per cent)[36] paper and paper products (59.9 per cent), motor vehicles and

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Table 14. **Importance of FIEs assets in total assets of individual industries[1] in Slovenia in 1995 and 1999**

Per cent

NACE industries	1995	1999	Change of share 1995-1999
15 Food products and beverages	6.1	10.5	+4.4
16 Tobacco products	100.0	100.0	0.0
17 Textiles	6.1	10.3	+4.2
19 Leather and leather products	0.0	3.9	+3.9
21 Pulp, paper and paper products	49.2	59.9	+10.7
22 Publishing and printing	6.5	8.3	+1.8
24 Chemicals and chemical products	10.1	16.3	+6.2
25 Rubber and plastic products	8.6	27.0	+18.4
26 Other non-metal mineral products	8.8	31.6	+22.8
27 Basic metals	1.4	17.9	+16.5
28 Fabricated metal products	1.8	5.6	+3.8
29 Machinery and equipment n.e.c.	15.8	23.8	+8.0
31 Electrical machinery and apparatus	14.9	21.7	+6.8
32 Radio, television and equipment	50.9	53.5	+2.6
33 Medical and precision instruments	12.7	16.2	+3.5
34 Motor vehicles and trailers	33.0	56.5	+23.5
D Manufacturing – Total	**12.5**	**20.7**	**+8.2**
40 Electricity, gas, steam and water supply	n.a.	0.9	n.a.
50 Sale and repair of motor vehicles/fuel	17.1	22.2	+5.1
51 Wholesale and commission trade	9.0	16.7	+7.7
52 Retail trade and other repairs	6.1	7.1	+1.0
55 Hotels and restaurants	3.6	3.2	–0.4
63 Supporting and aux. transport activities	3.3	11.7	+8.4
64 Post and telecommunications	0.0	4.1	+4.1
65 Financial intermediation	12.4	34.5	+22.1
66 Insurance, pension funds	n.a.	0.0	n.a.
70 Real estate business	0.7	12.1	+11.4
74 Other business activities	4.0	14.5	+10.5
92 Recreational, cultural and sport activ.	n.a.	9.0	+9.0
TOTAL	**8.2**	**12.1**	**+3.9**

n.a. = not available.

1. Only industries with more than US$ 10 million 2000 end-year FDI stock.

Source: Institute for Macroeconomic Analysis and Development; based on Bank of Slovenia and Agency for Payments data.

trailers (56.5 per cent), radio, television and equipment (53.5 per cent), financial intermediation (34.5 per cent), other non-metal mineral products (31.6 per cent), rubber and plastic products (27.0 per cent), machinery and equipment (23.8 per cent), sale and repair of motor vehicles and fuel (22.2 per cent), and electrical machinery and apparatus (21.7 per cent) (see Table 14).

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The restructuring impact of FDI

The restructuring and development impact of inward FDI in a host country is felt in many different ways, several of which have been documented in Slovenia. The first is the *potential contribution of* FDI *to the restructuring of Slovenian enterprises* by comparing performance and operating characteristics of FIEs and DEs. Major findings of the analysis of FIE *vs*. DE performance and operating characteristics[37] are:

i) Comparison of performance of FIEs and DEs leaves little doubt that FIEs perform much better, not only in general but also with regard to the vast majority of individual manufacturing industries in which FIEs are involved.

ii) FIEs' industrial distribution in the framework of the manufacturing sector is radically different from that of DEs, indicating that considerable macroeconomic restructuring is going on through FDI. However, FIEs do not make a major contribution to the macroeconomic restructuring of manufacturing industries with better performance indicators.

iii) FDI does not foster restructuring of the manufacturing sector in accordance with Slovenian static and dynamic comparative advantages as indicated by RCA (revealed comparative advantages) and DCA (dynamic comparative advantages) analysis), but foreign investors seem to have a different view on what Slovenian comparative advantages are.

iv) Analysis suggests six major areas in which FIEs show distinctively different operating indicators that might explain their superior performance. These areas are company size, level of capital intensity, structure of assets, level of export orientation, structure of financial sources and level of solvency. Compared to DEs, FIEs are much larger in size, more capital intensive, have better structure of assets, are more export oriented, operate with a more "normal" (less equity) structure of financial sources and have better solvency.

T*he export orientation of* FIE*s* is one of the major FDI-related wishes of any host country government. FIEs in the Slovenian manufacturing sector export a significantly larger portion of their output than DEs and buy significantly more inputs abroad than DEs.[38] These differences are predominantly subject to the type of ownership (foreign versus domestic) and far less to the different distribution of FIEs and DEs among different factor intensity sectors. Therefore, foreign ownership as such does matter in a positive sense as far as export propensity in the Slovenian manufacturing sector is concerned.

Majcen (1998) analysed *the role of* FIE*s and* DE*s in the industrial growth and structural changes in Slovenia*. He distinguishes between capital intensive, labour-intensive, human-capital intensive, and R&D and human capital-intensive industrial groups. FDI is distributed mainly between capital (56 per cent) and labour intensive (37 per cent) industrial groups. In the 1992-1996 period, the importance of FIEs in output and

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exports increased, the highest and growing shares being found in the capital-intensive group. Shares in the labour intensive industries are below average but are increasing rapidly. Measured by total output, FIEs are concentrated in capital intensive and in the R&D and human capital-intensive industrial group. In terms of exports, the capital-intensive orientation of FIEs is even more pronounced. On the other hand, DEs could be characterised mainly as producers of labour intensive and human capital-intensive products with high and increasing importance in the exports of R&D and human capital-intensive products. Majcen's conclusion is that FDI has played a positive role in the restructuring process in Slovenia, and that increasing output shares of industrial sectors with high shares of FIEs can be regarded as sustainable.

Case studies of FIEs focus on the *restructuring that takes place in a company after the entrance of a strategic foreign partner.*[39] Even before foreign acquisition, most of the interviewed companies had attained a reasonable technological level making them appealing to foreign investors. Most of them would have found their survival and further development more difficult without strategic foreign investors. Restructuring of the acquired companies usually took place relatively smoothly and in a speedy manner.

In some cases, strategic foreign investors did not bring dramatic overnight changes but rather speeded up the already existing restructuring efforts. In all cases foreign partners brought new technology, know-how, finance, and the means for the company to gain access to western markets. The following most frequent changes after the take-over of a company by a strategic foreign investor can be identified:

i) product quality was upgraded, as a result of changes in production and technological process, and more accent put on product quality in general;

ii) the production programme changed, *i.e.* improved; the range of products was mostly reduced so as to concentrate on core activities;

iii) the organisational structure changed to reflect western business methods;

iv) there was a considerable initial and permanent increase of training for management, but also for workers;

v) new systems of accounting and financial reporting were set up in conformity with international accounting standards. Much more accent was put on information gathering and dissemination because it is crucial to competent decision-making; significant resources were invested in internal information and controlling systems;

vi) in general managers retained their jobs (very high importance is attributed to the stability of management), but in most cases there were worker redundancies. The latter issue was, in principle, resolved by soft methods (enabling workers to take early retirement, helping them establish their own private business, etc.). Workers are usually better paid than in comparable domestic enterprises which, in part, contributes to improved productivity;

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vii) subsidiary-parent company relations depend on the nature of the organisation of a parent company. Generally, strategic decisions are made at the foreign partner's headquarters, but interviewed subsidiaries reported that they are largely autonomous in day-to-day operations;

viii) the role and quality of marketing substantially improved after the take-over;

ix) foreign parent companies were generally instrumental in introducing environmentally improved products and processes.

Efficiency considerations[40]

In analysing the impact of FDI on a host economy, the differentiation between allocative efficiency and industry (or technical) efficiency impact proves to be convenient. Allocative efficiency relates to macroeconomic restructuring and industry (technical) efficiency to microeconomic restructuring. FIEs in an economy may

Table 15. **Comparison of distribution of assets of FIEs and DEs in the manufacturing sector of Slovenia; 1999 balance sheets data**

Per cent

Industry[1]	FIEs[1]		DEs[2]	
	Share	Cumul. share	Share	Cumul. share
21 Paper and paper products	13.4	13.4	2.3	2.3
34 Motor vehicles, trailers	13.2	26.6	2.7	5.0
25 Rubber and plastic	10.4	37.0	7.4	12.4
29 Machinery and equipment n.e.c.	9.8	46.8	8.2	20.6
24 Chemicals	9.5	56.3	12.8	33.4
26 Other non-metallic minerals	8.0	64.3	4.5	37.9
32 Radio, TV sets	7.1	71.4	1.6	39.5
15 Food products and beverages	6.4	77.8	14.2	53.7
Other manufacturing industries[3]	5.0	82.8	1.2	54.9
27 Basic metals	4.4	87.2	5.3	60.2
31 Electrical machinery and apparatus	4.1	91.3	3.9	64.1
17 Textiles	2.4	93.7	5.4	69.5
28 Fabricated metal products	2.0	95.7	9.0	78.5
33 Medical and precision instruments	1.6	97.3	2.1	80.6
22 Publishing and printing	1.5	98.8	4.3	84.9
20 Wood products, exc. Furniture	0.6	99.4	4.0	88.9
19 Leather, footwear and leather products	0.3	99.7	2.0	90.9
36 Furniture, manufacture n.e.c.	0.1	99.8	4.6	95.5
35 Other transport equipment	0.1	99.9	1.2	96.7
18 Wearing apparel, dressing fur	0.0	99.9	2.6	99.3
23 Coke and petroleum	0.0	99.9	0.7	100.0

1. Enterprises with 10 per cent or higher foreign equity share.
2. Enterprises with less than 10 per cent foreign equity share.
3. Sum of industries with less than 3 FIEs (tobacco manufactures, office machinery, recycling).

Source: Institute for Macroeconomic Analysis and Development; based on Bank of Slovenia and Agency for Payments data.

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affect its allocative efficiency through altering the sectoral distribution of industrial investment, and technical or industry efficiency by increasing productivity through the FIEs own activities and through their spill-over effects on DEs.[41]

As far as allocative efficiency is concerned, Table 15 illustrates the considerable differences in the industrial distribution of assets of FIEs and DEs in the Slovenian manufacturing sector. In 1999, paper and paper products, motor vehicles and trailers, other non-metallic minerals, radio and TV sets, and other manufacturing industries absorbed as much as 46.5 per cent of all FIE assets in manufacturing and only 14.0 per cent of corresponding assets of DEs. Manufacturing industries "over-represented" by FIEs are characterised by above-average profitability, above-average value added per employee, above-average export orientation and above-average capital intensity. It can be concluded that FDIs' allocation of investment, which differs from the existing distribution of assets in the Slovenian manufacturing sector, fosters macroeconomic restructuring in the Slovenian

Table 16. **Selected performance and operating indicators of FIEs and DEs in Slovenia; 1999 income statements/balance sheets data**

Indicator	FIEs[1]	DEs[2]	Index (%): FIEs/DEs	Change of index 1999-1994
Performance indicators				
Operating profit per equity(%): Total	9.4	4.9	191	–69
Manufacturing	8.9	6.4	139	–26
Value added[3] per employee (mill. SIT): Total	5.3	3.6	146	–32
Manufacturing	5.1	3.4	153	–11
Operating indicators				
Assets per company (mill. SIT): Total	788.2	227.9	346	+115
Manufacturing	2.004.2	357.7	560	+282
No. of employees per company: Total	28.2	11.7	241	+95
Manufacturing	98.1	30.7	320	+157
Assets per employee (mill. SIT) Total	28.0	19.5	144	–13
Manufacturing	20.4	11.7	175	+4
Machinery as a share of fixed assets (%): Total	27.0	22.5	120	–124
Manufacturing	40.4	31.7	127	–38
Investment outlays per assets (%): Total	13.3	12.5	107	+18
Manufacturing	12.4	11.3	110	–4
Exports as a share of sales (%): Total	42.6	21.4	199	+2
Manufacturing	68.2	47.6	143	+11

1. Enterprises with 10 per cent or higher foreign equity share.
2. Enterprises with less than 10 per cent foreign equity share.
3. Calculated as difference between sales and "costs of merchandise, material and services".
4. Change of index 1998-1995.

Source: Institute of Macroeconomic Analysis and Development; based on Bank of Slovenia and Agency for Payments data.

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manufacturing industry. By tending to locate in manufacturing industries with above-average profitability, value added per employee and export orientation FDI seems to foster the restructuring in an allocative-efficient way.

FIEs also consistently perform much better than DEs (see Table 16). Throughout the entire 1994-99 period, FIEs recorded higher operating profit per equity as well as higher value added per employee. Even though the differences between FIEs and DEs are gradually narrowing as far as both performance indicators are concerned, they still remain rather high. As argued above, better performance of FIEs is partly due to their higher allocative efficiency, arising from their "superior" industrial distribution. However, it seems that the industrial efficiency component, resulting from higher efficiency of enterprises within an industry, is even more important. This can be concluded from the fact that FIEs show higher profitability not only in total but also in the vast majority of the manufacturing sub-sectors in which they are engaged (see Table 17).

Table 16 puts forward five major areas in which FIEs show distinctively different operating indicators and which might, apart from the ownership specific advantages

Table 17. **FIEs/DEs index for operating profit per equity in the manufacturing industries in 1999**

Per cent

15 Food products and beverages	196
17 Textiles	545
18 Wearing apparel, dressing	n.s.[1]
19 Leather, footwear and leather products	1 112
20 Wood products, excluding furniture	1 059
21 Paper and paper products	84
22 Publishing, printing	127
24 Chemicals	144
25 Rubber and plastic	32
26 Other non-metallic minerals	114
27 Basic metals	740
28 Fabricated metals	134
29 Machinery and equipment n.e.c.	182
31 Electrical machinery and apparatus	103
32 Radio, TV sets	66
33 Medical, precision, optical instruments	242
34 Motor vehicles, trailers	116
35 Other transport equipment	12
36 Furniture, manufacture n.e.c.	n.s.[1]
Other manufacturing industries[2]	180

1. Calculation is meaningless, because FIEs as a whole have negative equity.
2. Manufacturing industries with less than 3 FIEs: tobacco manufactures, office machinery, recycling.

Source: Institute for Macroeconomic Analysis and Development; based on Bank of Slovenia and Agency for Payments data.

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element, explain their superior performance. Compared to DEs, FIEs are much larger in size, more capital intensive, have a better structure of assets (more machinery and equipment, and less land and buildings), invest relatively more intensively and are more export oriented. These differences do not really seem to narrow down over time. During the 1994-99 period, FIEs became even larger (measured by assets as well as number of employees per company) compared to DEs, they kept or even increased their advantage over DEs as far as export propensity (exports as a share of sales), capital intensity (assets per employee), as well as investment intensity (investment outlays per assets) are concerned. Since it is precisely investment and export intensity that determine future company performance, it seems that FIEs will continue to retain their superior performance in the future. The only operating indicator in which DEs really seemed to catch up with FIEs was the share of machinery in fixed assets.

The dynamics of growth of FIEs versus DEs

From a host country perspective, one of the major issues related to FDI is what happens to companies after being bought by foreign investors in terms of the volume of their activities and employment. Simoneti, Rojec and Rems (2000) analysed the dynamics of growth of a fixed set of 1 200 companies (which in value terms account for approximately half of the Slovenian non-financial corporate sector) in the 1994-98 period, 90 of them being FIEs and 1 110 DEs. FIEs showed much higher growth in the observed period than DEs. On the whole, the 1 200 companies increased their assets by 3 per cent while FIEs increased theirs by 18 per cent, sales rose by 12 per cent as compared to 43 per cent by FIEs, exports grew by 19 per cent as compared to 57 per cent by FIEs, and value added increased by 6 per cent as compared to 34 per cent by FIEs. During the observed period the 1 200 analysed companies as a whole reduced employment by 5 per cent while FIEs increased it by 14 per cent. Obviously, new investments in FIEs have already exceeded the initial reduction of employment in most FIEs after companies had been taken over by foreign investors. In the observed period, positive growth for the entire set of 1 200 companies was to a great extent attributable to the rapid growth of FIEs; the companies that went through privatisation were, on average, still recording only slow growth or were even stagnating.

A comparison of FIEs and DEs by the dynamics in value added, employment, value added per employee, operating profits and labour costs provides an insight into different patterns of growth in FIEs and DEs. In 1994-98, a fixed set of 1 200 companies showed a 12 per cent increase in value added per employee, while the increase in the case of FIEs was 18 per cent. Although this difference is not very large, the real difference is in the way the increase has been achieved. FIEs generate 18 per cent growth in value added per employee by increasing the value added by 34 per cent, as a consequence of expanding activities reflected in 14 per cent growth in employment, and 18 per cent in fixed assets. On the other hand, 12 per cent increase in value added per employee in the case of all companies

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Table 18. **Growth of selected items and indicators in FIEs and DEs in 1994-98 (1994 = 100) and the ratios between the growths of individual items; 1 200 companies (90 FIEs and 1 110 DEs) which were in the sample throughout the period; 1994-98 income statements/balance sheets data**

	TOTAL All companies	FIEs
Assets	103	118
Number of employees	95	114
Sales	112	143
Exports	119	157
Value added	106	134
Labour costs	102	117
Operating profit	193	251
Value added per employee	112	118
Ratio between growth in value added and in labour costs	104	115
Ratio between growth in operating profit and in labour costs	189	215

Source: Calculated from Simoneti, Rojec and Rems 2000.

was a consequence of only 6 per cent increase of value added produced with 5 per cent less employees and only 3 per cent higher fixed assets.

There are also, of course, considerable differences in growth patterns among the various ownership categories of DEs.[42] Among DEs there are, on the one hand, personal companies, which, like FIEs, are constantly offensively restructuring and expanding their activities, while on the other hand, there are non-public and non-privatised companies which remain more or less in the phase of defensive restructuring trying to adjust their operations by rationalisation and downsizing of capacities and employment. Subsidiary and public companies are somewhere in between, increasing their activities but at the same time cutting employment. The growth dynamics of existing Slovenian companies in the 1994-1998 period was thus significantly due to growth in both FIEs and personal companies, whilst the companies which had gone through privatisation recorded quite low rates of growth or even stagnation, and were to a large extent undergoing the process of defensive post-privatisation restructuring.

Table 18 also gives an insight into the use of value added, i.e. into the distribution of value added between profits and labour costs whose main component is wages. Here, the high priority of increasing productivity and distributing profits in favour of owners (strategic foreign investor) in the case of FIEs is obvious. FIEs have a much higher ratio between the growth in value added and in labour costs (115 per cent as compared to 104 per cent for all the sample companies) than any ownership category of DEs and also have a very high ratio between growth in operating profit and in labour costs (215 per cent as compared to 189 per cent for all the sample companies).[43]

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Chapter 3

The Role of FDI in the Final Stages of Transition

The finalisation of Slovenia's transition process

Slovenia is one of the few countries in the region that has been undergoing a process of double transition, *i.e.* from a socialist into a market economy and from a regional to a national economy. After becoming independent in 1991, Slovenia joined the family of UN organisations in 1992, became a member of the IMF and the IBRD in 1993, joined the GATT in 1994 and thus became a member of the WTO and its main agreements in 1995.[44] In 1996 the Europe Agreement was signed[45] and Slovenia become a member of the Central European Free Trade Agreement (CEFTA).[46] Slovenia also concluded free trade agreements with EFTA,[47] with Croatia, Macedonia, Estonia, Latvia, Lithuania, Israel and Turkey.[48]

In the 1995 *Strategy of Economic Development of Slovenia*, the country's first comprehensive strategic economic document since independence and the beginning of transition, the crucial goals of Slovenia's economic development were defined as: *i*) faster economic growth and catching up with developed European countries, *ii*) higher competitiveness of the Slovenian economy, *iii*) integration into European markets, *iv*) permanent sustainability of economic growth from the ecological, social and ethical stand-point.[49]

Although this document analysed the conditions and factors necessary for economic development, it was only with the *Strategy of the Republic of Slovenia for Accession to the European Union* in 1998 that the proposed policies and reforms necessary for the achievement of the above goals and for becoming a viable member of the EU were really systematically elaborated. The objective of its EU accession strategy has been "to define and outline a set of consistent medium-term economic and social policies required to complete the economic transformation of the country and to prepare its economy for accession to the EU". More precisely, this involves the design of a consistent system of reforms and economic policy measures for accomplishing the transition process. These policies and reforms have consisted of macroeconomic policies (monetary, fiscal, income and trade policies) and structural/institutional reforms and policies related to the transition process.

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If the major objective of macroeconomic policies has been to create a stable environment that accommodates the transition process and accession to the EU, the major objective of structural/institutional reforms and policies has been to accomplish the transition and to make Slovenia's economy a viable and competitive long-term actor on the internal market of the EU and in general. Structural/institutional reforms have been aimed at *i*) creating conditions conducive to the higher level of investment required for sustainable economic growth and increased employment, *ii*) increasing the economy's international competitiveness by improving the efficiency of factor markets, and *iii*) designing policies and measures that make the transition process socially and environmentally sustainable. These were classified into six major areas: reform of the tax system, reform of the pension system, financial sector reform, reform of public utilities, price liberalisation and enterprise sector reform.[50]

Over the past few years, Slovenia has fully or partially completed a number of structural reforms, such as trade liberalisation, privatisation of manufacturing, trade and service sectors (with the exception of the financial sector and public utilities), bank rehabilitation, introduction of VAT, and reform of the pension system. The extent of reforms accomplished is illustrated by Slovenia's high rankings in various international risk assessments: *i*) in March 2001 E*uromoney's* country risk ranking placed Slovenia in 33rd position among 185 countries, (with Hungary being the only Central and Eastern European country in transition with better rating, *i.e.* in 32nd place);[51] *ii*) Moody's foreign currency debt rating for Slovenia is A2, *iii*) Standard and Poor's foreign/local long-term currency ratings are A/AA, *iv*) FITCH IBCA ratings are A- for long-term foreign currency, AA- for tolar debt issues and F1 for short-term foreign currency, *v*) Dun and Bradstreet's country risk indicator is DB2d.[52] Standard and Poor explain Slovenia's favourable ranking by "Slovenia's consensus-oriented economic policies, including further market-based structural reforms, conservative track record of monetary and exchange-rate policy and solid balance-of-payments position".[53]

Slovenia is among the first five transition countries of Central and Eastern Europe that have been invited to negotiate accession to the EU. Slovenia has been found to meet the Copenhagen political criteria of "stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities ". It is also regarded as a "functioning market economy" that should be able to make the progress necessary to cope with the competitive pressures and market forces within the EU in the medium-term. To date, Slovenia has preliminarily closed 21 of the 31 chapters of the *acquis communautaire*, and proved itself as one of the most qualified candidates for EU accession.[54]

Though significant advances in institutional and structural reforms have been made, many remain to be completed. From the point of view of FDI, the most relevant are the restructuring and privatisation of financial sector and public utilities,

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as well as the ongoing transition restructuring of the enterprise sector. This encompasses post-privatisation consolidation of ownership and the establishment of corporate governance in the privatised enterprises, as well as the privatisation of companies involved in government enterprise rehabilitation programmes (enterprises in the portfolio of the Slovenian Development Corporation, Restructuring Programme for the Steel Industry in Slovenia, programmes of the adjustment of the Slovenian textile and clothing industry and the leather and footwear industry to EU internal market rules). All these activities offer new opportunities for foreign investors in Slovenia.

The development of Slovenia's strategy and policies towards FDI

Slovenia's strategic attitude towards FDI was first formulated in the *Strategy of Economic Development of Slovenia* in 1995[55] and then again in the *Strategy of International Economic Relations of Slovenia* in 1996.[56] The position in both strategies is basically the same, *i.e. i*) the necessity for an open, export-oriented development concept; *ii*) the strategic decision to integrate into Europe (especially the EU); *iii*) contemporary trends in international economic co-operation (fast growth of all types of ownership and contractual international co-operation between companies, increasing importance of foreign subsidiaries as foreign markets' access modality, liberalisation of attitudes of host countries to FDI and increasing importance of factor-cost advantages and efficiency-seeking FDI); and, *iv*) the fact that the development of Slovenian national comparative advantages could be based only on factors found mainly within MNEs. These are all reasons why Slovenia assumes an open attitude to FDI. For Slovenia, FDI is not only a source of additional capital. Above all, what Slovenia expects from FDI is the transfer of technology, access to foreign markets, to better management and organisation techniques, integration into the international economy, and the transfer of knowledge and skills. Based on these starting points, both documents suggested that the policy towards FDI be based on the following principles:

- National treatment of foreign and indigenous firms.
- A stable, clear, and transparent legal and economic policy framework for FDI.
- Objectives regarding FDI, especially the desired kind of investors/investments, should be specified. Concentration on promoting Slovenia's specific advantages.
- State intervention in the field of FDI should *i*) be based on active/positive stimulating of desired behaviour, and not on passive/negative discouragement in the form of various restrictions; *ii*) limit itself to creating conditions conducive to protecting Slovenian interests and foreign entities' operations, avoiding any direct interference in their operations.

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- In the framework of its industrial policy, the government should have the possibility of actively attracting FDI projects important for the restructuring and development of Slovenia's economy.
- Slovenia should try to diversify the geographical structure of its foreign investors.
- The possibility of regulating the inflow of foreign capital from the point of view of balance-of-payments adjustments should be retained.
- In the long term, increased flows of FDI into Slovenia, sufficient to integrate Slovenia more intensively in the globalisation processes, are linked to the active, outward-oriented internationalisation of Slovenian companies' activities, *i.e.* with their investment abroad.

The above policy guidelines were, however, never translated into a consistent set of policy measures and were only fragmentarily brought into practice. Nevertheless, they adequately reflect the then official and unofficial attitude towards FDI which was dictated by two broader considerations, *i.e. i*) by the political consensus that employees should get preferential treatment in the privatisation process and *ii*) by a positive current account balance that made any capital inflows exert upward pressures on the currency, and thus create problems for exporters as the most viable segment of the Slovenian economy. Neither the privatisation concept nor the consideration of capital inflows in the context of monetary policy took FDI as an explicit policy factor, but they both had negative impacts on inward FDI.

The Slovenian privatisation concept as defined in the Ownership Transformation Act of 1992 was definitely one of the major reasons for relatively low FDI inflows in the country in the period of mass privatisation that ended in 1997. Privatisation – favouring internal buy-outs with free distribution to residents and considerable discounts to employees – was the result of a broad political consensus, and FDI, *i.e.* foreign privatisations, were not among the principal issues discussed in the preparation of the Ownership Transformation law. This is discussed in detail in Chapter 6.

The second policy issue that influenced the attitude towards FDI was the impact of capital inflows on monetary policy and exchange-rate appreciation. In the context of a small monetary area and flexible exchange rate, the inflow of foreign capital exerts pressures on the appreciation of the Slovenian tolar if the current account of the balance of payments is balanced or positive. Until the end of 1997, the major component of capital inflows was not FDI, but sales of foreign exchange in foreign exchange offices and borrowing abroad, which was coupled with portfolio investment, *i.e.* foreign purchases of shares of a few of the most attractive Slovenian companies in the second half of 1996 and the beginning of 1997. In early 1997, the Bank of Slovenia introduced measures to curb increasing capital inflows. As regards non-resident purchases of domestic securities (portfolio

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investment) the Bank of Slovenia imposed custody accounts. Non-residents were obliged to conduct their portfolio investments in the secondary market-traded securities and derivatives through custody accounts established with the licensed domestic banks. This measure considerably increased the costs of a transaction for foreign portfolio investors. It seems also to have been badly perceived by foreign investors.[57]

In the meantime, the situation in the balance of payments has changed, in that the current account has entered into deficit. Moreover, some of the reasons for the speculative inflows of capital gradually decreased in importance (differences in interest and inflation rates between Slovenia and abroad) and inward foreign portfolio and direct investment decreased in the 1997-2000 period. These factors have allowed the Bank of Slovenia to abolish its previously introduced restrictions on portfolio investment. Non-resident investment in domestic securities traded on capital markets were liberalised on 1st July 2001.[58]

By 1998, the idea that FDI can greatly contribute to restructuring and developing the economy was increasingly gaining ground, while the above monetary and privatisation induced considerations were increasingly seen as "misleading". In 1998, the Slovenian government adopted the *Strategy of the Republic of Slovenia for Accession to the European Union*. The accession strategy represents a considerable development as far as the potential role and attitude to FDI are concerned. The strategy states that "FDI deserves special attention in the reform of the enterprise sector, since it can contribute to all the major aspects of the enterprise sector reform", *i.e. i*) by entering into the activities with the highest comparative advantages, FDI contributes to the restructuring of the Slovenian enterprise sector according to Slovenian national competitive advantages; *ii*) by bringing in an integrated package of development ingredients, FDI contributes to the competitive abilities of the Slovenian enterprise sector, *iii*) by acquisitions and concluding of strategic alliances with newly privatised and non-privatised companies, FDI brings in a strategic investor and helps to establish corporate governance.

As a result, Slovenia decided to encourage and promote inward FDI by stable, transparent and non-discriminative regulations on FDI, based on the national treatment principle. Measures to promote inward FDI in Slovenia include: passing legislation that will promote foreign investment in domestic companies; stabilising business conditions and equalising corporate taxes with the comparable taxes for western companies; encouraging foreign investment and actively seeking investors through the Trade and Investment Promotion Office.[59]

1999 was a key year for developments in FDI policy. In that year, the *Europe Agreement*, which guarantees national treatment for European Union companies, (with some exceptions that are to be abolished within a specified timeframe) entered into force. In the same year, the government adopted a new programme

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for the promotion of foreign direct investment, and reinforced this commitment with a number of important legislative reforms.

The new policy orientation towards the attraction of FDI is reflected in amendments to the *Commercial Companies Act* and the introduction of the *Foreign Exchange Act*. Together with the *Take-Overs Act* of 1997, these three pieces of legislation provide for an essentially open and non-discriminatory legal regime for foreign investment. This is combined with a number of business incentives and a programme for the promotion of foreign investment that envisages addressing the weak points that persist in the FDI regime. Incentives include corporate tax deductions, a low corporate tax rate, customs zones and export incentives. The government's programme for the promotion of FDI focuses on an internationally comparable system of non-refundable incentives and improving the supply of construction sites for industry. The programme also identifies as priorities the simplification of administrative procedures and labour market restructuring.[60]

In July 2001, the government adopted a new strategic document on Slovenia in the European Union, the *Strategy for Economic Development of Slovenia*[61] which sets the major objectives, reforms and policy mechanisms for the development of Slovenia's economy until 2006, and which definitely restates FDI as an important factor in Slovenia's development process. Internationalisation is indeed one of the key words of the document. Internationalisation is perceived as an increasingly important element to boosting corporate sector competitiveness. Slovenia's internationalisation policy will be based on the following guidelines: *i*) lift barriers to internationalisation, *ii*) tailor measures to the actual needs of companies, *iii*) design flexible and transparent guidelines with a long-term perspective, *iv*) make policy adaptable and changeable, and *v*) base policy on a holistic concept of internationalisation.

The new document also sets up a number of strategic guidelines in the field of inward FDI. These are *i*) to stimulate FDI in the post-privatisation period, *ii*) to open the privatisation of state-owned assets to strategic and institutional investors, *iii*) to stimulate foreign investment in the sector of business services, and *iv*) to stimulate private investment in industrial estates where the state will provide appropriate infrastructure. Priorities of policy action are: *i*) to adapt the existing economic incentive schemes so that they are accessible to new foreign investors and comparable to those in competing countries, *ii*) to establish a state-owned company to manage industrial estates and assign state-owned companies with spatial potential the task of providing a competitive supply of land to domestic and foreign investors, *iii*) to assist local communities to attract FDI, *iv*) to set up an institution responsible for attracting FDI with a clear legal mandate, supervisory body, sufficient staff, and budgetary funding.

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The positive reorientation of Slovenia's attitude towards FDI has more recently been reflected in the Programmes of the Government of the Republic of Slovenia for the Promotion of FDI for 2000[62] and for 2001-2004. The latter identifies the following priorities:

- *Lifting of administrative barriers to investment*: Activities related to the lifting of administrative barriers will entail the simplification of the procedures for purchasing land for the purposes of investment, acquiring permits for site development, acquiring work permits for foreigners and hiring and firing procedures for employees, facilitating procedures for setting up companies (registration at court and business activity permit), and reporting on companies' international operations. Problems in these areas will have to be addressed by introducing legislative, organisational and operational measures. The resolution of these problems will call for guided measures to be taken by the government in the fields of politics and administrative procedures; therefore a government commission is to be set up to review administrative barriers which have been identified, examine the impacts of the legislation still in the parliamentary procedure on investment and company operations, and propose appropriate solutions.[63]
- *Improvement of the supply of construction sites for industry*. Changes in the administrative framework regulating the acquisition of land and building permits, along with the introduction of real estate tax should result in greater availability of land in the long term. Before this is achieved, the Programme proposes that the state intervene more actively in order to increase the supply of land in the market by: *i*) setting up an agency for providing services in the area of acquiring land for industry within the Trade and Investment Promotion Office; *ii*) devising a divestment programme for state-owned companies in order to dispose of non-essential assets; *iii*) enabling local communities to become more actively involved in the development of industrial parks; and *iv*) stimulating FDI in the area of industrial estate management. In order to lift the existing barriers in the field of land supply and stimulate the construction of industrial parks, the Government will implement a programme of granting financial incentives to local communities and other investors for the construction of all infrastructure and facilities necessary for industrial land in the period 2001-2004.
- *Creation of an internationally comparable system of non-refundable incentives*: The state will use incentives to help investors introduce technologically advanced businesses in the field of industry and services, and in creating jobs. One criterion that companies applying for an incentive should meet is the creation of at least 100 new jobs over a period of two years, and whose investment totals over 2 million euro. In less developed regions, the threshold is 50 new jobs in the period of one year, but this does not include the expansion

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of an existing production in the same location. The programme also aims to stimulate the establishment or expansion of research and development departments whose investment totals over 5 million euro and creates at least ten jobs in the period of one year. Incentives will be earmarked for the infrastructure and other facilities necessary for industrial land, the construction or purchase of buildings, the purchase of machinery and equipment, and training.

The realisation of this programme, the involvement of foreign investors in the forthcoming privatisation in Slovenia's financial and public utilities sectors, and the speed and scope of the elimination of existing administrative barriers, will all be key determinants of Slovenia's increased attractiveness as an investment location.

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Chapter 4

The Legal and Regulatory Framework for FDI General Measures

On independence Slovenia inherited the former Yugoslavia's *Foreign Investment Act*, which was passed in December 1988. At that time, by introducing national treatment, this Act represented a fundamental liberalisation of the FDI legal framework and its convergence towards international standards. A further important step in the affirmation of the national treatment principle for foreign investors was the adoption of the *Companies Act* in 1993,[64] which abolished a number of stipulations of the *Foreign Investment Act* and made companies with and without foreign equity participation equal as far as their establishment, registration and operation are concerned (to the extent that enterprises are not subject to specific restrictions in other acts or regulations). No specific approvals are required for foreign investors and for companies with foreign equity participation. In 1997, Slovenia adopted another piece of legislation of major importance for foreign investors, the *Take-Overs Act*.[65] The most decisive and far reaching steps towards the liberalisation of inward FDI and the affirmation of the national treatment principle in Slovenia were taken in 1999 with the enactment of the *Foreign Exchange Act* (FEA) on March 23, 1999[66] and the abolition of additional restrictions.

The FEA replaced the *Foreign Investment Act*, which prohibited wholly-owned foreign companies from operating in a number of sectors, as the central piece of legislation in dealing specifically with FDI. It introduced a revised definition of foreign direct investment, defined fundamental guarantees and set the conditions for the removal of the remaining FDI restrictions.

The adoption of the *Foreign Exchange Act* was also conceived as the cornerstone of the fulfilment of the *Association Agreement* with the EU that entered into force on February 1, 1999. Under this agreement, Slovenia undertook the general commitment of guaranteeing companies from the EU treatment no less favourable than that enjoyed by Slovenian companies (national treatment). This was to apply to the establishment of new companies, subsidiary companies, and branches. Moreover, in the period of transition (ending in 2005) Slovenia committed itself to not adopting any new regulations or measures that would discriminate against companies

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from the EU. Allowed exceptions could be maintained only on the condition that they are also abolished within a certain timeframe (for more details see Chapter 5). The FEA liberalised portfolio transactions and set up a liberalisation timetable for the lifting of other capital movement restrictions. It also removed restrictions on borrowing from abroad. This measure will help resident investors in meeting their financing requirements in Slovenia.

In addition, since the beginning of 1999, a number of sectoral restrictions on establishment have been abolished and a timetable has already been set for the abolition of those remaining. Other pieces of legislation relevant to the operations of foreign investment enterprises are in the process of aligning with the *acquis communautaire* and, as such, are also becoming increasingly FDI-friendly.

It may also be noted that the FEA contains a liberalisation schedule on securities operations abroad by resident investors. While prior consent by the Ministry of Finance is at present required for the introduction of equity securities abroad by residents who are not banks, the FEA foresees its removal by February 2003 at the latest.

Regulation of capital movements other than FDI

The Slovenian regime in the area of capital movements is determined by the FEA, along with a number of pieces (more than 30) of regulation issued on the basis of the *Foreign Exchange Act*, mostly by the Bank of Slovenia and in some cases by the Ministry of Finance.

The FEA introduced the basic principle that all operations between residents and non-residents are free unless otherwise stipulated by the Act. The classification and definitions of capital movements operations are based on international standards, particularly taking into account *The* OECD *Code of Liberalisation of Capital Movements*[67] and the fourth EU Directive from 1988 on the liberalisation of capital movements. A residence-based approach has been adopted, and as a result the foreign exchange regime applies to transactions between residents and non-residents.

The Act also substantially liberalised the foreign exchange regime. As current account transactions have been fully liberalised since 1995 when Slovenia also formally adhered to Article VIII of the IMF Articles of Agreement, this liberalisation has applied to several capital account transactions. It has been especially important in respect of outflows of capital, which had previously been extensively restricted. So far, all credit operations, direct investment, and personal capital movements have been fully liberalised in both directions. Certain restrictions still exist regarding short-term capital operations, purchase of real estate by residents, deposit accounts abroad, and physical movements of capital assets.

As Slovenia is in the process of accession to the EU, the regime established by the *Foreign Exchange Act* is considered as transitional even by the Act itself,

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Remaining capital movement restrictions and the timetable for their abolition, as of 31 October 2001

Category of capital transaction	Regime for capital movements in Slovenia	Timetable for the abolition of capital movement restrictions
Portfolio investments by non-residents in securities in the Republic of Slovenia	Non-residents are obliged to open with the authorized bank, which is at the same time the authorized participant on the securities market, the custody account for all purchases of short-term securities as well as for all purchases of investment coupons of those mutual funds in the Republic of Slovenia having the management rule, that allows the investments of more than 60% of all mutual funds' assets in the money market instruments.	
	Commercial banks are obliged to pay a premium for the purchase of a right to buy foreign exchange to cover the security position on the custody account. The premium is set quarterly by the Governor of the Bank of Slovenia.	The Bank of Slovenia will abolish obligatory payment of the premium for the purchase of right to buy foreign exchange to cover the security position at once by the end of 2002 at the latest
Issue of foreign debt securities in the Republic of Slovenia	The issue of foreign debt securities in the Republic of Slovenia is subject to permission by the Ministry of Finance. The permission is granted under the following conditions: – issuers of debt securities shall have a rating prepared by at least one of the following internationally renowned risk rating agencies: Moody's Investors Services, Standard and Poor's or Fitch; – maturity of debt securities must be at least three years, and – debt securities must be denominated in Slovene tolars.	The obligation to obtain a prior approval from the Minister of Finance will be abolished for issuers from EU Member States by 1 February 2003 at the latest.
Introduction of equity securities abroad	Residents that are not banks or savings banks must obtain permission to introduce equity securities abroad from the Security Market Agency following a prior consent by the Minister of Finance.	The requirement for the obtaining of prior consent by the Ministry of Finance will be removed by 1 February 2003 at the latest.
	The Minister of Finance shall not grant his consent when a large extent of equity securities introduced abroad might jeopardise the stability of the Republic of Slovenia's capital or money markets or when the issuer intends to introduce abroad securities issued for activities that are subject to restrictions set out in the Foreign Exchange Act.	

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Remaining capital movement restrictions and the timetable for their abolition, as of 31 October 2001 (*cont.*)

Category of capital transaction	Regime for capital movements in Slovenia	Timetable for the abolition of capital movement restrictions
	The Security Market Agency grants its permission on the basis of the prior consent granted by the Minister of Finance and subject to the presentation of other appropriate documentation which is based on prudential reasons and is connected to the disclosure of information. The request for permission will be turned down by the Security Market Agency if it determines that the issuer in the Republic of Slovenia failed to provide investors with a translation of the bidding document required for the introduction of securities into a foreign market although this document has already been made available to investors on the foreign market.	
Portfolio investments by residents in the securities abroad	No restrictions.	
Physical transfers of financial assets by residents	There is a maximum of SIT 500.000 in cash per person that residents may take out or bring into Slovenia. The prior approval of the Bank of Slovenia is requested in case of transferring a larger amount into or out of the country. These limitations are not applicable banks.	The Bank of Slovenia will completely remove restrictions on physical transfers of financial assets by residents by the end of 2001 at the latest.
Current and deposit accounts of residents with financial institutions abroad	The following residents are allowed to maintain accounts abroad: – banks and other legal persons, – residents (that are not legal persons) performing services in international transportation of goods and passengers, – natural persons with a permanent residence abroad who are temporarily residing in the Republic of Slovenia based on a valid resident visa or work permit for at least six months, – natural persons with a permanent residence in the Republic of Slovenia with a valid resident visa, business visa or working permit (for the time of visa validity). Other residents may maintain accounts abroad only with the approval of the Bank of Slovenia	The Bank of Slovenia will remove restrictions on opening of current and deposit accounts of residents with financial institutions abroad for other sectors (households) by the accession to the EU at the latest.
Current and deposit accounts of non-residents with financial institutions in the Republic of Slovenia	There is no limitation for tolar cash withdrawal amounts for non-residents.	

Source: Bank of Slovenia, 2001.

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which in the framework of provisional articles sets deadlines for the removal of existing restrictions. Restrictions regarding operations in securities will, according to the Foreign Exchange Act, cease to apply in four years' time.[68] Since the beginning of 1999 a number of these restrictions have already been abolished, while Slovenia has liberalised faster than stipulated by the European Agreement. Remaining restrictions and the timetable for their abolition are summarised in the preceding table.

The regulatory framework for FDI

The Foreign Exchange Act introduced general freedom for inward and outward FDI. All residents, irrespective of whether they are Slovenian nationals or nationals of a foreign country, are in the same position *vis-à-vis* performing foreign exchange operations.

For the purposes of this Act, "resident" means (Article 2):

a) Companies and other legal entities with a registered office in the Republic of Slovenia, except their branches abroad.

b) Branches of foreign companies entered in the Companies Register of the Republic of Slovenia.

c) Sole proprietors or natural persons, independently performing business activities as their prime occupation, with a registered office in the Republic of Slovenia or having permanent residence in the Republic of Slovenia (hereinafter: the private persons).

d) Natural persons with permanent residence in the Republic of Slovenia.

e) Natural persons temporarily residing in the Republic of Slovenia holding a residential or working visa valid for no less than six months.

f) Diplomatic, consular and other representative offices of the Republic of Slovenia abroad financed from the Budget as well as Slovene citizens employed at these representative offices and their family members.

Consistent with the definition of the OECD Code of Liberalisation of Capital Movements, the FEA defines FDI as "all investments made by a foreign investor with a purpose of establishing lasting economic links and acquiring possibility of effective influence on management of a company or other legal entity". Consistent with the OECD benchmark definition, a 10 per cent foreign equity share formally distinguishes direct from portfolio investment.[69]

There are no restrictions regarding the legal status of foreign investors. Both foreign legal persons and foreign natural persons are permitted to invest in Slovenia. In addition, branches are considered as residents and in respect of investments are in the same position as other residents established and operating in accordance with Slovenian regulations.

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Article 22 abolished, without prejudice to other laws dealing with establishment, all restrictions regarding FDI, except investments in companies or other undertakings whose activity is production and trading in armaments.[70]

Remaining restrictions, which essentially concern the right of establishment in specific sectors, will be abolished according to the timetable set out in the Europe Agreement and in the Slovenian negotiation position *vis-à-vis* the EU (see Table 23 for details). The government intends to apply this liberalisation on an *erga omnes* basis.

Slovenia does not apply reciprocity measures in the liberalisation of capital movements (other than FDI). The Slovenian concept of liberalisation of capital movements is the concept of unilateral liberalisation. The only exceptions concern auditing services, maritime cabotage, ship piloting and towing services, and operations by non-residents in real estate in Slovenia where reciprocity conditions apply. As for the latter, the constitution provides that non-residents are allowed to acquire real estate in Slovenia on the basis of international agreement and on the basis of reciprocity. This requirement is to be abolished for EU nationals as of the date of accession to the EU. The procedure for amending the Constitution of the Republic of Slovenia accordingly is currently under way.

Registration and business activity permits

No specific registration is necessary. According to the Foreign Exchange Act, FDIs are all investments made with the purpose of establishing permanent economic relations and of gaining the possibility of effective control of a management over a particular company or other legal entity: *i*) establishment or capital increase of a wholly foreign-owned company, *ii*) establishment of a branch, *iii*) acquisitions of existing companies that represent exclusive foreign ownership, *iv*) investments intended for performing activities of sole entrepreneurs (natural persons), *v*) more than 10 per cent capital participation or more than 10 per cent voting rights in new or existing companies effected with the purpose of establishing permanent economic relations and effective control of management, or *vi*) loans with 5 or more years repayment periods with the purpose of establishing permanent economic relations if the credits are considered as subordinate claims and if such a loan was given to related companies.[71]

The registration of FDI or the establishment of wholly or partially foreign-owned companies is subject to the same conditions that apply to domestic legal entities. In order to acquire legal status, all kinds of investments – establishment of a company, joint venture, shares and acquisition must be registered at the local Court of Justice. Registration proceedings are initiated by the filing of an application in the prescribed form with the competent district court where the entity subject to registration is located. Proceedings for registration are supposed to be "relatively quick and conducted by the competent court officials".[72] In order to

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begin operations, all businesses in Slovenia must obtain a permit to do business (operating licenses). The permit is issued by the local bureau of inspection, which inspects the premises where the company is to operate and determines their suitability for the registered activity. The process of issuing a permit takes a few days to a few weeks. The issued permit specifies the business activities the company is allowed to carry out.

Acquisitions

National treatment is respected. The major piece of legislation in the case of foreign acquisitions is the Take-Overs Act. This Act requires a potential acquirer in any acquisition of shares with voting rights of 25 per cent or more to publicly announce its acquisition intention and to offer to buy the shares of all the existing shareholders at the same price. The Act regulates foreign acquisitions according to the national treatment principle. In the transitional period of five years envisaged by the Act, the government has a special right to intervene in the take-overs of large privatised companies. Article 83 of the Take-Overs Act states "when the value of the share capital of a company/issuer of shares which had undergone the process of ownership transformation exceeds SIT 800 million at the time of taking down the legal effects of ownership transformation in the court register, a special permission issued by the government of the Republic of Slovenia on the proposal of the Ministry of Economic Relations and Development is required to acquire more than 25 per cent of the shares of individual issuer, issued pursuant to the Ownership Transformation Act". This right of the government expires within 5 years from the day of entry into the court register of the legal consequences of the ownership transformation of a company that is a target of a take-over. Since the process of ownership transformation has been completed, this right of the state has also been progressively expiring, and will no longer apply after 2003.

The Companies Act

The framework for doing business is essentially determined by the Companies Act which does not contain any specific stipulations as far as foreign investors are concerned, meaning that no distinctions are made on the basis of foreign ownership. The Companies Act provides for three types of companies, *i.e.* joint stock company, limited liability company and limited partnership by shares, and for three types of partnerships, *i.e.* limited partnership, general partnership and silent partnership. The Act also provides for the establishment of interest groupings and foreign company branches.

No ratio of domestic to foreign investment is prescribed and all combinations are possible. The Companies Act specifies only the minimum founding capital for a company in absolute figures, which is applicable to all companies. It also specifies

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the proportion of the founding capital that should be paid in at registration. The capital contributions may be in cash, rights, or in kind. At least one third of the founding capital must be contributed in cash. The importation of goods as a foreign contribution to equity capital is unrestricted. Cash contributions may be in foreign currency or in tolars. A foreigner may also invest tolars deriving from his share of the profits and of the assets of a company that has been liquidated. There are no special conditions, other than those applicable to domestic investors, on the investment of rights by foreign investors.[73] With its latest amendment,[74] the Companies Act is fully harmonised with the *acquis communautaire* in the respective field.

There are no restrictions imposed either on the management, proxies or composition of company boards. Managers and board members in FIEs can be foreign nationals. There are also no requirements relating to the choice of language employed by management in a company.

Branches

Foreign investors may establish a branch in Slovenia if they have been registered in their own country of origin for at least two years. Branch offices cannot be independent legal entities. The branch performs its business activities in the name and on behalf of the parent company. The name and address of the parent company must be used in business transactions. Appointment of a proxy with a permanent residence in Slovenia is compulsory. The parent company is liable for all obligations of the branch. The branch must be registered with the court register in Slovenia. Branches of non-resident companies enjoy national treatment, except with respect to acquisition of real estate. Branches of non-resident companies may only acquire real estate in Slovenia under conditions defined in a special Act or by international treaty. The Association Agreement with the EU allows European residents, including branches, to acquire real estate in Slovenia from January 2003, subject to reciprocity conditions.

Guarantees to foreign investors

Under the Foreign Exchange Act, transfer of profits and repatriation of capital is free – provided non-residents have met all their tax liabilities in Slovenia. The Act also guarantees compensation for nationalisation or losses caused by other measures of the state.[75] These guarantees are secured by the provisions of twenty-two bilateral investment treaties, twenty-five bilateral taxation treaties and adherence to important international conventions (see Chapter 7).

Safeguard measures

Slovenian legislation permits derogation of existing liberalisation measures when capital movements cause or threaten to cause serious problems in the functioning of

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the monetary and foreign exchange policy. In such a situation, the Bank of Slovenia may take safeguard measures. However, the safeguard measures must not be taken for a period exceeding six months. The Bank of Slovenia or the Government of the Republic of Slovenia may also take safeguard measures, if needed, in implementing sanctions of the United Nations Organisation and other international organisations of which the Republic of Slovenia is a member.[76]

Prudential regulation

Slovenia applies prudential regulation mostly in the field of financial services. Prudential regulation stipulated by corresponding legislation in the field of financial services in Slovenia is in line with international standards and harmonised with EU directives in this field, and is therefore non-discriminatory against non-residents in Slovenia. It is applied on the same basis to residents and non-residents.

Employment and labour relations

Employment of foreigners

As a general rule, foreigners require entry visas, residence permits, and a work permit if they wish to be employed in Slovenia. Entry visas allow the holder to stay in the country for a maximum of 90 days in a six-month period. The citizens of over forty countries, including all EU members, are nevertheless exempted from the requirement of an entry visa. Residence permits are initially issued for a period of one year, for foreigners wishing to stay in the country for professional activities, study, family reunions and seasonal work. Residence permits take between one and two months to be processed, and may be extended.

Obtaining a work permit is more complicated. Despite the introduction of the "fast-track" procedure for work permits for directors, the procedures for both residence and work permits can be long and inflexible, with onerous documentation requirements.[77] The new *Employment and Work of Foreigners Act*,[78] which entered into force on 1st January 2001, introduced a number of improvements to the system of work and residence permits for foreign nationals. The new system functions as follows.

Firstly, an *employment permit* is issued to foreign workers who have an employment offer. The future employer applies for the permit on behalf of the worker, and the permit is valid for the particular job and for the defined time period. Granting of the permit is subject to annual work-permit quotas and an assessment by the National Employment Office that no equally qualified Slovene citizen is available to fill the position. Employment permits are normally issued for a period of one year. Annual quotas may not exceed 5 per cent of the active population of Slovenia. There are exceptions for certain nationals based on reciprocity (notably as a result of an international agreement).

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The *work permit system* applies to the employment of foreign executives, for training and seasonal work, when applied for by an entity that has been authorised to employ the relevant foreigners. Under the new law, however, labour market conditions are not taken into account for the granting of the work permits to executives. Finally, there is a special category of *personal work permit* that applies to foreigners or refugees because of their particular status; *e.g.* permanent residents, Slovenian emigrants, family members of certain holders of work permits.

A new law on qualifications of foreigners is to be adopted before the end of 2001 to facilitate the employment of skilled labour in high demand. This law will establish a standardised procedure for the recognition of foreign qualifications, and create an office to administer the procedure.

The work permit is the basis for obtaining a residence permit, which is a special permit issued by Slovenian diplomatic and consular representative offices or administrative units in Slovenia.[79]

Employment of Slovenian nationals

Slovenia's workforce is generally well educated and highly skilled, making it comparatively productive for a transition economy. However, the legal framework governing industrial relations remains in some aspects overly bureaucratic, with significant restrictions on employers.[80] For this reason many foreign enterprises avoid hiring regular employees and prefer temporary contracts, which enables them to reduce the red tape and administrative costs. Slovenia's preparations for accession to the EU will necessarily involve substantial reform in this area, in order for it to be able to satisfy the labour mobility requirements of the common market.

For almost forty years, Slovenian enterprises functioned according to the social self-management model, put in place by Marshal Tito to legitimate ideologically Yugoslavia's break from the Soviet Union. Workers exercised their collective work rights of self-management through worker's councils, the organ responsible for the choice of director and the policies of the company. These workers' associations were effectively independent from the central government and were free to undertake business activities with local, national and foreign partners.[81]

Today, the *Participation of Workers in Management Act* (1993)[82] regulates the involvement of employees in managerial decisions. This law provides for the establishment of worker's councils, assemblies, and representation in company management bodies, and sets minimum levels of employee representations. Companies may set their own by-laws, as long as they respect the statutory minimum obligations, *e.g.* the number of worker's representatives on a company's supervisory board must not be less than one third of the total number of board members in companies that

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have less than 1000 employees. Employers cannot adopt decisions that have been rejected by the worker's council; disputes are settled by arbitration.[83]

Hiring procedures tend to be bureaucratic and complicated. Procedures for dismissal are even more so, with the balance of power tipped well in favour of the employee (*e.g.* employees are not liable for court fees in the case of an appeal of a dismissal decision, even if the appeal is rejected). In addition, some categories of employee cannot be dismissed, including members of the worker's council and married couples employed by the same employer.[84]

Collective agreements between trade unions and employers cover wage-fixing at the sectoral level, while nationally the "Social Agreement" concluded between the government, trade unions and employers regulates most aspects of wage policy, including the determination of minimum wages. A collective wage agreement was concluded in April 2001 for private sector wages, applying to the second half of 2001. The agreement aligns private sector wage bargaining with that of the public sector, by indexing wage rises to a fixed percentage of the government's projection of inflation. It has been noted, however, that this entails the risk that the supplements added to public sector wages may lead to pressure on wage expectations in the private sector, eventually fuelling a wage-price spiral.[85] Already Slovenian wages are significantly higher than those of its neighbouring countries.

For these reasons Slovene labour regulation can represent a significant disincentive to investment. In its recent report on administrative barriers to investment in Slovenia,[86] the FIAS recommended that the imbalance between the roles of employers and employees be addressed. The report also suggested reforming the legal regime to allow more flexibility in employers' decisions and decentralisation of the employment authority.

A new Labour Relations law to be introduced in the Parliament early next year largely follows these recommendations. The law is the result of several years consultation with trade unions and business representatives. Covering all aspects of labour relations, the law aims to make the legal framework more flexible. In particular, the law attempts to simplify employment procedures for enterprises, while maintaining a strong role for labour inspection.

As to the general employment situation, in May 2001 employment reached its highest level (779 800) since January 1992; it subsequently dropped slightly due to a slowdown in growth. New jobs have been created predominantly in the services and manufacturing sectors. Official estimates of unemployment vary significantly from those produced by the International Labour Organisation (ILO); the latter generally publishes lower estimates, *e.g.* 6.7 per cent for the first quarter of 2001, compared with official estimates of over 10 per cent. While according to all estimates unemployment has been decreasing over the last few years, this decline seems to be slowing.[87]

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Real estate

Slovenia's restitution process remains to be completed, and its property registration system requires modernisation and simplification. Slovenia also faces a scarcity of land particularly in the capital Ljubljana, a preferred location for investors. Solutions to this problem will require close collaboration with local authorities. Foreign legal entities established in Slovenia benefit from a national treatment regime with regard to the acquisition and ownership of real estate.

General conditions for acquisition and registration

Most land in Slovenia is privately-owned and can freely be sold and purchased. Slovenia's legal regime for property ownership still lacks transparency due to inconsistencies in registration of titles, particularly of publicly owned enterprises, and the legal complications arising from restitution of property. After nationalisation, land records were often lost or not properly maintained, and much rural land distributed to small farmers was never registered.

Under the *Denationalisation Act*,[88] citizens were invited to submit claims to land expropriated by the Yugoslav government after World War II. Approximately 35,000 claims were submitted by the cut-off date in 1993. As of the end of April 2001, decisions by administrative authorities were passed on 59 per cent of the restitution claims, an increase of almost 10 per cent on the previous year.[89] New legislation has been introduced to take into account the rights of original owners and those who had contributed to the value of the land since its expropriation.[90]

The government is also reviewing the land property registration process. With the assistance of the World Bank and the European Union, the government envisages a modernisation of its property registration system on completion of the restitution process. By 2002, the digital *cadastre* maps for the whole country are to be established, while the interface between the data on land registry and land *cadastre* is to be created in the next 3-4 years. The system is expected to record encumbrances such as rights of way and way-leaves, and to serve as a mortgages register. Once it has been implemented, it will offer up-to-date information on all legal and equitable land rights, will substantially improve Slovenia's land management system and indeed make Slovenia more progressive than many European countries that also inherited separate land registry and deed registry systems. In the meantime however, the system remains opaque, and transactions involving real estate are both slow and expensive.[91]

Site use and development

A number of permits are required for construction and operations on vacant land in Slovenia. Location, building and operation permits all involve several

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participants and a multitude of approvals, making each procedure both lengthy and complicated.[92] Consequently, investors who wish to expand an existing enterprise or establish a new one are faced with uncertainties and delays, significant obstacles that may well discourage them from continuing their investment plans.

Given that scarcity of land has been identified as a significant barrier to FDI, the Government has set aside resources for the development of industrial parks. Not only do such facilities provide investors with infrastructure and the use of a site, they also favour the relocation of industries towards economically depressed areas.

Acquisitions by foreigners

Legal entities established in Slovenia, regardless of whether they are foreign-invested or not, may acquire real estate without any restriction. Non-resident companies and branches of foreign enterprises are allowed to acquire real estate in Slovenia only under conditions defined in a separate Act or a ratified and published international treaty. Article 68 of the Constitution stipulates that foreigners may only acquire ownership right in real estate under the conditions as determined by statute, or if so determined by an international agreement ratified by the National Assembly, and subject to a condition of reciprocity. Under the Association Agreement concluded between Slovenia and the EU, residents who have lived in Slovenia for a continuous period of at least three years are free to acquire real estate on the basis of reciprocity. From 1st of February 2003, all residents of the EU will be free to acquire real estate in Slovenia on this basis. In the framework of negotiations on EU membership, the Government committed itself to abolishing the reciprocity condition for the purchase of real estate by EU nationals as of the date of accession to the EU. The corresponding procedure for Constitutional amendment is currently under way.

In its accession negotiation with the EU, Slovenia has reserved the right to apply restrictions on capital movements *vis-à-vis third countries* in the area of investment in real estate (pursuant to Article 73c of the Treaty on European Union). The law provides that the purchase of real estate in Slovenia *vis-à-vis* residents from third countries will be liberalised gradually on the basis of reciprocity, by the conclusion of bilateral agreements with individual countries or by the adoption of an Act that regulates acquisition of real estate by non-residents.

Intellectual property rights

Slovenia has enacted a comprehensive legal framework for the protection of intellectual property that reflects both the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) and recent EU directives. The *Copyright and Related Rights Act* 1995[93] underwent several amendments in 2001 and covers all areas of modern copyright law. It also provides for developments associated with

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new technologies. A second law, the *Industrial Property Act*[94] will enter into force in December 2001. Based on international models and in particular with EU standards, this law replaces the former regime on industrial property, and provides for the granting and protection of patents, designs, trademarks and appellations of origin. A third law, the *Law on Industrial Property rights Resulting from a Labour Relationship*[95] provides for a specific dispute resolution mechanism for disputes over intellectual property rights arising out of a labour relationship. Following the German model, the law requires the parties to submit their dispute to arbitration. If the unsuccessful party wishes to appeal, he or she may do so to the administrative court. Intellectual property disputes under the other laws are dealt with by the civil courts.

In the period leading up to accession, persons or companies wishing to register a patent in Slovenia may benefit from the Extension Agreement that provides for recognition of a European patent by the Slovenian Intellectual Property Office (SIPO). Pursuant to this Agreement, holders of a European patent have a "fast-track" procedure for registration in Slovenia. This is very advantageous for long-term patent holders, because they may obtain registration both at European and Slovenian levels, while undertaking only one substantial procedure. For those interested only in short-term patents, the Slovenian law provides for non-renewable patents of ten year's duration. Patent application statistics indicate the utility of this programme: in 2000 the SIPO received 21 per cent more applications than the previous year: a total of 4 956 patent applications, of which 4 525 were filed pursuant to the European extension agreement.[96]

Given that the legislative reform process is almost complete, Slovenia's accession preparations in this area are now focused on implementation. As with other areas that have undergone regulatory reform, enforcement of the new regime in the national court system is a challenge. The courts are generally under-resourced and, as is to be expected, inexperienced with implementation of the new legislative framework. Court delays, which may result in a civil procedure taking up to five years in the first instance, as implementation problems – in particular with regard to action against computer software piracy – have been noted as a problem for some foreign investors.[97] The Slovenian authorities have dedicated resources to solving this problem, with an emphasis on staff education and training.[98]

Slovenia is a party to the principal Conventions and International Agreements that concern intellectual property protection.

Anti-corruption measures

Slovenia, according to the national statistics and estimations abroad (*e.g.* The Report by a Council of Europe – a group of countries combating corruption GRECO – from December 2000) is not one of the countries overburdened by corruption phenomena. The present legal system is as follows.

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The Slovenian penal code envisages seven distinct criminal offences related to corruption: illicit offering and acceptance of gifts, acceptance and offering of bribes, trading in influence, acceptance of a bribe at an election or ballot, and obstruction of freedom of choice. The legislation covers both active and passive forms of corruption and applies equally to officials and authorities of domestic and foreign origin.

The *Act of Incompatibility of Holding Public Office with a Profit-making Activity* (1992) regulates profit-making activity, receiving of gifts and other advantages by all officials performing representative or executive functions in state bodes and local community authorities. Two further Acts supplement the law, dealing with disclosure of the financial situation of new appointees to the Court of Auditors and the responsibility of the State Attorney's office respectively.[99]

In March 2001, the government established an inter-ministerial Co-ordinating Commission for Combating Corruption whose task is, in particular, to reinforce inter-ministerial co-operation and co-ordinate institutions which take part in preventing and detecting the corruption phenomena, and to prepare systemic solutions. At the same time, the government decided to establish within the Prime Minister's Office the national Office for the Prevention of Corruption whose main tasks are – in collaboration with the corresponding institutions – implementation of recommendations of the GRECO Report, development of the national anti-corruption strategy, drafting of the new legislation on the prevention of corruption in Slovenia and direction of the work of the co-ordination group for preventing corruption.

Slovenia fosters close co-operation with the corresponding institutions of the Council of Europe and EU relating to the prevention of and combating corruption.[100] In February 2000, Slovenia ratified the Council of Europe's Criminal Law Convention on Corruption.[101] The process regarding ratification of the Council of Europe's Civil Law Convention on Corruption is under way, while its provisions have already been taken account of in the proposal of the Code of Obligations, which is in the parliamentary procedure. In January 2001, in addition to several deontological codes relating to different professions existing in Slovenia, the government, following the recommendation of the Council of Europe, adopted the Code of Conduct for Civil Servants.

In June 2001, Slovenia was invited to become a member of the OECD's Working Group on Bribery in International Business Transactions. By accepting the invitation, Slovenia committed itself to: *i*) accede to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions as soon as possible; (in fact, in January 2001, Slovenia already adopted the act on acceding to the Convention[102]), *ii*) to act according to OECD recommendations in the field of bribery, *iii*) to actively participate in all the activities of the Working Group, and *iv*) to fulfil respective financial obligations (membership fee).

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Prevention of money laundering

The basic legislation in the area of money laundering is represented by the Prevention of Money Laundering Act and implementing regulations. Money laundering is defined as a criminal offence in Article 252 of the Criminal Code of the Republic of Slovenia. Slovenian legislation in the area of prevention of money laundering is fully in accordance with EU legislation, and also with the recommendations of the OECD Financial Action Task Force, the Convention of the Council of Europe on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime, which Slovenia ratified on April 23, 1998, and the United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, to which Slovenia acceded.

The main authority responsible for identifying and preventing money laundering in Slovenia is the Office for Prevention of Money Laundering, which has at its disposal all the relevant information, including statistical data on money laundering, and is at the same time the authority responsible for the exchange of information according to the Council of Europe's Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Drugs.[103] Although Slovenia's legislation in the field of money laundering is fully harmonised with the *acquis communautaire*, a new law on the prevention of money laundering is being discussed in the national assembly, which will give greater powers to the Office for Money Laundering Prevention.[104]

IMF standards

Slovenia subscribes to the Special Data Dissemination Standards (SDDS) of the IMF. Since 2000 Slovenia has met, on the basis of metadata provided by the authorities and reviewed by the IMF staff, all the SDDS specifications for the coverage, periodicity, and timeliness of the data and for the dissemination of advance release calendars. In spring 2000, Slovenia was among the first countries to start disseminating the data on international liquidity in line with the standard. Since 2000 the Reports on the Article IV Consultations with Slovenia are available to the public on the IMF website.

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Chapter 5

The Legal and Regulatory Framework for FDI: Sectoral Measures

A number of provisions affect the general freedom of investment by private enterprises in Slovenia. As already stated elsewhere, the *Foreign Exchange Act* precludes the involvement of foreign investors in the production of and trading in armaments for reasons of national security. It also reserves the provision of obligatory pension and public health insurance to the government. Apart from these, some sectoral approval requirements and restrictions remain, concerning acquisition in investment fund management companies, the granting of concessions for the exploitation of natural resources, air and maritime transport, investigation and security services, audit and gambling. These restrictions mainly relate to establishment, and according to Slovenia's EU accession timetable will be phased out progressively, at the latest upon accession. The government intends to apply this liberalisation on an *erga omnes* basis. Public monopolies remain in segments of postal, telecommunications and transport services (see Chapter 6). Exceptions to national treatment both upon and after establishment apply in only two cases: to the organisation of gambling, and air transport.

Financial sector

The dominant financial intermediaries in Slovenia are banks, with assets representing around 70 per cent of GDP, while the assets of all types of insurance companies amount to around 8 per cent of GDP and of investment funds and brokerage houses to around 13 per cent GDP. During the period of economic transition, the banking sector went through extensive government-led rehabilitation, whereas during this difficult period the government did not provide support to the insurance sector. Capital market institutions are new; they were mostly created in support of the mass privatisation process and are not yet important financial intermediaries. Mass privatisation has turned the entire population into shareholders, and created many shareholding companies with practically no liquidity on the market. Market capitalisation of the Ljubljana Stock Exchange is close to 25 per cent of GDP, but trading is concentrated only on a few large companies and there is practically no primary market for corporate securities. Pension reform,

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with more emphasis on funded schemes, has recently been initiated, but it is expected that positive effects on long-term savings and development will take a few more years.

Banking

At the time of Slovenia's independence, the banking system experienced a sharp increase in non-performing loans leading to severe liquidity problems, and banks were also involved in related party lending (they were owned by companies) on non-market terms. To avert a loss in confidence, the government decided to take the major banks – Ljubljanska Banka (LB) and Kreditna Banka Maribor (KBM) – into state ownership and launched a rehabilitation programme to restructure them. The rehabilitation of both banks, during which two new institutions, NLB and NKBM, were established,[105] was completed in 1997 and they remain state-owned, within the Ministry of Finance (see Chapter 6 for a discussion of privatisation in the banking sector).

Banking sector structure

Slovenia has a developed banking sector with total bank assets amounting to approximately 70 per cent of GDP at the end of December 2000. The ratio of loans to GDP is relatively less impressive and there is still considerable scope for growth in order to reach the EU average of around 240 per cent of GDP.

The banking sector in Slovenia is highly concentrated, with the top three banks having a combined market share of 50 per cent, measured by total assets (see Table 19). In the period from 1995 to 2000, the number of operating banks was reduced from 33 to 25. Further reduction in the number of banks is expected, as the NLB is in the process of full integration of all the banks in the NLB group (eight banks were in this group at the beginning of 2001). Four smaller banks are majority-owned by foreign entities, and a further ten have some foreign ownership. The total foreign ownership of the banking sector in Slovenia was around 10 per cent at the beginning of the year 2001.

The Slovenian banking system operates under a two-tier structure with the Ministry of Finance having overall responsibility for regulating the financial system and with Bank of Slovenia acting as the regulator and supervisor for the banking sector. The increasing complexity of the financial services industry resulted in the adoption of a Code of practice for co-operation between the supervisory authorities in 1999. The Code of practice provides a formal basis for joint supervision. The co-operation of the supervisory authorities covers the following areas: regular exchange of information and data, joint examinations, and dissemination of information at the request of other supervisory authorities. A steering committee and a liaison group further enhance their co-operation.

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Table 19. **The largest banks in Slovenia: banking assets at the end of 1999 and 2000**

Name of the Bank	2000	Share in %	1999	Share in %
1 Nova Ljubljanska banka	918 828 412	28.9%	752 343 481	28.0%
2 Nova Kreditna banka Maribor	368 109 022	11.6%	321 813 367	12.0%
3 SKB banka	323 353 051	10.2%	307 637 199	11.5%
4 Banka Koper	198 310 336	6.2%	167 905 018	6.3%
5 Abanka	188 133 085	5.9%	149 300 836	5.6%
6 Banka Celje	185 182 213	5.8%	155 712 397	5.8%
7 Gorenjska banka	159 137 483	5.0%	130 310 074	4.9%
8 Dolenjska banka	101 128 914	3.2%	87 573 532	3.3%
9 Bank Austria CA	95 367 048	3.0%	83 632 738	3.1%
Total 9 largest banks	**2 537 549 564**	**79.7%**	**2 156 228 642**	**80.3%**
Total all banks	**3 182 728 882**	**100.0%**	**2 686 345 976**	**100.0%**

Source: Banking association of Slovenia and Bank of Slovenia; quoted from Mrak, Koak and Koak 2001.

The minimum capital adequacy ratio for banks operating in Slovenia is 8 per cent, in compliance with BIS standards, which are included in the Banking Act. The Bank of Slovenia determines the levels for each bank, which has to report on a quarterly basis to the Bank of Slovenia. As at 31st December 2000, the average capital adequacy of banks operating in Slovenia was 13.5 per cent. The payments system is currently undergoing reform, which involves the transfer of payments from the Agency for Payments of the Republic of Slovenia to the banks. This is expected to be completed by June 2002.

The regulatory and legal environment

The first reforms in the banking sector took place just after Slovenia's independence. At the end of 1992, the Parliament passed a new law that among other things introduced the bankruptcy procedure for enterprises. At that time, over thirty commercial banks were operating in Slovenia, a large number given the country's population of less than two million. Many of them were fettered by unpaid loans that were impossible to recover because of the former structure that linked the banks with social enterprises. The new law aimed to align the structure of the Slovenian banking sector with Western norms, initially by ridding commercial banks of their bad debts. At the same time, the new banking policy envisaged the reform of the entire banking system and the restructuring of the largest bank: the Ljubljanska Banka, which in 1993 held almost 85 per cent of deposits and 80 per cent of all bank branches.[106]

The legislation applying to foreign participation in the banking sector was amended in January 1999, with the aim of opening up the sector to competition

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from foreign banks while also bringing its legal framework into line with EU standards. The entry into force of the *Banking Act* 1999 signalled a new phase of development and alignment to European and other internationally accepted standards in the Slovenian banking sector. With the exception of two principles: the single banking licence and home country control, the Act is harmonised with European banking directives. Full harmonisation is envisaged once Slovenia becomes a EU member. The Act introduces several important amendments. It fixes the amount of initial capital required for the establishment of a bank at SIT 1.1 billion and vests the Bank of Slovenia with the power to regulate on matters relating to bank staff, organisation and authorisation, notably of foreign banks wishing to open a branch office in the country.[107]

Other significant features of the new banking law are the revised definitions and the consolidated supervision requirements. In the interests of efficient prudential surveillance, the Act provides for supervision on the basis of banking groups. A group is now defined more broadly, to include financial institutions other than banks, such as financial holding companies and other companies engaging in ancillary banking services. In addition, the Act provides for co-operation between the Bank of Slovenia and other supervisory authorities, both domestic and foreign. The central bank may establish a special administration if a bank fails to keep the required minimum level of capital, or if continuing operations would cause liquidity problems.[108]

The new banking law removed the requirement that foreign investors receive special approval for investment in Slovenian banks, so that foreign and domestic investors now face the same approval and reporting requirements. Foreign banks may now establish branches in Slovenia.

The banking sector remains somewhat fragmented, with over 25 operating banks (including four subsidiaries of foreign banks and a foreign branch). Ten banks are owned by domestic shareholders, five are either wholly owned or controlled by foreign shareholders, and the remaining ten banks are controlled by domestic shareholders, with some small foreign participation. All savings banks are owned by domestic shareholders. Total bank assets amounted to approximately 75 per cent of GDP in 2000. Nova Ljubljanska (NLB), the largest bank, accounts for 27 per cent of domestic banking assets.[109]

Banking sector performance and efficiency.

Most banks in Slovenia have achieved relatively good levels of profitability, with average pre-tax return on equity of around 11 per cent. Using international accounting standards, typical post-tax return on equity is about 15 per cent, in line with many West European banking systems. Currently, profitability depends on rather wide margins between loans and deposits, and falling inflation is likely to

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Table 20. **Indicators of bank performance**

Per cent

	1996	1997	1998	1999	2000
I. Capital adequacy					
Capital/Risk-weighted assets	19.7	19.0	16.0	14.0	13.6
II. Profitability					
Gross margin	5.6	4.9	4.5	4.0	4.5
Return on assets (ROA)	1.1	1.1	1.2	0.8	1.1
Pre-tax return to equity (ROE)	10.3	10.3	11.3	7.8	11.4
After-tax return on equity (ROE)	8.8	7.5	7.0	3.9	–
III. Cost efficiency					
Operating costs/income	18.1	19.1	22.6	23.6	18.9
Operating costs/assets	3.5	3.6	3.5	3.4	3.4
IV. Liquidity					
Liquid assets/sight deposits	17.7	23.5	26.9	25.9	23.6

Source: Banking association of Slovenia and Bank of Slovenia; quoted from Mrak, Koak and Koak 2001.

reduce interest rates spread. Non-interest income has become a more important source of revenue. Cost has been stagnating in the past few years (see Table 20) and the general assessment is that banks are too small and overstaffed, and productivity with assets and loans per employee is well behind the EU average. According to the EBRD, banks need to undertake significant cost cutting if they are to be competitive with foreign banks, which have already attracted the best corporate clients from Slovenia.

After the banking rehabilitation process the banks have much improved the quality of assets. Approximately 87 per cent of the assets were classified as A and 7 per cent as B at the end of the year 2000. Capital adequacy of the banks is well above the required 8 per cent. At the end of the year 2000 the average value was around 13.5 per cent, which had a negative impact on the profitability of the banks. On the other hand, these figures indicate that banks in Slovenia might be currently over-cautious about lending. A large proportion of banks' assets is still represented by government bank-rehabilitation bonds.[110]

Future challenges

The structural problem of banks in Slovenia is that most of their deposits are short term. This is rather profitable at the moment, but with falling inflation and elimination of the indexation clause (TOM) from loan contracts, the situation will change considerably. In addition, the banks are facing increasing competition from the domestic non-banking financial sector and from foreign banks. Household saving attitudes are changing as consumers start to look for alternative financial

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products (life insurance, pension schemes, securities) outside the banking sector. The largest exporting companies, requiring foreign long-term loans are increasingly switching to foreign banks that offer better conditions and are able to provide full services for these high quality companies. In the future, it is expected that foreign competition will be particularly strong in the areas that are not well developed in the Slovenian banking industry: investment banking, bank assurance and asset management. Less competition from abroad is expected in collecting deposits from households and providing loans to the SME sector.[111]

Securities

The Ljubljana Stock Exchange (LjSE) was established in 1989. It has two securities trading sections. The official market is for fully qualifying stocks and bonds that meet the highest accounting standards. The free market is an unofficial market where listing requirements are less stringent. Due to a quite simple admission procedure and to the fact that trading of shares can start as soon as they are registered in the central depository, most shares from privatisation are currently traded on this market.

At the end of 2000, market capitalisation of all issuers whose securities are traded on the LjSE, amounted to SIT 967 billion (excluding the shares of privatisation funds). The value of transactions on the LjSE amounted to SIT 270 billion in 2000 (excluding shares of privatisation funds). Although the value of transactions slightly increased compared with the previous year, trading was relatively small (see Table 21).

At the end of 2000 there were 34 brokerage houses operating on the market, including eleven banks with permission to perform services in connection with securities, 21 management companies, 43 privatisation funds (authorised investment

Table 21. **Data on Ljubljana Stock Exchange development (1995-2000)**

	31.12.1995	31.12.2000
Market capitalisation (billion SIT)	110	967
Market capitalisation in GDP (%)	5.0%	23.7%
SBI20 (SBI) index	1 448	1 808
Number of securities	49	266
Shares	27	197
Shares of privatisation funds	0	43
Bonds	22	68
Pension notes	0	1
Trading volume (billion SIT)	88	270
Trading volume/GDP (%)	4.0%	6.6%

Source: Agency for Securities Markets.

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companies) and 19 mutual funds. The 21 management companies managed assets in the amount of SIT 584.2 billion (14.4 per cent of GDP), while brokerage houses mediated SIT 823.9 billion of investments (20.4 per cent of GDP).

Challenges for development

The main problems of the securities markets are closely linked to mass privatisation.[112] Large numbers of shareholders who received shares for free wish to sell these shares at the first opportunity. Secondary trading is used to consolidate ownership structure after mass privatisation. Low liquidity on the stock exchange, large volumes of non-transparent trading off the stock exchange, and concentration of shares for the purpose of obtaining control in privatised companies are the main characteristics of the market. The primary market is active only for government short-term and long-term debt securities. Primary equity market is non-existent. Under these circumstances companies cannot issue new shares to finance their development plans. It is clear that the ownership consolidation process in mass privatised companies has to be completed before further development of the market can be expected. In addition, transitional institutions that are the key players on the market (privatisation funds and para-state funds) have to be transformed either into holding companies seeking control in enterprises or into genuine financial investors with diversified portfolio of tradable securities. According to the legislation in force, the process of transformation will have to be completed by July 2002.

It is expected in the future that at least the top 100 Slovenian companies will use to a greater extent capital markets investments for financing. The introduction of the Euro should reduce the main risk for bonds issues related to domestic currency depreciation. For the Ljubljana Stock Exchange the challenge is to keep at least some of the best Slovenian companies at home, as many are now considering listings on bigger foreign markets in London, Frankfurt and Vienna. The Ljubljana Stock Exchange is currently very active in creating a network of exchanges in South-East Europe that could be attractive for the largest companies in the region.

Legislative and Regulatory Issues

The *Securities Market Act* 1999 regulates the authorisation of securities market participants, the offering of securities, the functions of the independent supervisory body – the Securities Market Agency – and the operation of the stock exchange. The Act limits the performance of services involving securities to a number of legal persons: authorised stockbroking companies or branches and banks that have obtained authorisation from the Bank of Slovenia.[113] The Act largely opened up securities services to foreign participation and brought the regulation of financial markets into line with the provisions of the *acquis communautaire*. The

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new Act permits foreign stock brokerage companies to establish a subsidiary or acquire shares in existing Slovenian stock brokerage companies. Other important changes include an increase in the minimum capital requirements of stock brokerage and stricter rules on secure and prudent management.

Approval of the Securities Market Agency is required, however, for the acquisition of more than 20 per cent of shares or business stakes of management companies by a non-resident legal or natural person. Any acquisition over 10 per cent of shares or business stakes of authorised investment management companies is only allowed on the basis of the approval of the Securities Market Agency and the minister responsible for economic relations and development. These approval requirements are to be abolished in 2002.

Insurance

With nominal growth of assets above 20 per cent over the past few years, the insurance industry represents the most dynamic component of the Slovenian financial sector. Insurance penetration as a percentage of gross premium in GDP is 4.8 per cent, which is higher than for comparable countries in transition but much lower than the average for EU countries (8.4 per cent). The share of life insurance premiums was 19.4 per cent in the year 2000, with a tendency for growth. Insurance density (the average amount of money spent for insurance premium per capita) increased 20 times in the past 10 years and it is still growing.[114] In 1999, financial investments of the insurance sector as a share of GDP were 5.6 per cent; 43.5 per cent of financial investments were in bank deposits, 31.1 per cent in debt securities, 5.4 per cent in mortgage loans, and 19.0 per cent in other instruments.[115]

Market structure and concentration

At the beginning of 2001 there were thirteen insurance companies in Slovenia; ten were owned by domestic entities, with foreigners controlling three smaller institutions. The consolidation process of the insurance sector has been taking place over the past three years. The number of independent companies has decreased, and currently there are three larger insurance groups in the country. The market is highly concentrated, with the largest insurance company, Triglav, having 59.3 per cent of the property insurance market and 47.1 per cent of the life insurance market (see Table 22). The health insurance market is divided between only two insurance companies, the para-state mutual institution having 83.6 per cent of the market and the rest belonging to a private commercial company. Foreign-owned insurance companies are not important market players at present, but they are increasingly active and tend to grow much faster than their domestic-owned counterparts.[116]

The ownership structure of five of the pre-transition insurance companies remains unclear. These insurance companies are in mixed ownership of the state

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Table 22. **Market structure of the insurance sector on the basis of premium paid, 2000**[1]

Insurance company	Type of insurance		
	All	Life	Non-life
Triglav	41.68	47.03	40.46
Vzajemna	21.93	–	26.92
Maribor	13.84	24.61	11.39
Adriatic	9.43	3.65	10.74
Slovenica	4.65	3.54	4.91
Others	8.47	21.17	5.58
Total	**100**	**100**	**100**

1. Market share of five biggest insurance companies in per cent for premium in total paid to all insurance.
Source: Slovene Insurance Association.

and private owners. The state invested additional capital to restructure these institutions during the transition period. The Insurance Companies Transformation Act determined the share of state ownership but private investors later successfully challenged the law before the Constitutional Court. Privatisation plans for insurance companies have thus been postponed until the new law is prepared and passed by the Parliament.

Insurance sector performance

Property insurance companies in Slovenia are generally less profitable than in other insurance sectors, such as health and life insurance. From 1997 all insurance companies in Slovenia were profitable. Average return on equity for 1999 was 36.9 per cent.[117] One of the reasons is that prior to the new Insurance Act[118] passed in February 2000, capital adequacy requirements were not clearly defined. It is estimated that most domestic insurance companies will have to recapitalise themselves in order to meet the new capital standards. On the other hand, this high profitability is due to low competition on the domestic insurance market, which is still very much closed to insurance companies from abroad.[119]

Pension insurance

The new law on pension and disability insurance, which came into force on 1 January 2001, brought new opportunities for insurance companies. They could offer their own pension plans in addition to existing life insurance and pension products, they could set up specialised pension insurance companies or pension funds and they could provide assets management for various pension schemes. There is strong competition for this business among insurance companies, banks and asset management companies. Insurance companies are currently very active

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in registering pension plans with the Ministry of Labour in order to qualify for tax allowances. By the end of May 2001, nineteen pension plans were registered in the tax register.

It is difficult to estimate the size of the emerging pension insurance market, as the participation of companies or individual employees is not obligatory, but it is only tax supported by the state. Assuming that 30-50 per cent of all employees are included in the additional voluntary pension programmes, the collected premium in the next few years should reach the accumulated premium in all other life-insurance programmes. The expected growth of this segment of the market would have, due to substitution effects, a profound impact on other segments of the financial sector (life insurance, householders' savings in the banking sector, securities markets and asset management).

Challenges for the insurance sector development

Insurance companies in Slovenia are closely linked with the banks. Almost 30 per cent of their reserves are invested in bank deposits. Long-term savings of households are therefore transformed in the short-term source of bank financing. In addition, there are cross-ownership relations between banks and insurance companies. These inter-linkages represent a real challenge for supervisory authorities as well as for the proper management of these financial institutions.

The main challenge for insurance companies comes from the liberalisation of this sector and increased foreign competition. Given the relatively small ratio of insurance premium to GDP there is room for substantial growth. With the increasingly active presence of foreign competitors, the market share of the key domestic players will be further reduced. In addition, the largest domestic institutions have not yet been privatised and they are lacking new private owners that can provide support for their future development. There will also be a transfer from life insurance towards new funded pension insurance schemes. Asset management is an entirely new area of business for Slovenian insurance companies, with practically no expertise or experience with domestic and foreign securities markets.

Legal and Regulatory Development.

Through the adoption of a new Insurance Act in January 2000,[120] Slovenia made substantial progress toward liberalising its insurance sector and aligning it with the *acquis*. The main innovations implemented under the act are as follows:

i) A framework for safe and prudent provision of insurance services was established;

ii) Several changes were made to insurance supervision. An independent insurance regulator, the Insurance Supervisory Agency, was established in

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June 2000. The Agency is no longer attached to the Ministry of Finance, but is an independent legal entity. It has a wide scope of competence and is able to take faster and more effective measures than before in cases where insurance companies are affected by insolvency, non-liquidity or a drop in financial standing. The Insurance Act authorises the insurance supervision authority to issue all secondary legislation based on the Act;

iii) Restrictions on FDI in the insurance sector were removed (the Act lifted restrictions on the establishment of subsidiaries and branches of foreign companies; reinsurance of risk exposures with foreign insurers is now also permitted).

Non-financial sector

Transport

Given Slovenia's central geographic position, transport is an important segment of the economy. In 1996, transport, storage and communications contributed 7.1 per cent to the country's GDP[121] and 6.2 per cent to its employment.[122] Pan-European Corridors V and X pass through Slovenia. According to the 2001 EU Regular Report, Slovenia is to a large extent able to meet the requirement of the transport *acquis*. A large part of the legislation in this area is in place, and it also provides a framework for privatisation and for other forms of private-sector participation in the provision of transport services and in building and operating transport infrastructure.

Air transport

In addition to the regulatory authority, the Slovenian aviation sector is composed of separate companies for airports, and the national airline. Slovenia has three international airports, Ljubljana, Maribor and Portoro. According to the Aviation Act adopted in 2001,[123] the airports are, as a rule, not treated within the framework of the public sector but as an ordinary commercial activity. By far the largest of the three airports is the airport in Ljubljana. The company "Aerodrom Ljubljana" is presently 57 per cent state-owned and is listed on the Ljubljana Stock Exchange. The national airline, Adria, is also in the majority ownership of the state. According to the government's programme aimed at covering the so-called "privatisation gap", the two companies have been put on the list of state-owned entities to be fully or partly privatised over the next three years.

Registration of an aircraft is only possible in the case of aircraft owned by Slovenian nationals or companies controlled by them. Granting of an operating or AOC license for performing airline services is not possible for companies with their registered seat outside Slovenia or the EU. Companies that have a license have to

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be at all times under the control of a Slovenian or EU national.[124] This measure constitutes an exception to national treatment.

Maritime transport

The port of Koper is the only maritime cargo port in Slovenia and one of the most dynamic ports of the Northern Adriatic. Landlocked countries in Central Europe are significantly closer to Koper than to other European ports.

The port infrastructure is owned by the state and managed by a company "Luka Koper", in which the state has a 51 per cent share. In line with the Maritime Code adopted in spring 2001, the concession agreement on management, administration, development and regular maintenance of port infrastructure in the Koper cargo port has to be concluded within six months following the enforcement of the Code. After the conclusion of the concession agreement, the procedure for privatisation of the "Luka Koper" is envisaged. A detailed plan of privatisation has yet to be prepared.

In accordance with common practices in the maritime transport sector, only ships owned in whole or part by Slovenian nationals or by legal persons having their seat in Slovenia can be registered in the Slovenian register of ships, those owned by non-resident persons are subject to approval by the relevant minister. Maritime cabotage can be performed by non-resident persons on the condition of reciprocity, as can services of piloting and ship towing.

Roads

Over recent years, Slovenia has been implementing an ambitious motorway development plan, concentrating on building highways on the corridors. The total programme, with an estimated cost of close to US$5 billion, is financed mainly by so-called "petro tolar", a special tax included in the retail price of petrol, motorway tolls, and foreign credits. Due to the programme's high financial intensity, and growing pressure on the budget for other investment priorities, the government is considering an option to build some of the remaining parts of the motorway infrastructure through concessions. The final decision on this is expected to be adopted by the end of 2001. Another area where private-sector involvement is expected is in the maintenance of state roads. An extensive feasibility study of the project is currently in preparation.

Rail transport

The Rail Transportation Act was adopted in 1999[125] and the relevant by-laws were prepared by mid-2001. At present, the only operator in the field of rail transportation services, both in the transport of passengers and the transportation of goods, is

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the 100 per cent state-owned company "Slovenske eleznice, d.d.". According to the National Programme for the Development of Railway Infrastructure, the company is expected to remain a single corporation with separate entities for railway infrastructure and for rail transport services. Although there is general agreement that some parts of the activities carried out by "Slovenske eleznice, d.d." may be privatised, no decision has yet been made on this subject. As far as private-sector involvement in railway infrastructure is concerned, a concession is being considered as one of the funding alternatives for building the second track of the railway link between the port of Koper and Divača.

Post and Telecommunications

Post

In 1995, the government founded the company "Pota Slovenije, d.o.o." of which the state is 100 per cent owner. In addition to classical postal services – their prices are regulated by the state – the company provides an increasing number of other value-added services linked to postal activities, such as package-delivery services. The remaining activities of the former postal and telecommunications monopoly were attributed to the majority state-owned telecommunications company, Telekom Slovenije, d.d. A new Postal Services Act currently in preparation is expected to introduce further liberalisation in the provision of postal services.

Telecommunications

Domestic and international telecommunication services are of a generally high quality by Central European standards. The new *Telecommunications Act* adopted in April 2001[126] provides conditions for full liberalisation of telecommunications services. The establishment of a liberalised environment for telecommunications infrastructure requires the adoption of numerous by-laws. The Act provides a legal basis for the separation of ownership, supervisory and management functions in the provision of telecommunications services. It envisages the establishment of an independent regulatory authority, the Agency for Telecommunications.

In accordance with the Act, the 66.5 per cent state-owned telecommunications company – Telekom Slovenije, d.d. – will become a normal joint-stock company, and telecommunications services will no longer have the status of a public commercial service. At present, Telekom Slovenije has a monopoly in the fixed-line segment of the market and provides local, long-distance and international voice telephone, telex, public payphones and various value-added services. As part of the programme to reduce the already mentioned "privatisation gap", the state's equity share in the company has already been reduced by transferring one part of the shares to the authorised investment funds. The remaining 66.5 per cent gov-

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ernment ownership share is to be privatised. It was originally scheduled that the process of privatisation would start in 2001. However, due to the unfavourable international environment for the telecommunications business, the process has been slowed down.

As far as the provision of mobile services is concerned, there are at present four competing mobile network operators in Slovenia. They include *i*) Mobitel owned by "Telekom Slovenije", *ii*) Simobil where Austria's Mobilkom has a 75 per cent share, *iii*) Western Wireless from the United States, and *iv*) Debitel that in fact resells Mobitel's lines. The government is currently in the process of repeating a tender for the UMTS third-generation mobile telephony concession. The first tender was unsuccessful, due largely to the high concession fee requested by the government.

Energy

In September 1999, the Energy Act[127] was adopted, providing conditions for the opening of the markets for electricity and gas, and for privatisation of the energy sector. According to this Act, public services in the sector are limited to electricity distribution, while production of electricity is subject to market conditions.[128] In 2000, an independent energy regulator – the Energy Agency – was established in order to supervise the power supply and distribution performance.

Electricity

On the demand side, the electricity market was opened to large customers (above 41 kW of installed capacity) in April 2001, and it will become open for smaller customers as of January 2003. On the supply side, the electricity market will also be liberalised. As far as electricity sector privatisation is concerned, the authorities are committed to selling up to 45 per cent of state shares in the generation and distribution companies (except for the Krko nuclear power plant) by 2003.

Gas

The opening of the gas market will start in January 2003. At that time, the natural gas market will be open to all those using gas for electricity production, while later on, as of January 2008, it will also be liberalised for all customers using more than 5 million m^3 of gas per year.

Gambling

In accordance with the Gaming Act, the Act of Transformation of Legal persons with social capital, and the Act on the Structure of Capital of Legal Persons, only domestic legal persons may be shareholders of a company that may obtain a

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Table 23. **Existing FDI restrictions pre- and post-establishment and timetable for their abolition**

Area	Existing restriction	Timetable for abolishing the restriction	
		Measure	Implementation in the part relating to capital movement
Investment funds' management companies	Non-resident natural and legal persons may indirectly or directly acquire more than 20 per cent of shares or business stakes of management companies exclusively subject to the approval of the Securities Market Agency.		
Authorised investment funds' management companies	Non-resident legal and natural persons may indirectly and directly acquire not more than 10 per cent of shares or business stakes of authorised investment management companies. Any higher share than that is only allowed on the basis of the approval of the Securities Market Agency and the minister responsible for economic relations and development.	Amendments to the Investment Funds and Management Companies Act.	2002
Investigation and security services	Partners of an investigation company may only be natural persons with a license to carry out investigation activities. One of the conditions for obtaining such a license is Slovenian citizenship.	Amendments and supplements to the Investigation Activity Act.	By actual accession to the EU.
Exploitation of natural resources subject to a concession	A concession for the exploitation of natural resources may only be granted to a non-resident on the basis of a statute, while Slovenian residents can be granted the same kind of concessions on the basis of a governmental or a local community's act.	Amendment to the Environmental Protection Act.	By 01.02.2003 or by actual accession to the EU if the latter precedes that date.
Organisation of gambling, betting, lotteries and other similar activities	Only domestic legal persons may be shareholders of a company that may obtain a concession for permanent organisation of classical gambling in Slovenia.	Amendment to the Gaming Act, no later than 31.12.2002.	By actual accession to the EU.
	Non-resident natural and legal persons may not be shareholders in a company that has obtained a concession for organising special gambling in Slovenia.	Amendment to the Act on ownership transformation of legal persons with social capital, which organise special gambling, and on the structure of capital of legal persons, which organise special gambling, no later than 31.12.2002.	

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Table 23. **Existing FDI restrictions pre- and post-establishment and timetable for their abolition** (*cont.*)

Area	Existing restriction	Timetable for abolishing the restriction	
		Measure	Implementation in the part relating to capital movement
Audit	Establishment and acquisition of stakes in the auditing company by non-residents is free subject to reciprocity.	Auditing Act (OG RS 11/01)	The reciprocity condition will cease to apply for EU member countries with Slovenian accession to the EU.
Air transport	Registration of an aircraft is only possible in the case of aircraft owned by Slovenian nationals or companies controlled by them; granting of an operating or AOC license for performing airline services is not possible for companies with their registered seat outside Slovenia or the EU, companies that have a license have to be at all times under the control of Slovenian or EU nationals.	Aviation Act (OG RS 18/01) Adoption of the Act Ratifying the Multilateral Agreement on the Establishment of a European Common Aviation Area (ECAA).	The provisions relating to the EU shall apply as of the date of accession to the EU. 31.12.2002
Maritime transport	Only ships owned in whole or part by Slovenian nationals or by legal persons having their seat in Slovenia can be registered in the Slovenian register of ships, those owned by foreign persons are subject to approval by the relevant minister; maritime cabotage can be performed by non-resident persons on the condition of reciprocity, as are services of piloting and ship towing.	Maritime Code (OG RS 26/01)	The reciprocity condition shall not apply to EU nationals as of the date of accession to the EU.

Source: The Government of Slovenia.

concession for permanent organisation of classical gambling in Slovenia. Foreign natural and legal persons may not be shareholders in a company that has obtained a concession for organising special gambling in Slovenia. This measure is considered to be an exception to the OECD National Treatment instrument.

Auditing

The establishment and acquisition of stakes in auditing companies is free, subject to reciprocity conditions. These conditions will not apply to EU member countries when Slovenia accedes to the EU.

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Chapter 6

Privatisation

Introduction

In contrast with other transition economies that make up the first wave of EU candidates, Slovenia is the only country that has not, until recently, actively sought and obtained significant foreign participation in its privatisation programme. The implementation of Slovenia's privatisation programme has overall been a complex and lengthy process. Where privatisation has been achieved, the participation of foreign investors is limited.

The process was affected by the initial methods of privatisation chosen, which, reflecting the Yugoslav business culture and company management practices, favoured a transfer of capital and decision-making power to employees. Privatisation in Slovenia was thus characterised by a combination of free distribution, internal buy-outs with discounts for employees, and commercial privatisation. The *Ownership Transformation Act* (OTA), which was initially applied to 1 340 companies, gave company insiders (*i.e.* management and employees) the possibility to select the most appropriate for their enterprise from various possible models of privatisation. The preference for internal buy-outs in the first phase reflects a policy of stability that respects enterprise structures and management methods before privatisation.

Thus, the *first stage* of privatisation, during which almost SIT 900 billion (US$3.73 billion) of state-owned property in the non-utilities and financial sectors was privatised, *de facto* precluded the participation of foreign investors. Until the end of 1999, the process was open to strategic investors of domestic origin only. The vast majority of companies were privatised in 1995-1996. This was followed by the private ownership consolidation phase, or "post mass privatisation process" in 1996-1997. The *second phase*, currently under way, is expected to encompass the sale of SIT 2,250 billion (US$9.3 billion) worth of property.[129] By mid-2001 the Agency for Restructuring and Privatisation had received over 2,000 applications from companies for approval of the model selected.

The government has made the acceleration of the privatisation process and increasing the role of FDI through privatisations a policy priority.[130] Its programme for the promotion of foreign direct investment includes a commitment to attract

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greater levels of foreign participation in the privatisation process, including in the principal privatisations envisaged for the next five years: the two largest banks, the port of Koper, and the telecommunications supplier.[131] The second phase should also be the period whereby the newly privatised enterprises adopt more rational production and management techniques and seek or allow for partnerships with foreign investors.

Mass privatisation – the first phase in the process (1990-1995/96)

Two government institutions were established in December 1990 with the purpose of supervising, structuring and assisting the privatisation process in Slovenia: the Agency for Restructuring and Privatisation and the Development Fund. The Agency was mandated to monitor the process, set guidelines and approve privatisation programmes, while the Development Fund was responsible for the rehabilitation of large loss-making companies prior to their privatisation.

Until the end of 1992 Slovenia did not have a comprehensive privatisation law. However, federal legislation allowed some transactions to take place, including those involving foreign participation. While during this period no government agency was able to require a socially-owned company to privatise, a temporary regulation empowered the Agency to approve any privatisation transaction initiated by companies, including creations of joint ventures when the local socially-owned company contributed its existing assets to the new (joint venture) company. In privatisation transactions involving the sale of shares of existing capital stock of socially-owned companies, the Fund had the authority to negotiate the transaction, sign the sales contract, and assume the proceeds from the sale.

Preparation of the comprehensive privatisation law took almost two years, and during that time the Agency supervised the privatisation transactions that were initiated by companies themselves. The *Ownership Transformation Act* (OTA), was adopted in November 1992. Public utilities and financial institutions were not included in the programme.

The OTA represented a compromise between many privatisation concept models discussed in a two-year debate. The main features of the law are the following:

- a combination of free distribution of shares with commercial privatisation;
- a flexible and multi-track approach;
- initial transformation of all companies into joint stock companies, followed by gradual sale or distribution of shares;
- autonomous preparation of transformation programmes by the companies;
- an active role of specialised government institutions in the case of commercial privatisations;

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- competitive and transparent procedures when a commercial technique of privatisation was used.

The initiative to begin the privatisation of a company had to originate within the company (management and employees) itself. Only when this right was not exercised within 2 years (mostly in companies experiencing financial difficulties), the privatisation authorisation took over the initiative. Once the transformation programme had been pre-approved by the Agency, the company was able to begin its implementation. The law imposed some restrictions on the immediate resale of shares acquired for free or with discounts, regulating both commercial privatisations and the initial "free" allocation of shares. Each citizen was granted an ownership certificate, according to his or her age, in a nominal value ranging between DEM 4 000 to DEM 6 000 (US$1 880-US$2 820) and he/she could exchange them for either shares in the company of which s/he was an employee, the shares of approximately 100 companies that were offered to the public, or the shares of authorised investment funds ("privatisation funds") that later participated in the share auctions organised by the Development Fund.

The OTA provided for several methods of transformation:

1) Free transfer of 40 per cent of ordinary shares to the financial institutions: 10 per cent of the shares to the Compensation/Restitution Fund, 10 per cent to the Pension Fund and 20 per cent to the Development Fund. The Development Fund would subsequently auction these shares to authorised investment funds that paid for the shares with ownership certificates gathered from Slovenian citizens.

2) Internal distribution of shares to employees in exchange for ownership certificates (this was limited to 20 per cent of the shares of the company).

3) Internal buyout of shares, limited to 40 per cent of the shares of the social capital. This scheme enabled the employees and others to acquire an ownership stake gradually (at 50 per cent discount) paying in four yearly instalments. Before an internal buyout could take place, a free transfer of 40 per cent of shares to financial institutions, as well as internal distribution of shares, had to be carried out [see (1) and (2) above].

4) Commercial sale of the shares of the company, to be carried out either in the form of a public offering of shares, public auction or public tender.

Guidelines for these particular techniques were prepared by the Agency. As the legal entity selling the shares, the Development Fund received the sale proceeds. Companies were free to choose the method, or combination of methods, but the overall transformation programme had to be approved by the Agency.

Table 24 shows the typical ownership structures in Slovenian companies at the completion of privatisation. Companies are grouped according to the prevail-

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Table 24. **Typical ownership structures at completed privatisation, by percentage, 1995-1996**

Group of owners	All companies	Public	Internal	External
State	7.75	6.78	2.02	11.92
Restitution and pension fund	21.60	20.49	21.28	22.19
PIF-I (privatisation funds)	19.38	17.65	14.88	22.99
ALL Funds	**40.98**	**38.14**	**36.17**	**45.18**
Internal owners – managers of companies	3.86	1.40	4.98	3.95
Internal owners – current employees	29.23	21.88	38.08	25.80
Internal owners – former employees	11.05	7.48	14.60	9.89
ALL Internal	**44.14**	**30.77**	**57.66**	**39.65**
Financial investors – domestic	4.80	22.37	0.63	1.61
Financial investors – foreign	0.03	0.08	0.00	0.02
ALL Financial	4.83	22.45	0.63	1.64
Strategic investors – domestic	2.00	1.86	3.55	1.01
Strategic investors – foreign	0.30	0.00	0.00	0.60
ALL Strategic	2.30	1.86	3.55	1.61
Total (all groups)	**100.00**	**100.00**	**100.00**	**100.00**

Source: Simoneti *et al.* (2001).

ing privatisation model: public, internal and external. Public companies are those traded on the stock exchange. Non-public companies are privatised following either the internal buy-out model, whereby company insiders have more significant share-holding than privatisation funds and para-state funds, or the external sale method. In the latter case, external buyers have a more significant shareholding than company insiders.

The results of mass privatisation in Slovenia can thus be summarised as follows:

i) the stake of strategic investors has been negligible (2.3 per cent);

ii) foreign (both financial and strategic) investors were practically excluded from mass privatisation;

iii) the state and para-state funds have jointly been very important shareholders with stakes of approximately 30 per cent in companies;

iv) on average, internal and external owners gained equal stakes, but internal owners prevailed in internally-privatised companies and funds prevailed in external companies;

v) funds did not represent a homogenous group in view of the differences between para-state funds and privately-managed privatisation funds. Both acquired approximately equal stakes in companies;

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vi) internal owners represented 44 per cent of total owners, according to the following breakdown: former employees 11 per cent, current employees 29 per cent and company managers 4 per cent;

vii) small shareholders that acquired shares in privatisation via public offering represented an important group, but only in a small number of public companies quoted on the stock exchange.

It is widely recognised that dispersed ownership structures do not lead to sufficient power and incentives for smaller shareholders to actively monitor the management or to exert pressure for restructuring. Concentration of ownership enhances the efficiency of the company and is an important incentive for the entry of strategic investors. On the contrary, dispersed ownership structures make the entry of such investors difficult because their intention is generally to acquire a controlling stake in the company. This conclusion is borne out by the experience in Slovenia.

Mass privatisation in Slovenia seems also to have often resulted in a conflict of interest between internal owners and funds (external owners). While internal owners are preoccupied with keeping their jobs and their influence in the management of the company, as well as its long-term success, external owners tend to have a purely financial interest and thus are oriented principally towards profit maximisation.

The mass privatisation model assumes and heavily relies upon a transformation of ownership structures through the process of secondary privatisation, *i.e.* the consolidation of ownership in companies privatised through the mass privatisation process. For this to be successfully completed, the transitional owners need to be able to exit quickly so that ownership can become more concentrated and the share of strategic owners needs to increase. This would also contribute to the reconciliation or reduction of risk of conflicts of interests between funds and internal owners. Slovenia has in effect entered into this secondary phase with the completion of mass privatisation in 1995/96.

Forms of foreign participation in privatised enterprises

As the above indicates, the characteristics of the Slovenian privatisation process – favouring internal buy-outs and free distribution of shares – resulted in a very limited role for foreign investors. However, almost 70 per cent of the existing FDI stock and many FDI projects in Slovenia were carried out as foreign acquisitions in the same period, in most cases of companies that were not directly subject to the privatisation law. These acquisitions were achieved through various modalities:

- Already before the adoption of OTA, there was a number of relevant foreign privatisations on the basis of federal (ex-Yugoslav) legislation. Target companies

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could choose to be privatised by strategic foreign investors or to allow foreign investors to buy newly issued shares. The most prominent of these cases were the acquisitions of Tobačna Ljubljana by Reemtsma (German) and Seita (French), Papirnica Količevo by Saffa, (Italian), Zlatorog by Henkel (Austrian) and the entry of Austrian OMV into Istrabenz.

- Before and after the adoption of OTA, some Slovenian non-privatised parent companies sold off some of their subsidiary companies, for a variety of reasons, *e.g.* the acquisitions of Krka Novoterm by Pfleiderer (German), Danfoss Compressors by Danfoss (Danish), small household appliances plant MGA by Bosch-Siemens (German).
- Foreign acquisitions took place of companies that were subject to court-led rehabilitation or liquidation procedures, e.g the acquisition of the paper mill Vevče by Brigl and Bergmeister (Austrian), Tekstilindus Kranj by Gruppo Bonazzi (Italian), the paper mill Videm Krško by ICEC (Czech), ski-manufacturer Elan by Privredna banka Zagreb (Croatian). Some of the large loss-makers were sold to foreign investors, following limited restructuring by the Development Fund, *i.e.* Livarna Škofja Loka, Donit Medvode, parts of the Litostroj company.
- Some foreign privatisations took the form of joint venture acquisitions in which a strategic foreign investor formed a joint company with part of an existing Slovenian non-privatised company; the largest project of this kind was Renault's investment in car manufacturer Revoz.
- Transformations also occurred in existing contractual joint ventures with foreign partners, formed in the 1970s and 1980s, into equity joint ventures. The domestic part was subsequently privatised, *e.g.* as in the cases of the investment of Swiss EGO in electro-thermical apparatus manufactures ETA, United States Kirkwood Industries in manufacturer Kolektor, and Siemens' investment in telecommunications equipment manufacturer Iskratel.
- Finally, foreigners acquired already privatised Slovenian companies, *e.g.* the acquisition of car tires manufacturer Sava by Goodyear (American), of synthetic fibres manufacturer Yulon by Gruppo Bonazzi (Italian), of car lighting manufacturer Saturnus Avtooprema by Hella (German), and of SKB Banka by Société Générale (French).

Ownership consolidation – "secondary privatisation" (1995/96 onwards)

Following the terms of reference of the OTA, mass privatisation was formally completed at the end of 1997. Privatisation remains incomplete, however, because of the number of companies and sectors excluded from the first stage of privatisation. It is estimated that from the conclusion of mass privatisation until the end of 1999 almost 40 per cent of initial shareholders had already exited the companies.

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Ownership concentration was strengthened in all groups of companies, but most intensively in companies that were privatised through internal buy-outs. The five largest owners held on average 61.5 per cent of votes of companies privatised during the first stage.

Table 25 shows in detail the extent to which small shareholders, the state and para-state funds have reduced their ownership stakes in these privatised companies while managers and strategic investors have increased them. It also shows that the changes in ownership have occurred more intensively in companies not traded on the stock exchange, via transactions made on informal markets with limited competition and transparency. In addition, new strategic or "key" investors until the end of 1999 were almost exclusively of domestic origin.

To achieve better performance and improve corporate governance, the initial ownership structure of these companies in the post-privatisation period has to undergo profound changes. First, many temporary mass privatisation owners would have to exit if a more stable and concentrated ownership structure is to be obtained; second, the share of strategic domestic and foreign investors has to increase in order to produce more motivated and capable owners who will support the restructuring of companies; and third, the conflict of interest between external owners (privatisation funds, para-state funds) and insiders, typical to practically all privatised companies in Slovenia, has to be reduced.

Data reveal that from the completion of privatisation until the end of 1999 almost 40 per cent of initial shareholders had already exited companies privatised through mass privatisation. Ownership concentration was strengthened in all groups of companies, but most intensively in internal companies. At the end of 1999, ownership concentration was already relatively high in all groups of companies: five largest owners on average held 61.5 per cent of votes in companies from mass privatisation. From the corporate governance point of view it seems that the principal-agent relationship between managers and shareholders is less of a problem than the conflict between large and small shareholders. Moreover, in Slovenia large shareholders are para-state funds and privatisation funds, both lacking the ability and motivation for proper corporate governance. On the other hand, many small shareholders are company insiders who act as a homogeneous group in relation to external owners. It could well be that with concentration of ownership in the period 1994-99 the problem of managerial discretion was reduced, while the conflict of interest between internal and external owners worsened.[132]

In the post-privatisation period, small shareholders, the state and para-state funds are reducing their ownership stakes in companies from mass privatisation, while managers and strategic investors are increasing theirs (see Table 25 below). It is observed that both groups are accumulating their shares more intensively in companies not traded on the stock exchange. Transactions are therefore made on

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Table 25. **Companies subject to mass privatisation: ownership structure at completion of privatisation and at the end of 1999 in comparison with the optimal structure as proposed by the management**

In per cent and percentage points

Group of owner	At completed privatisation	End of 1999	Optimal	End of 1999 vs. completed privatisation	Optimal vs. completed privatisation	Optimal Vs. end of 1999
State	**7.75%**	**3.06%**	**1.55%**	**–4.69**	**–6.20**	**–1.51**
Restitution and pension funds	21.60%	12.58%	4.86%	–9.02	–16.73	–7.72
PIF-I (privatisation funds	19.38%	17.25%	6.44%	–2.13	–12.94	–10.81
ALL Funds	**40.98%**	**29.84%**	**11.31%**	**–11.15**	**–29.67**	**–18.53**
Internal owners – managers	3.86%	9.03%	21.80%	5.17	17.94	12.77
Internal owners – current employees	29.23%	27.04%	29.48%	–2.19	0.25	2.44
Internal owners – former employees	11.05%	11.40%	4.80%	0.35	–6.25	–6.60
ALL Internal	**44.14%**	**47.47%**	**56.08%**	**3.33**	**11.93**	**8.61**
Financial investors – domestic	4.80%	8.53%	7.31%	3.73	2.51	–1.22
Financial investors – foreign	0.03%	0.18%	0.61%	0.15	0.59	0.43
ALL Financial	**4.83%**	**8.71%**	**7.93%**	**3.88**	**3.10**	**–0.78**
Strategic investors – domestic	2.00%	9.90%	16.92%	7.90	14.92	7.03
Strategic investors – foreign	0.30%	1.02%	6.21%	0.72	5.91	5.19
ALL Strategic	**2.30%**	**10.92%**	**23.14%**	**8.62**	**20.84**	**12.22**
Total	**100.00%**	**100.00%**	**100.00%**			

Source: Simoneti *et al.* (2001).

informal markets with limited competition and transparency. In addition, new strategic investors until the end of 1999 were almost exclusively of domestic origin. Mass privatisation, with free distribution of shares and limited foreign and strategic investors, was followed by domestic ownership consolidation of limited transparency, where domestic companies and managers are the key investors.[133]

Econometric analysis demonstrates that post-privatisation ownership consolidation has had practically no positive effect either on economic efficiency or on the financial performance of companies in Slovenia during the period 1995-99. On the basis of available data, the overall assessment of the post-privatisation ownership consolidation in Slovenia is that the major problems are quality and transparency of the process as opposed to its low speed. Stronger participation of foreign strategic investors in this consolidation process is widely seen as the appropriate solution to this problem.[134] In an economy-wide survey, the managers of privatised companies expressed their opinion that the ownership share of foreign strategic partners should be increased in the near future on average by 5 percentage

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points to be optimal for the company's performance, while the share of the privatisation funds, para-state funds, and the state should be reduced by a further 18 percentage points (see Table 25 above). A more intensive entry of foreign portfolio and strategic investors in privatised companies can be expected in the future, in the course of Slovenia's accession to the EU.

Prospects

Currently, companies in Slovenia may be classified into the following categories:

i) private start-ups and foreign companies with clear corporate governance and with no need for a major "transitional" restructuring;

ii) privatised (public internal and external) companies, which in a number of cases have not yet established clear corporate governance nor undergone the necessary restructuring;

iii) non-privatised commercial companies in the portfolio of the Slovenian Development Corporation of which the majority face a critical financial situation, and

iv) state-owned companies in public utilities.

As indicated above, one of the central post mass-privatisation issues is that of establishing good corporate governance and overall restructuring of the privatised companies. FDI will offer new possibilities for quicker and more effective restructuring. This could happen in two ways. The first is that of foreign acquisitions of already privatised companies. For public companies (listed on the Stock Exchange) foreign acquisitions could take place under the *Take-Overs Act*, whereas for non-listed companies, foreign investors will be required to negotiate directly with the large shareholders in Slovenian companies – privatisation funds, para-state funds and insiders. It is expected that the second major opportunity for increased foreign acquisitions in Slovenia lies in the privatisation of some of the principal banks, insurance companies and public utilities. Participation in privatisations is open equally to foreign and national investors.

Banking

At the beginning of 2001 the banking sector in Slovenia was to a large extent still controlled by the state. The two largest state-owned banks, Nova Ljubljanska Banka (NLB) and Nova Kreditna Banka Maribor (NKBM) jointly accounted for approximately 40 per cent of total banking assets and even more than that when their subsidiaries and associates are included. In addition, the state held a minority stake in Slovenska Investicijska Banka, while Slovenska Potna Banka was indirectly in state hands. Domestic companies owned most of the other banks in Slovenia while foreign owners controlled six smaller banks.

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It seems, however, that the year 2001 will be the turning point for the Slovenian banking sector. Domestic private owners of the third largest bank – SKB Banka – have recently accepted the take-over bid from the French banking group Société Générale. Domestic owners of the fourth largest bank – Banka Koper – are currently negotiating a direct strategic sale of the bank to a foreign banking group. And the government has selected the privatisation models for the two largest banks. Two commissions appointed by the Ministry of Finance are to complete the privatisation of NKBM (the second-largest bank) at the end of 2001 and that of NLB (the largest bank) by mid-2002. In both cases, the state will retain a 25 per cent plus one vote share.

The main objectives of these two privatisation programmes are:

i) to strengthen the effectiveness and competitiveness of the banks through improved corporate governance, better access to new financial products, and injection of additional capital required for banks expansion; and

ii) to obtain the highest possible purchase price in order to reduce the public debt generated for the purpose of banking rehabilitation.

Under the privatisation model chosen for NKBM, the state will sell a 65 per cent share of the bank to a strategic investor and leave a 10 per cent share to the para-state pension and compensation funds. It is believed that the involvement of a strong foreign financial group will have a positive impact not only on the Slovenian banking sector but also in the area of asset management and insurance, sectors in which subsidiaries and affiliates of NKBM operate.

The privatisation of NLB, which, with its subsidiaries and associates accounts for 44 per of Slovenian banking assets, is envisaged in two stages. The first stage will involve the sale of a 34 per cent share to a "key investor" while in the second stage a further 14 per cent will be offered to portfolio investors. The strategic investor will be expected to provide knowledge, expertise and assistance in the development of the Bank's domestic and international services. Para-state funds will have an approximately 8 per cent share and the remainder of the shares will be owned by the former shareholders of NLB's daughter banks, which will be fully integrated into NLB. This arrangement is the result of a political compromise; the original intention was to offer a call option to the winning bidder that would permit eventual majority control.[135] The privatisation method chosen for NLB is expected to result in more dispersed ownership and an enhanced role for domestic owners than in the case of the privatisation of NKBM.

Until now, foreign investment in the Slovenian banking sector has mostly taken the form of green-field investments. For that reason, it has been much smaller that in other CEE countries. In Poland, Hungary and the Czech Republic, for example, foreign ownership amounts to at least 50 per cent of the banking sector.

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Insurance

The *Insurance Companies Transformation Act* was adopted in 2000,[136] to provide for the ownership transformation of insurance companies established before 1990 and having in part or in total non-nominated capital (former social capital). This Act was, however, repealed by the Constitutional Court in 2001. The government now plans to issue a decision on the privatisation of insurance companies on the basis of a proposal by the Finance Minister, following a valuation of the capital of insurance companies.

Telecommunications

In telecommunications, progress with the privatisation programme has been slow. The government's stake in the public operator Telekom Slovenije was recently reduced to 66.5 per cent, when it transferred part of its holding to the privatisation investment funds and the state pension fund. The government hopes to select a privatisation model by the end of 2001. The new *Telecommunications Act* 2001[137] provides a comprehensive legal framework for liberalisation of the sectors and brings Slovenian legislation into line with EU *acquis*. However, enabling legislation needs to be introduced before many of the new provisions can by implemented.[138] The poor performance of international stock markets over the past year has also been a delaying factor.

Transport infrastructure

The National Programme for the Development of Railway Infrastructure includes a programme for the reorganisation of railways by the end of 2001, which would include some privatisation. The Government also plans to privatise the airport of Ljubljana, the port of Koper and the national air carrier Adria Airways over the next three years.

Steel

The privatisation over five years of steelworks was one of the tasks envisaged under the Europe Agreement. This sector has been targeted for privatisation because several inactive companies represent a burden on the system, while active enterprises could benefit from restructuring. The privatisation programme focuses on the four largest companies of the Slovenian Ironworks group: Acroni, Metal Ravne, Noi Ravne, and STO Ravne. Seventy per cent of the shares will be sold by international tender. State aid will be provided to ease the adverse social effects expected from the reorganisation.[139]

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Energy

The adoption in 1999 of the *Energy Act*[140] set down the conditions for opening up the electricity and gas markets to privatisation. Among other things, the Act established the Agency for Energy, an independent agency within the Economics Ministry, with supervisory responsibility for market performance. Electricity production is no longer an exclusively public service, although its distribution and the transportation of gas remain in the public realm. The government has committed itself to privatising up to 45 per cent of shares in energy generation and distribution companies, (with the exception of the Krško nuclear power plant) by 2003.[141]

Monopolies and concessions

Monopolies

Slovenia implemented its competition law, the *Act on the Prevention of Restriction of Competition*, in 1999. This law contains provisions to combat restrictive agreements, abuse of dominant position and concentrations that result in the strengthening of the market power of an undertaking, resulting in a significant compromise of competitive market conditions.[142] It applies to corporations and natural persons engaging in economic activities, regardless of the legal form and without making any distinction between public, private, national and foreign ownership. The law provides for the Government to prescribe market restrictions in exceptional circumstances, such as natural disasters, epidemics, states of emergency, etc.

The Act also established the independent national competition authority – the Competition Protection Office. Its function, powers, and rules of procedure are contained in the Act. This office initiates its own investigations, or may do so on the request of a private company. It has the power to issue decrees against violations of the competition law, but it is the prerogative of the courts to issue fines based on such decrees. A number of decrees have been issued against companies for unfair practices, although the courts have yet to issue a fine.[143]

Also in 1999, Slovenia put in place a new framework for state aid, following closely the EC principles and procedures. In that year, the total amount of state subsidies was estimated at 3.5 per cent of GDP, a level almost three times higher than that of the EC member states. Implementation of the *Act on State Aid Control* 1999 and government decrees pursuant to the Act have brought this aspect of competition policy into line with European standards. The Act established the Commission for State Aid control – the national monitoring authority. A harmonisation programme was approved in May 2000, for aid schemes in place before the introduction of the Act.

In terms of both anti-trust and state aid, Slovenia's legislation substantially meets EU standards. Now that the legal framework is in place, efforts are to be

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focused on the implementation of the new regime, in particular with regard to aligning existing aid measures with the former legislation.[144]

Concessions

The private ownership of natural resources – which represent a relatively small portion of Slovenia's economy – is not allowed. Concessions to natural resources are granted to domestic entities on the basis of a deed of concession adopted by the government, and to foreign entities on the basis of a special Act adopted by parliament.

The law does not specify whether the concession may be granted to a foreign investor operating from abroad or through a company registered in Slovenia. In practice, concessions are granted to foreign investors operating through a company registered in Slovenia. Government or local authorities (concession providers) may, after appropriate payment, grant concessions regarding natural resources to domestic and foreign legal or natural persons (concessionaires) who have the appropriate capacities and qualifications for their management and exploitation. If not otherwise stipulated by law, concessions are granted on the basis of public tenders if all the conditions provided by the Environmental Protection Act are met. Priority in public tenders is given to the owners of territories where natural resources are located. In the case of demographically endangered areas, concessions may be granted free of charge.

The law is also inconclusive regarding the concession of public goods, *i.e.* infrastructure facilities, to foreign entities. Concessions regarding public (utilities) services are granted to domestic or foreign legal or natural persons who meet the criteria set by the government or local authorities for engaging in such activities. Based on a special deed of concession, they are granted via public tender published in the Official Gazette.

The concession relations between the concessionaire and concession provider end with the termination of the concession contract, redemption of the concession, or deprivation of the concession and transfer of facilities. Compulsory redemption of a concession is possible under expropriation provisions, subject to the payment of compensation to a concessionaire. The concessionaire may only transfer its rights to other persons on the basis of and to the extent provided by the concession contract, otherwise the prior approval of the concessionaire is necessary.[145] A new concessions law, currently under preparation, is expected to bring greater clarity to the conditions for engaging in the activities covered by this regulatory regime.

Conclusion

A principal reason for the relatively low level of foreign investment inflows to Slovenia, in comparison with other transition economies, was the lack of progress with

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privatisations. In the period January-August 2001, however, FDI inflows were US$199.8 million, compared to only US$44 million for the same period in 2000. This is due in large part to a recent privatisation transaction: the sale of a mobile telecommunications operator and the take-over of the recently privatised bank, SKB banka.[146]

The experience over the period May 1999-May 2000 yielded positive results. In small enterprises as well as enterprises with foreign participation, unit labour costs decreased by 6.4 per cent and company profits were triple those realised in 1998. These positive results are not shared by the larger number of enterprises privatised via management-employee buy-outs. Low productivity, lack of investment and shrinking employment in this category seems to indicate that the success of privatisation without new capital and management techniques is very limited.[147] Foreign strategic investors are thus recognised as an important source of corporate strategic restructuring in the Government's privatisation programme.

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Chapter 7

Investment Incentives and Promotion

Slovenia has never practised an active policy of investment incentives nor promoted the country as an investment location. Foreign investors have traditionally been offered the same incentives as their domestic counterparts without any differences regarding eligibility.[148] The essential role of the Trade and Investment Promotion Office (TIPO), established in 1996, is to provide information and other services to potential foreign investors. Promotion and incentive activities have been relatively less specifically focused on foreign investors than in other developed Central and Eastern European countries in transition. There have also been some delivery problems. For example, incentives were offered on the basis of programmes that were limited in time and resources. This prevented the Office from offering incentives to foreign investors on a permanent basis.

Since 2000 the importance of the TIPO has increased. It acts as the implementation institution for the promotion of internationalisation and new investments in the framework of the Ministry of Economic Affairs' Programmes and Measures for the Promotion of Entrepreneurship and Competitiveness in 2001-2002. The Office's major objectives and tasks as defined in the Programme of the Government of the Republic of Slovenia for the Promotion of Foreign Direct Investment in 2001-2004[149] are: *i*) promotion of Slovenia as an FDI location, *ii*) services related to the acquisition of building sites in manufacturing, *iii*) economic promotion of Slovenia, *iv*) implementation of public tenders for non-refundable incentives.

Non-refundable financial incentives are a new element of the FDI promotion strategy. In addition, Slovenia has a number of free customs and economic zones. The taxation system is considered to be fair, and the relatively low corporate tax rate of 25 per cent is an attractive feature. Slovenia has concluded over 30 bilateral investment treaties (BITs) and 25 treaties for the avoidance of double taxation.

Financial incentives

In the 2001-2004 period, the government will implement the programme of allocating non-refundable financial incentives for investments with the aim of improving the competitiveness of Slovenia as an FDI location. The Programme for

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the promotion of FDI in 2001-2004 contains incentives to help investors in introducing technologically advanced businesses in the field of industry and services, and in creating jobs.

Domestic and foreign companies undertaking an investment project are equally eligible for non-refundable financial incentives. Incentives are given for new investment projects as well as for the considerable expansion of existing activities. To be eligible for incentives, the investment project should provide for the establishment of a new business activity in the field of manufacturing or services that results in internationally marketable products. Another eligibility criterion for incentives is that investment projects should create at least 100 new jobs over a two-year period and the investment should total over 2 million euro. In less developed regions, the threshold is 50 new jobs in a period of one year, but this does not include the expansion of existing production in the same location. The programme also stimulates the establishment or expansion of research and development departments where investment totals over 5 million euro and creates at least 10 jobs in the period of one year.

Incentives are earmarked for: *i*) infrastructure and other facilities necessary for industrial land (up to 40 per cent of costs), *ii*) construction or purchase of buildings (up to 40 per cent of costs), *iii*) purchase of new machinery and equipment (up to 40 per cent), and *iv*) training (up to 40 per cent of costs). In 2001, the total amount of incentives will be SIT 500 million, while in 2002-2004 between SIT 500 million and SIT 1 000 million will be allocated annually.[150]

Companies registered in Slovenia are also eligible to receive various facilities for export promotion and protection provided by the Slovenian Export Corporation. Facilities include a broad range of financial services related to export insurance, financing, and guarantee issuing. Slovenian Export Corporation insures export credits against commercial as well as non-commercial risks. It also provides insurance against non-commercial risks in the case of Slovenian outward FDI.[151] Financial support for special projects is available on a case-by-case basis.

Taxation concerning enterprises

The Slovenian tax system consists of five basic taxation categories: corporate income tax, personal income tax, local taxes, value added tax, and taxes related to salaries and social status.

Corporate income tax

The corporate income tax rate is 25 per cent. The Law on Profit Tax on Legal Persons defines as taxable entities all for-profit legal entities established and registered in Slovenia, as well as legal entities headquartered abroad that engage in for-profit economic activities in Slovenia. Profits received from abroad are not

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taxed if they are subject to foreign tax. The taxable base is the profit reported in the tax return. Losses may be carried forward for a maximum five years. Depreciation of tangibles and intangibles is calculated by the straight-line method and may be included in the expenses of a company. The depreciation rate for fixed tangibles and long-term intangibles varies between 5 per cent and 50 per cent.

Taxpayers are entitled to a deductible allowance amounting to 40 per cent of the financial resources invested in tangible assets (except for passenger cars) and long-term intangible assets, but this may not exceed the amount of the taxable base. If such tangibles and intangibles are sold before the expiration of three years after the year in which such allowance was granted, the taxable base must be increased by the amount of the allowance in the year of sale. Also, investment reserves for investments in tangible and intangible assets and long-term portfolio investments in Slovenia may be deducted up to the amount of 10 per cent of the taxable base. Such allowances may be granted for a four-year term.

Dividends

Dividends paid by a local company are subject to a withholding tax of 25 per cent if they are transferred within Slovenia. Gross dividends are not included in the taxable base of the recipient who is the legal entity upon evidence that the payer has paid tax on profit according to the provisions of Slovenian law. Dividends transferred abroad are subject to a lower 15 per cent withholding tax in Slovenia both for legal and natural persons as recipients. Recently-concluded agreements for the avoidance of double taxation impose in most cases a 5 per cent withholding tax on dividends if the recipient who is the beneficial owner of the dividends is a company (other than a partnership), which directly holds at least 25 per cent of the capital of the company paying the dividends.

Other taxes

Personal income tax

Personal income is taxed according to a progressive scale with six tax brackets. Tax rates range from 17 per cent to 50 per cent. The total personal income taxable base is the aggregate of taxable bases of different types of income subject to tax (income from employment, pensions and other receipts, income from private business or professional activity, income from agriculture, capital gains,[152] income from property and income from property rights). All taxpayers are entitled to a general allowance that reduces the total taxable base, which is equivalent to 11 per cent of the Slovenian average gross annual wage for a given year. The taxable base can be further reduced by 3 per cent if the money is spent for specifically defined purposes. Residents are liable to tax on their income earned in

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Slovenia and on their income received from abroad (*e.g.* pensions, dividends and royalties). An individual is resident in Slovenia if he has his permanent residence in Slovenia. Non-residents are liable to income tax on certain Slovenian-source income.

Value-added tax

VAT is calculated on and paid from the supply of goods and services effected on the territory of Slovenia by taxable persons for consideration and in the course of their business, as well as on imports of goods. The Value Added Tax Act provides for a general 19 per cent tax rate and a reduced 8 per cent rate. VAT exemptions (without the right to deduct input tax) are granted for postal services and public interest (*i.e.* medical services, social security services, education, sports, religious services, political and humanitarian activities, some cultural activities and similar) and for certain other supplies that are usually not taxed with VAT (financial services, insurance services, land, etc.). VAT exemptions with the right to deduct the input tax are granted only for the export of goods, services linked to the export of goods, and similar activities. Upon importation, VAT is payable when goods become subject to customs duties (final importation). The reduced 8 per cent rate applies to food, livestock, seeds and seedlings, manure and fertilisers, hotel lodging, the supply of water, drugs and medical equipment (for personal use only), public transport, books, periodicals, royalties due to writers, composers and services of performing artists, housing, if part of the social policy. For a limited period of time (up to July 1, 2005) some other goods are also subject to the reduced 8 per cent rate, as for example: all housing, other royalties, and audio and video material.

Social security contributions

Social security contributions (for pension and disability insurance, health insurance, unemployment, and maternity leave) are partly paid by the employees (22.1 per cent of gross wages) and partly by employers (15.9 per cent of gross wages).

The Employment Service of Slovenia carries out a series of measures for encouraging employment, through which it advises and financially supports employers that employ new workers. A provision for the repayment of contributions when employing certain groups of unemployed persons provides reimbursement for employers of between 25 and 100 per cent of the compulsory contributions for pension, disability and health insurance, as well as contributions for maternity leave and unemployment insurance. Similar reimbursements of contributions are provided to employers with up to 50 employees that employ an unemployed person or a permanently redundant worker.[153]

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Payroll tax

Rates for payroll tax range between zero and 15 per cent, according to a progressive scale with five tax brackets. This tax is levied on legal and natural persons paying wages, who are liable for the payment of social security contributions. The taxable bases are gross monthly wages of employees (CICD 2001).

Free and special economic zones

Free zones

Free zones may be established by one or more domestic legal entities after obtaining government approval. Goods that enter into the free zones are not liable for the payment of customs duties, nor are they subjected to other trade policy measures until they are released into free circulation. Domestic export goods are considered to be exported the moment they enter the free zone (but in this case they must actually leave the customs-free zone within three months). Free zones may be used by their founders, other domestic and foreign legal persons, and entrepreneurs.

Duties and rights of users and exercising of control are:

- separate books must be kept for activities undertaken in free zones,
- users may undertake business activities in a free zone on the basis of contracts with the founders of free zones,
- users are free to enter goods (customs goods, domestic goods for export) into the zones,
- goods entered into free zones may remain for an indefinite period (except for agricultural produce, for which a time limit is set by the government),
- access, entry into and exit from free zones are under customs control,
- founders and users must allow customs or other responsible authorities to execute customs or other supervision, and
- for the purposes of customs control, users must keep records of goods entering and leaving free zones, and of goods consumed or altered in free zones.

In free zones, users may undertake the following activities: *i*) production and service activities, including handicrafts; banking and other financial transactions, property and personal insurance and reinsurance may be performed only when connected with other activities undertaken in the zone; *ii*) wholesale transactions, and *iii*) retail sales, but only for other users of the zone, for use within the free zone. Goods that leave a free zone may be re-exported from the customs territory or taken to another part of the customs territory after payment of customs duties.

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Special economic zones

Special economic zones constitute an upgrading of the existing free zones by providing additional tax concessions. Under the *Act on Special Economic Zones*, the free zones of Koper and Maribor, established under the provisions of the *Customs Act*, can operate as special economic zones. Economic zone users that acquire the tax authority's license may use special tax concessions and benefits such as: *i*) a 10 per cent profits tax, which is 15 per cent lower than the 25 per cent profits tax in place in the country, *ii*) investments in tangible assets in the free zones are entitled to a tax allowance amounting to 50 per cent of the invested resources, and *iii*) a taxable base reduction amounting to 50 per cent of salaries of apprentices and other workers formerly unemployed for at least six months. Provisions of the Act relating to exemption from retail sales tax ceased to apply when the *Value Added Tax Act* came into force.[154]

Foreign entities may operate in such zones by registering business at the competent authority and concluding a contract with the domestic company that established the particular economic zone.[155] The *Economic Zones Act* stipulates that the zones can operate until 2010. However, present preferential treatment is not compatible with the *acquis communautaire*, nor, therefore, with EU membership. The government will somehow have to find a solution to, on the one hand, aligning the conditions of doing business in the zones to EU rules and, on the other, minimising the impact of the change in conditions for present entities in the zones. Conditions for doing business in economic zones will certainly be accommodated to EU rules long before that date, but the exact solution is still under discussion.

The Trade and Investment Promotion Office (TIPO)

In the past, promotion activities related to inward FDI were relatively weak. In its 1998 report, FIAS assessed that the TIPO would need at least US$2 million per year with a staff of around ten professionals, if activities were to bring some results. According to the report, immediate priority should be given to investor servicing and facilitation, and medium priority to investment generation, including greater care in identifying, presenting and following up on potential investors, and image-building activities.

A renewed mandate for the activities of the TIPO was one element of the *Programme of the Government of Slovenia for the Promotion of Foreign Direct Investment in* 2000. In 1999, the TIPO began implementing promotional activities that included additional free services for potential foreign investors. These cover information on laws, taxes, investment incentives, local suppliers; advice and contacts; and assistance for the selection of industrial sites. TIPO has also developed its on-line services and now provides travel and other information on its bilingual website.[156]

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The *Programme of the Government of the Republic of Slovenia for the Promotion of Foreign Direct Investment in* 2001-2004 for the first time really seems to reflect an intention to seriously promote FDI in Slovenia. During the period 2001-2004, the overall budget of the Office (excluding employee salaries) is to increase from SIT 167 million to SIT 440 million, the budget for inward FDI from SIT 42 million to SIT 220 million, while the overall number of employees should increase from the present fourteen to twenty-six in 2004, and for inward FDI from the present seven to thirteen in 2004. Promotion activities in the field of inward FDI will be devoted to continuing to supply foreign investors with information and other services, and in particular, to intensify services in acquiring adequate building sites for foreign investors.

Services to promote outward investment include: *i*) information provision about investment opportunities abroad, and concrete projects, initial contacts with potential foreign partners, assistance from diplomatic or consular representatives, *ii*) assistance in staff training, *iii*) the introduction of internationalisation-related subjects in the curricula of schools of higher education, *vi*) the encouragement of practical work of post-graduate students in domestic and foreign companies in order to gain experience in internationalisation.[157]

Government procurement

In Slovenia, public procurement is regulated by the *Public Procurement Act* adopted in 2000[158] and by the Review of Public Procurement Procedure Act adopted in 1999.[159] These laws put in place the EU legislative framework in the field of public procurement. The *Public Procurement Act* regulates the procurement of supply, works, and services, and includes entities operating in the water, energy, transport, and telecommunications sectors. It introduced the EC principles of transparency and equality, and defines procedures and deadlines for procurement. The act abolished the previous 10 per cent preference for domestic bidders. The Act retained some preferences regarding prices for domestic bidders and foreign bidders who have the same status as domestic bidders (*i.e.* bidders from countries with which Slovenia has an agreement on the equal treatment of foreign and domestic bids) but it is valid only for procurement in the water, energy, transport and telecommunications sectors (provided that all other requirements are equally met), according to Article 36(3) of the Directive 93/38EEC.

The central body responsible for public procurement is the independent Public Procurement Office established in February 2001. The Office undertakes the following operational tasks: consulting, training, support in conducting concrete procedures, participating in drawing up the regulations relating to public procurement and concessions, collecting and analysing the data on the procedures that have already been carried out, as well as the tasks of collecting statistical

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data. Systematic regulation of the public procurement area is the responsibility of the Ministry of Finance.[160]

The Review of the Public Procurement Procedure Act provides for remedies and protection of bidders throughout the award procedure. Under the Act's provisions, the National Review Commission was established. In order to protect their independence, members of the Commission are appointed by the National Assembly and cannot be dismissed except for infringement. During the first months of 1999, the review commission that preceded the National Review Commission received 250 claims. One third of these were rejected as unfounded, and for around 160 the decision of the awarding authority was partially or totally cancelled.[161]

Slovenia is an observer to the WTO plurilateral Agreement on Government Procurement.

Investment protection and double taxation

As of 1 July, 2001, Slovenia had signed Bilateral Investment Treaties (BITs) with 33 countries, 18 of them being members of the OECD. 22 of the BITs have also entered into force, 14 of them with OECD member countries (see Table 26 below). BITs with Kuwait, Turkey, Chile and Malaysia have been concluded but not yet signed.

The BITs signed or negotiated are based on a model BIT adopted by the government and approved by the Parliamentary Committee for Foreign Policy. The same procedure is followed when adopting a priority list of countries with which Slovenia wishes to conclude BITs. The model draft BIT contains the following provisions: *i*) Definition of Investors and Investments (broad, asset-based), *ii*) Admission according to Laws and Regulations, *iii*) Fair and Equitable Treatment and Full Protection and Security, *iv*) National and Most Favoured Nation Treatment, *v*) Expropriation and Prompt, Adequate and Effective Compensation, *vi*) Protection from Strife, *vii*) Subrogation, *viii*) State-to-State and Investor-to-State Settlement of Disputes.

Slovenia has been a member of the International Center for the Settlement of Investment Disputes (ICSID) since 1992, when it became party to the 1965 Convention on the Settlement of Disputes between States and Nationals of other States.

Slovenia concluded double taxation conventions with the following countries: Austria (01.01.1999), China (01.01.1996), Czech Republic (01.01.1999), Macedonia (01.01.2000), Poland (01.01.1999), Russia (01.01.1998), Switzerland (01.01.1998), and the United States of America (22.9.2001). Conventions with the following countries were concluded by the former Socialist Federative Republic of Yugoslavia (SFRY) and remain in force for Slovenia: Cyprus, Denmark, Egypt, Finland, France, Germany, Hungary, Italy, Malaysia, the Netherlands, Norway, The Philippines, Romania, Slovak Republic, Sri Lanka, Sweden and the United Kingdom.

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Table 26. **Slovenia's Bilateral Investment Treaties; as of 1 July, 2001**

	Date of signature (day/month/year)	Date of entry into force (day/month/year)
Albania	23.10.1997	22.3.2000
Austria[1]	25.10.1989	3.11.1990
Belgium/Luxembourg	1.2.1999	
Bulgaria	30.6.1998	26.11.2000
China	13.9.1993	1.1.1995
Croatia	12.12.1997	
Czech Republic	4.5.1993	21.5.1994
Denmark	11.5.1999	
Egypt	28.10.1998	
Finland	1.6.1998	3.6.2000
France	11.2.1998	5.8.2000
Hungary	15.10.1996	9.6.2000
Germany	28.10.1993	18.7.1998
Greece	29.5.1997	11.2.2000
Italy	8.3.2000	
Israel	13.5.1998	2.10.1999
Lithuania	13.10.1998	
Macedonia	5.6.1996	21.9.1999
Malta	15.3.2001	
Netherlands	24.9.1996	1.8.1998
Poland	28.6.1996	31.3.2000
Portugal	14.5.1997	4.5.2000
Romania	24.1.1996	24.11.1996
Russia	8.4.2000	
Singapore	25.1.1999	
Slovakia	28.7.1993	28.3.1996
Spain	15.7.1998	3.4.2000
Sweden[2]	10.11.1978	21.11.1979
Switzerland	9.11.1995	20.3.1997
Thailand	18.2.2000	
Ukraine	30.3.1999	1.6.2000
United Kingdom	3.7.1996	12.5.1999

1. Concluded between the former SFRY and Austria. The Republic of Slovenia signed a new BIT with Austria on 8.3.2001, which will repeal the former BIT.
2. Concluded between the former SFRY and Sweden. The Republic of Slovenia signed a new BIT with Sweden on 5.10.1999, which will repeal the former BIT.

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Annex 1

Summary of the Main Provisions of the OECD Declaration on International Investment and Multinational Enterprises

Adherence to the OECD Declaration on International Investment and Multinational Enterprises implies acceptance of all its components as well as the related Decisions and Recommendations. The OECD Declaration on International Investment and Multinational Enterprises is a political agreement among Adherent countries for co-operation on a wide range of investment issues. The Declaration contains four related elements: the National Treatment Instrument, the Guidelines for Multinational Enterprises, an instrument on incentives and disincentives to international investment, and an instrument on conflicting requirements. It is supplemented by legally binding Council Decisions on implementation procedures, and by Recommendations to Adherents to encourage pursuit of its objectives, notably with regard to National Treatment.

National Treatment

The National Treatment Instrument provides that Adherents should, consistent with their needs to maintain public order, to protect their essential security interests and to fulfil commitments relating to international peace and security, accord to enterprises operating in their territories and owned or controlled by nationals of another Member country treatment under their laws, regulations and administrative practices consistent with international law and no less favourable than that accorded in like situations to domestic enterprises.

Under the Third Revised Decision of the Council on National Treatment, Adherents to the Declaration must notify the Organisation of all measures constituting exceptions to the National Treatment principle within 60 days of their adoption and of any other measures which have a bearing on this principle (the so-called "transparency measures"). These measures are periodically reviewed by the CIME, the goal being the gradual removal of measures that do not conform to this principle.

Exceptions to National Treatment fall into five categories: investments by established foreign-controlled companies, official aids and subsidies, tax obligations, access to local bank credit and the capital market, and government procurement.

Transparency measures include measures based on public order and national security interests, restrictions on activities in areas covered by monopolies, public aids and subsidies granted to government-owned enterprises by the state as a share.

The National Treatment instrument is solely concerned with discriminatory measures that apply to established foreign-controlled enterprises.

Areas of existing public, private or mixed monopolies are to be recorded for the purpose of transparency since foreign-controlled and domestic private enterprises are subject to the

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same restrictions. The undertaking to apply National Treatment comes into force as and when areas previously under monopoly are opened up. In such cases, access to these areas should be provided on a non-discriminatory basis. If restrictions prohibit or impede in any way the participation of foreign-controlled enterprises *vis-à-vis* their domestic counterparts, then these restrictions are to be reported as exceptions to National Treatment. The objective is to ensure access to formerly closed sectors on an equal basis.

The 1991 Review confirmed the understanding reached in 1988 by the Committee on International Investment and Multinational Enterprises on a standstill on National Treatment measures. This understanding provides that Adherents should avoid the introduction of new measures and practices, which constitute exceptions to the present National Treatment instrument. Particular attention is to be given to this question in the Committee's work.

A number of Recommendations of the Council have also been addressed to Adherents in the context of earlier horizontal examinations. Most of these recommendations were made to individual countries, but a number of them were of a general character. Concerning investment by established foreign-controlled enterprises, Adherents should give priority to removing exceptions where most Adherents do not find it necessary to maintain restrictions. In introducing new regulations in the services sectors, Adherents should ensure that these measures do not result in the introduction of new exceptions to National Treatment. Adherents should also give particular attention to ensuring that moves towards privatisation result in increasing the investment opportunities of both domestic and foreign-controlled enterprises so as to extend the application of the National Treatment instrument.

In the area of official aids and subsidies, Adherents should give priority attention to limiting the scope and application of measures which may have important distorting effects or which may significantly jeopardise the ability of foreign-controlled enterprises to compete on an equal footing with their domestic counterparts.

Finally, with regard to measures motivated by, or based on public order and essential security interests, Adherents are encouraged to practice restraint and to circumscribe them to the areas where public order and essential considerations are predominant. Where motivations are mixed (*e.g.* partly commercial, partly national security), the measures concerned should be covered by exceptions rather than merely recorded for transparency purposes.

Guidelines for Multinational Enterprises

The Guidelines for Multinational Enterprises are recommendations jointly addressed by Adherent governments to multinational enterprises operating in their territories. While their observance is voluntary and not legally enforceable, they represent the collective expectations of these governments concerning the behaviour and activities of multinational enterprises.

They also provide standards by which multinational enterprises can ensure that their operations are in harmony with the national policies of their host countries. The areas covered include disclosure, employment and industrial relations, environment, combating bribery, consumer interests, science and technology, competition, and taxation.

Adherent governments must set up national contact points (NCPs) to deal with the implementation of the Guidelines. The purpose of NCPs is to undertake promotional activities, handle inquiries, and for discussions with the parties concerned on all matters covered by the Guidelines so that they can contribute to the solution of problems which may arise in this connection, taking due account of the Procedural Guidance.

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NCPs in different countries shall co-operate, if such need arises, on any matter covered by the Guidelines relevant to their activities. NCPs shall also meet annually to share experiences and report to the CIME

The Committee on Investment and Multinational Enterprises is responsible for periodically, or at the request of an adhering country, holding exchange of views on matters covered by the Guidelines and periodically inviting the Business and Industry Advisory Committee to the OECD (BIAC), the Trade Union Advisory Committee to the OECD (TUAC) ("the advisory bodies"), and other non-governmental organisations to express their views as well as representatives of non-adhering countries on matters covered by the Guidelines.

The Committee shall also be responsible for clarifications of the Guidelines and for exchanging views on the activities of National Contact Points and shall periodically report to the Council on matters related to the Guidelines.

Incentives and Disincentives

The instrument on Investment Incentives and Disincentives recognises that Adherents may be affected by this type of measure and stresses the need to strengthen international co-operation in this area. It first encourages them to make such measures as transparent as possible so that their scale and purpose can be easily determined. The instrument also provides for consultations and review procedures to make co-operation between Adherents more effective. A considerable part of the work undertaken in this area is analytical, two studies being undertaken in the 1980s. Adherents may therefore be called upon to participate in studies on trends in, and effects of, incentives and disincentives on FDI and to provide information on their policies.

Conflicting Requirements

The instrument on Conflicting Requirements provides that Adherents should co-operate with a view to avoiding or minimising the imposition of conflicting requirements on multinational enterprises. In doing so, they shall take into account the general considerations and practical approaches recently annexed to the Declaration. This co-operative approach includes consultations on potential problems and giving due consideration to other country's interests in regulating their own economic affairs.

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Annex 2

Slovenia's Position under the OECD Declaration of International Investment and Multinational Enterprises

A. Exceptions under the National Treatment Instrument

Adherents to the Declaration have the obligation to notify their exceptions to National Treatment. The exceptions notified by Slovenia are as follows:

I. *Investment by established foreign-controlled enterprises*

Air transport

Registration of an aircraft is only possible for aircraft owned by Slovenian nationals or companies controlled by them. Granting of an operating or AOC license for performing airlines services is provided only to companies controlled by Slovenian nationals or to carriers complying with EU regulations on ownership and control (including principal place of business and activity, and majority-owned by EU member States/nationals).

Authority: Aviation Act (OG RS 18/010; Multilateral Agreement on the Establishment of a European Common Aviation Area (ECAA)

Gambling

Only domestic legal persons may be shareholders of a company that may obtain a concession for permanent organisation of classical gambling in Slovenia.

Foreign natural and legal persons may not be shareholders in a company that has obtained a concession for organising special gambling in Slovenia

Authority: the Gaming Act, Act of Transformation of Legal persons with Social Capital and Act of the Structure of Capital of Legal Persons

II. *Official aids and subsidies*

None.

III. *Tax obligations*

None.

IV. *Government purchasing*

None.

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V. *Access to local finance*

None.

B. Measures reported for transparency under the National Treatment Instrument

I. *Measures based on public order and essential security considerations*

Article 22 of the 1999 Foreign Exchange Act prohibits foreign investment in the production and trading of armaments.

II. *Monopolies and concessions*

1. *Public Monopolies*

In accordance with special laws, the following activities or state-owned enterprises are in a *de jure* or *de facto* monopoly situation:

- Postal services: "Pošta Slovenije, d.o.o."
- Telecommunications: "Telekom Slovenije" in respect to the fixed line segment of the market
- Domestic Air transport: "Adria"
- Rail Transport: "Slovenske železnice, d.d."
- Energy: Ownership and operation of energy transmission networks
- Public Health insurance
- Obligatory pensions

2. *Private monopolies*

None.

3. *Concessions*

Natural resources. A new concession law is under preparation.

C. Implementation of the OECD Guidelines for Multinational Enterprises

According to the Decision of the OECD Council of 27 June 2000 (and the attached Procedural Guidance) Slovenia as an adherent, will be under the obligation to set up National Contact Points for undertaking promotional activities and handling inquiries on all matters covered by the Guidelines. Slovenia also needs to inform the business community, employee organisations and other interested parties of the availability of such facilities.

The Slovenian authorities have informed the Organisation that the Guidelines are an important element in the promotion of corporate social responsibilities at home and abroad. In accordance with the Decision of the OECD Council of June 2000, the Slovenian government will establish a National Contact Point (NCP) to help implement and promote the Guidelines and make them better known to businesses, labour representatives, and other interested parties. In the setting-up of a National Contact Point, Slovenia intends to follow the Procedural Guidance for institutional arrangements attached to the above-mentioned Decision, as well as its guidance on any issues related to implementation matters. The Slovenian government is committed to the implementation of the Guidelines.

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The Slovenian NCP will be located at the Ministry of Economic Affairs as an integral part of the Foreign Economics Relations Division. It will be composed of representatives from:

- Other Ministries concerned
- Social partners
- NGOs interested in the OECD Guidelines

The Slovenian NCP will be available for consultations with businesses, labour representatives, NGOs and all other interested parties in the OECD Guidelines.

The Government of Slovenia will take the necessary steps to ensure the NCPs visibility, accessibility, transparency and accountability.

Regarding information and promotional efforts of the Guidelines, it may be noted that:

- The Slovenian government has already translated the Guidelines for Multinational Enterprises, (as well as related Procedures and Comments) into the Slovene language. The Guidelines will soon be made publicly available on the website of the Ministry of Economic Affairs;
- The Trade Investment Promotional Office (TIPO) will provide prospective investors in Slovenia with information on the Guidelines; and
- The Ministry of Economic Affairs intends to organise a seminar for an audience of those concerned (businesses, chamber of commerce, unions, NGOs) to promote the Guidelines as "best practice" standards while respecting their voluntary and non-binding character on multinational enterprises, and the fact that they do not override Slovenian law.

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Annex 3

Methodology of FDI Data Compilation in Slovenia

The institution responsible for FDI data compilation in Slovenia is the central bank, *i.e.* Bank of Slovenia. The Bank records data on FDI flows and on FDI stocks.

Stocks. Stock data are collected from surveys of enterprises on stock and transactions with affiliated enterprises (form SN) that all residents of the Republic of Slovenia are required to send to the Bank of Slovenia concerning any investments abroad and any investments made by foreigners in Slovenia. In 1993, the Bank of Slovenia for the first time implemented required direct reporting on the part of all enterprises headquartered in Slovenia in which non-residents own shares in equity or of companies that have equity shares in companies abroad. Thus, there is data available on direct investments from 1993 to 1999. The following entities are required to send to the Bank of Slovenia data concerning the stock and transactions of affiliated companies as well as data concerning the stock of contractual joint ventures:

- all residents of the Republic of Slovenia who hold shares in equity or ordinary shares in corporations abroad or who own real estate abroad (directly or indirectly affiliated);
- all resident entities of the Republic of Slovenia in which residents (natural or legal entities) hold shares in equity or ordinary shares (directly or indirectly affiliated);
- all natural entities and individuals who have drawn up contractual joint ventures with non-residents.

In their reports residents are required to include information concerning shares in equity, stock of claims on/liabilities to affiliated enterprises, net profits/losses during the fiscal year and forms of increases/decreases in shares in equity. Claims and liabilities are broken down by maturity and type of financial instrument.

The methodologies employed are in compliance with the International Monetary Fund's Balance of Payments Manual (fifth edition, 1993), with the definition of FDI issued by the OECD (OECD Benchmark Definition of Foreign Direct Investment, OECD, Paris, 1995) as well as that of National Accounts (System of National Accounts, CEC-IMF-OECD-UN-WB, 1993).[162] Following these methodological recommendations, the major methodological characteristics of FDI stock data compilation of the Bank of Slovenia are:

- Direct investors may be individuals, companies, groups of individuals or of companies as well as a government or government agencies that have direct investments in a company abroad.
- Compilation of data is based of the benchmark of a minimum 10 per cent share in equity.
- Among direct investments from 1996 onwards are included indirectly affiliated direct investments (indirect ownership of Slovenian companies which have at least 10 per

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cent share in a directly affiliated company abroad and the directly affiliated company has at least a 10 per cent share in the indirectly affiliated company abroad; and when a non-resident has at least a 10 per cent share in a directly affiliated company in the Republic of Slovenia, and the directly affiliated company has at least a 10 per cent share in the indirectly affiliated company in the Republic of Slovenia.

Stock data includes equity capital, reinvested earnings, and claims and liabilities to affiliated companies abroad. Short-term claims and liabilities to banks are not included.

- The value of investments is calculated on the basis of book value, which is employed to assess investments in accordance with Slovenian accounting standards.
- Direct investment data does not include: *i*) value of real estate abroad owned by Slovenian households (mostly real estate in Croatia); *ii*) value of claims on other countries in the territory of the former Socialist Federal Republic of Yugoslavia that are subject to succession negotiations or confiscated assets in this territory as well as other assets whose ownership was transferred from legal entities to the Slovenian Government during the privatisation process.
- Data concerning contractual joint ventures contain information concerning liabilities and claims (without shares in equity) between residents and non-residents of the Republic of Slovenia who have drafted and signed a joint venture contract. This data is not classified among direct investments, for often these are simply relationships between creditors and debtors and not direct investments.
- Data on investment stock also include all changes in direct investment stock, classified by type.
- Profits and losses are shown as: *i*) profits and losses in the current year, *ii*) distribution of reinvested profits/losses.

Flows. Flows data are recorded on the basis of reporting of payments through domestic banks and of data from customs declarations. The source is the international transactions reporting system – ITRS. Data on reinvested earnings is based on yearly surveys of balance and transactions with affiliated enterprises (form SN; see above) and are included each year in the flows data of December. Until 1997 purchase and sale of all shares and equity have been included in this item. From the beginning of 1997, purchase and sale of shares that assure more than 50 per cent of company's equity, a control package of shares, shares issued by domestic companies on the primary markets with the purpose to increase the nominal capital of the company are included in this item, due to capital control measures. With the adoption of the Foreign Exchange Act, since 1999 a 10 per cent rule has been applied.

Source: Bank of Slovenia 2000, pp. 83-85.

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Annex 4

Foreign Direct Investment Statistics in Adherent Countries to the OECD Declaration on International Investment and Multinational Enterprises

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Table 1. **Foreign Direct Investment Inflows in Adherents to OECD Declaration on International Investment and Multinational Enterprises**

Million US dollars

	Cumulative flows		1991	1992	1993	1994	1995	1996	1997	1998	1999p
	1971-1980	1981-1990									
Australia[1]	11 295	39 822	4 042	5 036	3 007	3 951	12 737	5 171	7 510	6 502	44 41
Austria	1 455	3 274	359	940	982	1 314	1 904	4 429	2 656	4 902	2 952
Belgium-Luxembourg	9 215	27 986	9 292	11 326	10 751	8 313	10 812	14 061	12 093	22 724	15 868
Canada	5 534	33 409	2 870	4 717	4 748	8 204	9 255	9 407	11 470	16 499	24 268
Czech Republic	..	..	..	1 004	654	869	2 562	1 428	1 300	2 540	4 877
Denmark	1 561	3 467	1 453	1 015	1 681	4 890	4 176	776	2 801	6 722	7 450
Finland	376	2 838	–247	406	864	1 578	1 063	1 109	2 116	12 141	3 024
France[2]	16 908	54 588	15 157	17 855	16 439	15 580	23 677	21 942	23 174	28 955	37416
Germany[3]	13 816	19 691	4 729	–2 089	368	7 134	12 019	6 577	11 092	21 271	52 403
Greece[4, 8]	..	6 145	1 135	1 144	2 583	3 081	4 272	5 888	3 586	3 709	539
Hungary	..	512	1 462	1 479	2 339	1 146	4 453	2 275	2 173	2 036	1 944
Iceland	..	74	18	–11	..	..	14	82	149	112	90
Ireland[6]	1 659	1 371	1 168	1 244	850	420	621	1 888	1 676	3 904	5 422
Italy	5 698	24 888	2 481	3 210	3 746	2 236	4817	3 535	3 698	2 611	5 019
Japan[7]	1 424	3 324	1 286	2 755	210	888	41	228	3 224	3 193	12 378
Korea	..	4 025	1 180	728	588	809	1176	2 325	2 844	5 416	8 798
Mexico	..	2 4421	4 762	4 393	4 389	10 973	9 526	9 185	12 830	11 311	11 568
Netherlands	10 822	37 857	6 552	7 824	8 561	7 333	12 216	15 055	14 499	41 977	3 3341
New Zealand[8]	2 598	3 940	1 695	1 089	2 212	2 690	2 697	3 697	1 832	2 172	989
Norway	3 074	5 634	655	–426	2 244	2 713	2 230	3 201	3 786	3 882	6 579
Poland	..	88	359	678	1 715	1 875	3 659	4 498	4 908	6 365	6 471
Portugal	535	6 920	2 451	1 914	1 550	1 265	695	1 368	2 278	2 802	570
Spain	7 060	46 158	12 445	13 352	8 073	9 425	6 285	6 820	6 387	11 797	9 357
Sweden	897	8 619	6 351	–41	3 843	6 346	14 448	5 076	10 968	19 569	59 102
Switzerland	..	14 068	2 644	411	–83	3 368	2 224	3 078	6 642	7 499	3 412
Turkey	228	2 434	910	911	746	636	885	722	805	940	783
United Kingdom	40 503	13 0469	16 027	16 214	15 468	10 497	22 738	26 084	33 245	64 388	82 176
United States	56 276	36 3421	23 695	20 975	52 552	47 438	59 644	88 977	109 264	193 375	282 507
TOTAL OECD	**190 934**	**869 442**	**124931**	**118 052**	**15 1079**	**164 971**	**230 846**	**248 882**	**299 004**	**509 313**	**683 744**

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Table 1. **Foreign Direct Investment Inflows in Adherents to OECD Declaration on International Investment and Multinational Enterprises** (*cont.*)

Million US dollars

	Cumulative flows		1991	1992	1993	1994	1995	1996	1997	1998	1999p
	1971-1980	1981-1990									
Argentina	1 278	869 442	2 439	4 384	2 763	3 490	5 315	6 522	8 755	65 26	23 152
Brazil	11 026	16 512	1 103	2 061	1 292	3 072	4 859	11 200	19 650	31 913	..
Chile	708	5 261	822	935	1 034	2 583	2 957	4 634	5 219	4 638	9 221
Estonia	..	..	..	82	162	214	201	150	266	580	305
Latvia[9]	..	..	..	29	45	214	180	382	521	357	366
Lithuania	..	..	..	..	30	31	73	152	354	925	486
Slovenia	..	..	..	14	129	64	118	104	169	295	234
TOTAL	**203 946**	**1 760 658**	**129 295**	**125 557**	**156 535**	**174 640**	**244 549**	**272 026**	**333 939**	**554 547**	**717 508**

Note: Data are converted using the yearly average exchange rates.
p. Provisional data.
1. Break in series. As from 1995, data are based on a new methodology.
2. Break in series. As from 1988, data are based on a new methodology.
3. Break in series. As from 1971, data are based on a new methodology.
4. Up to 1992, data are on an approval basis. As from 1993, change in the coverage: the amounts include entrepreneurial capital net and real estate investment inflows.
5. Break in series. As from 1990, the results shown are for net (inward and outward) direct investment capital flows.
6. Break in series.
7. Data from 1993 to 1999 are based on fiscal years ending 31 March.
8. Break in series. As from 1999, data are based on a new methodology.
9. Latvia's application to adhere to the Declaration on International Investment and Multinational Enterprises is under review.

Source: OECD/Financial Statistics Unit – Based on national sources of OECD Member countries. For Argentina, Brazil and Chile, International Financial Statistics Yearbook, IMF 2000 edition.

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Table 2. **Foreign Direct Investment Outflows from Adherents to OECD Declaration on International Investment and Multinational Enterprises**

Million US dollars

	Cumulative flows		1991	1992	1993	1994	1995	1996	1997	1998	1999p
	1971-1980	1981-1990									
Australia[2]	2 510	22 266	3 001	951	1 779	5 291	3 846	5 927	6 262	2 466	–3 192
Austria	578	4132	1 288	1 871	1 467	1 201	1 131	1 935	1 948	2 948	2 703
Belgium-Luxembourg	3 213	20 984	6 493	10 389	4 693	1 205	11 712	8 065	7 273	28 453	24 937
Canada	11 335	42 337	5 813	3 586	5 868	9 293	11 461	12 879	22 054	26 575	17 362
Czech Republic	..	..	..	21	101	120	37	153	25	175	197
Denmark	1063	6 292	1 844	2 225	1 373	4 041	3 069	2 518	4 210	3 962	8 207
Finland	605	11 577	–124	–753	1 409	4 297	1 498	3 596	5 292	18 643	4 194
France[3]	13 940	101 365	25 115	30 416	19 732	24 381	15 757	30 395	35 586	41 913	88 324
Germany[4]	27 830	94 239	22 947	18 596	17 197	18 858	39 030	50 841	40 716	91 183	98 853
Greece[5]	..	..	..	..	..	..	..	..	..	..	573
Hungary	..	..	..	..	11	49	43	–3	431	481	249
Iceland	..	26	27	3	11	23	24	62	51	99	70
Ireland	..	..	..	..	..	..	..	..	..	8 569	18 326
Italy	3 597	28 707	7 326	5 948	7 221	5 109	5 732	6 465	10 619	12 078	3 038
Japan[6]	18 052	192 410	31 688	17 301	13 916	18 117	22 629	23 424	25 991	24 159	20 730
Korea	..	2 406	1 489	1 162	1 340	2 461	3 552	4 670	4 449	4 799	4 044
Mexico	..	..	..	..	..	..	..	..	..	..	..
Netherlands	27 829	65 771	13 577	14 366	12 343	17 745	20 159	31 230	29 247	51 365	45 540
New Zealand[7]	375	4 556	1 472	391	–1 386	2 015	1 751	–1 260	–1 602	376	1 020
Norway	1 079	8 995	1 840	–80	791	2 098	3 139	5 918	5 047	2 418	5 483
Poland	..	..	..	13	18	29	42	53	45	316	123
Portugal	21	374	474	687	141	283	689	776	1 668	2 901	2 679
Spain	1 274	8 793	4 424	2 171	2 648	3 900	4 158	5 590	12 547	18 935	35 421
Sweden	4 597	48 074	7 053	409	1 357	66 98	11 215	4 664	12 648	24 376	18 951
Switzerland	..	33 553	6 212	6 050	8 765	10 798	12 214	16 150	17 747	16 631	17 910
Turkey	..	97	127	133	175	78	113	110	251	367	645
United Kingdom	55 112	185 581	15 972	19 156	25 573	28 251	44 329	34 125	61 620	119 463	199 275
Unites States	134 354	225 911	38 233	48 733	84 412	80 697	99 481	92 694	109 955	132 829	152 152
TOTAL OECD	**307 364**	**1 108 446**	**196 291**	**183 745**	**210 955**	**247 038**	**316 810**	**340 977**	**414079**	**636 480**	**767 814**

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Table 2. **Foreign Direct Investment Outflows from Adherents to OECD Declaration on International Investment and Multinational Enterprises** (*cont.*)

Million US dollars

	Cumulative flows		1991	1992	1993	1994	1995	1996	1997	1998	1999p
	1971-1980	1981-1990									
Argentina	193	135	–	1 166	704	1 013	1 497	1 600	3 656	2 166	1 195
Brazil	1 128	2 537	1 014	137	491	1 037	1 384	467	1 042	2 721	..
Chile	20	53	1 25	398	434	911	752	1 188	1 865	2 798	4 855
Estonia	..	..	..	2	6	2	2	40	137	6	83
Latvia[8]	..	..	..	2	5	65	65	3	6	54	–
Lithuania	..	..	..	..	..	..	1	–	27	4	9
Slovenia	..	..	..	5	21	–3	–8	–9	–12	–13	15
TOTAL	**308 705**	**1 111 171**	**197 430**	**185 454**	**212 616**	**250 063**	**320 503**	**344 267**	**420 800**	**644 216**	**773 970**

p. Provisional data.
1. Data are converted using the yearly average exchange rates.
2. Break in series. As from 1995, data are based on a new methodology.
3. Break in series. As from 1988, data are based on a new methodology.
4. Break in series. As from 1971, data are based on a new methodology.
5. Break in series. As from 1999, data are based on a new methodology.
6. Break in series.
7. Data from 1993 to 1999 are based on fiscal years ending 31 March.
8. Latvia's application to adhere to the Declaration on International Investment and Multinational Enterprises is under review.

Source: OECD/Financial Statistics Unit – Based on national sources of OECD member countries. For Argentina, Brazil and Chile, International Financial Statistics Yearbook, IMF 2000 edition.

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Table 3. **Foreign Direct Investment in Adherents to OECD Declaration on International Investment and Multinational Enterprises: Inflows**

As a percentage of GDP

	1991	1992	1993	1994	1995	1996	1997	1998	1999p
Argentina	1.29	1.91	1.17	1.35	2.06	2.40	2.99	2.19	8.18
Australia	1.28	1.61	0.98	1.14	3.39	1.24	1.79	1.74	1.09
Austria	0.21	0.49	0.53	0.66	0.81	1.91	1.29	2.32	1.41
Belgium-Luxembourg	4.34	4.72	4.71	3.35	3.68	4.90	4.63	8.46	5.92
Brazil	0.27	0.53	0.29	0.56	0.69	1.45	2.45	4.12	..
Canada	0.49	0.83	0.86	1.48	1.60	1.56	1.84	2.76	3.82
Chile	2.37	2.23	2.32	5.07	4.53	6.76	6.93	6.37	13.67
Czech Republic	..	3.38	1.87	2.11	4.92	2.47	2.45	4.48	9.20
Denmark	1.08	0.69	1.21	3.22	2.32	0.42	1.66	3.85	4.23
Estonia	..	..	9.91	9.39	5.66	3.44	5.73	11.13	5.94
Finland	–0.20	0.37	1.00	1.58	0.82	0.87	1.73	9.41	2.34
France	1.24	1.33	1.29	1.15	1.52	1.41	1.65	1.99	2.60
Germany	0.27	–0.10	0.02	0.34	0.49	0.28	0.52	0.99	2.48
Greece	1.26	1.15	2.76	3.08	3.63	4.73	2.96	3.06	0.43
Hungary	4.33	3.93	6.00	2.74	9.97	5.04	4.75	4.33	4.05
Iceland	0.27	–0.16	..	..	0.20	1.13	2.01	1.38	1.04
Ireland	2.45	2.32	1.69	0.77	0.94	2.59	2.10	4.53	5.80
Italy	0.21	0.26	0.38	0.22	0.44	0.29	0.32	0.22	0.43
Japan	0.04	0.07	0.00	0.02	0.00	0.00	0.07	0.08	0.28
Korea	0.40	0.23	0.17	0.20	0.24	0.45	0.60	1.71	2.17
Latvia*	..	1.97	2.07	5.87	4.05	7.44	9.24	5.87	5.49
Lithuania	..	..	1.12	0.73	1.21	1.93	3.69	8.61	4.56
Mexico	1.51	1.21	1.09	2.61	3.33	2.76	3.20	2.69	2.41
Netherlands	2.17	2.33	2.63	2.09	2.95	3.66	3.85	10.73	8.47
New Zealand	4.07	2.72	5.06	5.24	4.49	5.67	2.83	4.10	1.81
Norway	0.56	–0.34	1.93	2.21	1.52	2.03	2.44	2.63	4.28
Poland	0.47	0.80	1.99	1.89	2.88	3.13	3.41	4.00	4.17
Portugal	3.05	1.98	1.81	1.40	0.65	1.22	2.14	2.51	0.50
Slovenia	..	0.11	1.02	0.45	0.63	0.55	0.93	1.51	1.16
Spain	2.26	2.22	1.61	1.87	1.08	1.12	1.14	2.01	1.56
Sweden	2.57	–0.02	2.00	3.07	6.02	1.94	4.59	8.16	24.48
Switzerland	1.14	0.17	–0.04	1.29	0.72	1.04	2.60	2.85	1.32
Turkey	0.60	0.57	0.41	0.49	0.52	0.40	0.42	0.47	0.42
United Kingdom	1.55	1.52	1.61	1.01	2.02	2.21	2.52	4.57	5.70
United States	0.40	0.33	0.80	0.68	0.81	1.15	1.32	2.22	3.06

p. Provisional data.

* Latvia's application to adhere to the Declaration on International Investment and Multinational Enterprises is under review.

Source: Foreign Direct Investment database, 2000,OECD. For Argentina, Brazil and Chile, International financial Statistics Yearbook, IMF 2000 edition. The source of the GDP is the OECD Statistics Department, except for Argentina, Brazil and Chile, the source of the GDP is the International Financial Statistics Yearbook, IMF 2000 edition.

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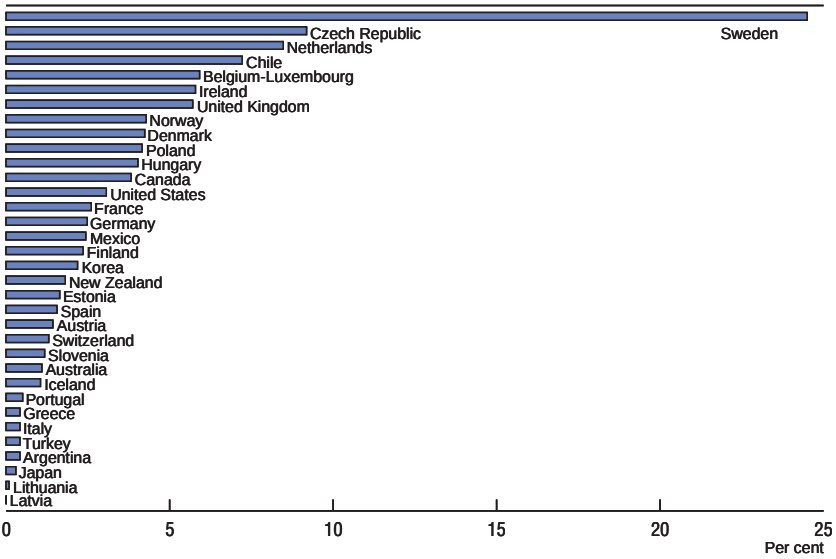
Graph 1. **Foreign direct investment in Adherents* to OECD Declaration on International Investment and Multinational Enterprises: Inflows**

As a percentage of GDP: 1999



* Latvia's application to adhere to the Declaration on International Investment and Multinational Enterprises is under review.

Source: OECD.

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Table 4. **Foreign Direct Investment from Adherents to OECD Declaration on International Investment and Multinational Enterprises: Outflows**

As a percentage of GDP

	1991	1992	1993	1994	1995	1996	1997	1998	1999p
Argentina	0.00	0.51	0.30	0.39	0.58	0.59	1.25	0.73	0.42
Australia	0.95	0.30	0.58	1.53	1.02	1.42	1.49	0.66	–0.78
Austria	0.76	0.98	0.79	0.60	0.48	0.84	0.95	1.40	1.29
Belgium-Luxembourg	3.03	4.33	2.05	0.49	3.98	2.81	2.78	10.60	9.30
Brazil	0.25	0.04	0.11	0.19	0.20	0.06	0.13	0.35	..
Canada	0.99	0.63	1.06	1.68	1.98	2.14	3.53	4.44	2.73
Chile	0.36	0.95	0.98	1.79	1.15	1.73	2.48	3.84	7.20
Czech Republic	..	0.07	0.29	0.29	0.07	0.27	0.05	0.31	0.37
Denmark	1.38	1.51	0.99	2.66	1.70	1.38	2.49	2.27	4.66
Estonia	..	..	0.37	0.09	0.06	0.92	2.95	0.12	1.62
Finland	–0.10	–0.69	1.63	4.30	1.16	2.82	4.32	14.45	3.24
France	2.06	2.26	1.55	1.80	1.01	1.96	2.53	2.89	6.14
Germany	1.30	0.92	0.88	0.90	1.59	2.13	1.93	4.24	4.68
Greece	..	..	..	..	..	..	..	..	0.46
Hungary	..	..	0.03	0.12	0.10	–0.01	0.94	1.02	0.52
Iceland	0.40	0.04	0.18	0.37	0.34	0.85	0.69	1.22	0.81
Ireland	..	..	..	..	..	..	..	9.93	19.62
Italy	0.63	0.48	0.73	0.50	0.52	0.52	0.91	1.01	0.26
Japan	0.91	0.45	0.32	0.38	0.43	0.50	0.60	0.61	0.46
Korea	0.50	0.37	0.39	0.61	0.73	0.90	0.93	1.51	1.00
Latvia*	..	0.14	0.23	1.78	1.46	0.06	0.11	0.89	0.00
Lithuania	..	..	..	..	0.02	0.00	0.28	0.04	0.08
Mexico	..	..	..	..	..	..	..	..	..
Netherlands	4.49	4.29	3.79	5.05	4.86	7.58	7.77	13.13	11.57
New Zealand	3.53	0.98	–3.17	3.93	2.92	–1.93	–2.47	0.71	1.86
Norway	1.56	–0.06	0.68	1.71	2.14	3.75	3.26	1.64	3.57
Poland	..	0.02	0.02	0.03	0.03	0.04	0.03	0.20	0.08
Portugal	0.59	0.71	0.16	0.31	0.64	0.69	1.57	2.60	2.35
Spain	0.80	0.36	0.53	0.77	0.71	0.92	2.24	3.23	5.90
Slovenia	..	0.04	0.17	–0.02	–0.04	–0.05	–0.06	–0.07	0.07
Sweden	2.85	0.16	0.71	3.24	4.67	1.78	5.29	10.17	7.85
Switzerland	2.67	2.48	3.70	4.13	3.98	5.46	6.94	6.33	6.92
Turkey	0.08	0.08	0.10	0.06	0.07	0.06	0.13	0.18	0.35
United Kingdom	1.55	1.79	2.67	2.72	3.93	2.89	4.67	8.47	13.82
United States	0.64	0.78	1.28	1.15	1.36	1.20	1.33	1.52	1.65

p. Provisional data.

* Latvia's application to adhere to the Declaration on International Investment and Multinational Enterprises is under review.

Source: Foreign Direct Investment database, 2000, OECD. For Argentina, Brazil and Chile, International Financial Statistics Yearbook, IMF 2000 edition. The source of the GDP is the OECD Statistics Department, except for Argentina, Brazil and Chile, the source of the GDP is the International Financial Statistics Yearbook, IMF 2000 edition.

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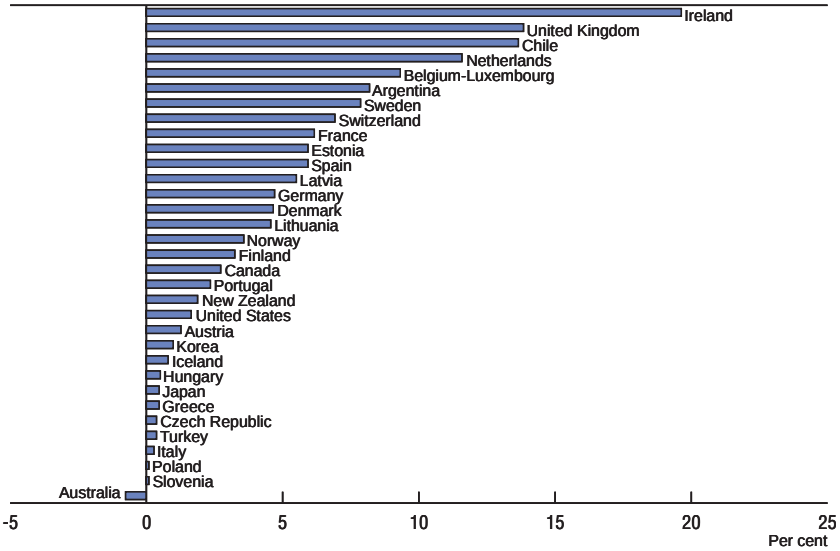
Graph 2. **Foreign direct investment from Adherents* to OECD Declaration on International Investment and Multinational Enterprises: Outflows**

As a percentage of GDP: 1999



* Latvia's application to adhere to the Declaration on International Investment and Multinational Enterprises is under review.

Source: OECD.

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Table 5. **Foreign Direct Investment from and in Adherents to OECD Declaration on International Investment and Multinational Enterprises: Inward and Outward positions at year-end**

Million US dollars

	Inward							Outward						
	1993	1994	1995	1996	1997	1998	1999p	1993	1994	1995	1996	1997	1998	1999p
Australia[2]	76 808	86 974	100 369	116 201	99 388	102 763	116 715	35 412	39 857	47 176	59 190	56 695	62 025	54 924
Austria[3]	11 373	13 092	17 532	18 258	17 510	22 800	24 800	8 111	9 282	11 702	12 781	13 310	16 500	18 500
Belgium-Luxembourg	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Canada	106 868	110 204	123 290	131 634	138 332	142 973	166 266	92 468	104 302	118 209	131 779	146 577	160 642	178 347
Czech Republic	2 053	3 077	7 530	8 572	9 234	14 375	16 246	..	..	346	498	548	804	908
Denmark	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Finland	4 217	6 714	8 464	8 797	9 530	16 455	16 539	9 178	12 534	14 993	17 666	20 297	29 407	31 803
France	103 197	123 887	143 673	143 937	14 1136	..	..	141 430	163 075	184 388	192 973	18 9681	..	..
Germany[4]	129 781	160 128	192 898	188 502	185 980	..	..	178 648	213 654	258 142	271 241	28 0779	..	..
Greece	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Hungary	5 576	7 087	12 829	14 958	16 086	18 517	19 276	226	291	491	474	900	1 286	1 586
Iceland	117	128	129	197	332	457	499[e.]	112	146	179	241	249	361	413[e.]
Ireland	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Italy	52 512	58 846	63 453	72 482	81 082	103 107	106 788	76 422	81 383	97 038	107 441	124 977	159 171	188 487
Japan[5]	16884	19 211	33 532	32 675	27 086	26 647	..	2597 95	275 574	238 452	282 257	271 967	267 584	..
Korea	..	..	..	..	..	..	..	5 588	7 623	10 500	13 796	16 546	20 433	..
Mexico	13 072	6 234	5 382	5 975	6 860	..	..	..	..	..	..	..	..	..
Netherlands	82 792	103 359	124 506	131 936	128 482	..	..	1248 20	149 023	179 557	201 475	210 247	..	..
New Zealand[6]	15 552	19 849	26 009	33 584	37 644	33 323	32 537	44 00	5 167	7 624	8 925	6 746	5 513	7 039
Norway	14 463	16 305	19 513	21 591	22 978	26 083	..	13 482	16 909	22 519	25 440	..	..	..
Poland[7]	2 307	3 789	7 843	11 463	14 587	22 479	..	198	461	539	735	678	1 165	..
Portugal	..	..	18 170	18 947	18 312	22 446	20 513	..	..	4 408	4 488	5 571	9 221	9 605
Spain	71 071	86 161	111 481	109 326	100 359	118 877	112 889	22 403	28 331	36 661	40 094	47 873	69 153	97 821
Sweden	13 007	22 247	31 090	34 784	41 513	50 985	70 198	44 559	59 237	73 143	72 187	78 202	93 534	108 322
Switzerland	38 714	48 667	57 063	53 919	59 519	69 687	..	91 571	112 586	142 479	141 591	165 365	181 541	..
Turkey	..	..	..	..	..	..	..	..	..	..	..	..	..	..
United Kingdom	19 6811	218 211	203 825	228 642	252 959	305 325	394 534	253 213	286 394	314 340	33 0432	36 0796	4919 24	664 059
United States[8]	46 7412	480 667	535 553	598 021	693 207	811 756	..	564 283	612 893	699 015	795 195	865 531	980 565	..
TOTAL OECD	**1 424 587**	**1 594 838**	**1 844 134**	**1 984 400**	**2 102 114**	**1 909 055**	**1 097 799**	**1 926 319**	**2 178 722**	**2 461 902**	**2 710 899**	**2 863 536**	**2 550 828**	**1 361 812**

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Table 5. **Foreign Direct Investment from and in Adherents to OECD Declaration on International Investment and Multinational Enterprises: Inward and Outward positions at year-end** (*cont.*)

Million US dollars

	Inward							Outward						
	1993	1994	1995	1996	1997	1998	1999p	1993	1994	1995	1996	1997	1998	1999p
Argentina	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Brazil	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Chile	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Estonia	..	..	..	852	1 187	1 736	2 616	..	..	..	111	226	189	298
Latvia[9]	..	..	616	936	1 272	1 558	1 885	..	..	231	209	222	281	215
Lithuania	149	310	352	700	1 041	1 625	2 063	..	–	1	3	26	16	26
Slovenia	255	338	514	714	815	1 296	165	146	141	136	115	120	155	8
TOTAL	**1 424 990**	**1 595 486**	**1 845 615**	**1 987 603**	**2 106 429**	**1 915 270**	**1 104 528**	**1 926 464**	**2 178 863**	**2 462 271**	**2 711 337**	**2 864 130**	**2 551 469**	**1 362 359**

p. Provisional data.
e. Country estimates for 1999.
1. Data are converted using the end-of-year exchange rates.
2. Break in series. As from 1994, data are based on a new methodology.
3. 1996 and 1997 data are provisional estimates.
4. Break in series.
5. Break in series as from 1995.
6. As from 1993, data are based on fiscal years ending 31 March.
7. As from 1994, outward include investment from the Polish banking system.
8. Inward: break in series as from 94 due to the reclassification from "direct investment" to "other investment" of intercompany debt flows and associated income payments between parent companies and affiliates that are nondepository financial intermediaries.
9. Latvia's application to adhere to the Declaration on International Investment and Multinational Enterprises is under review.

Source: OECD/Financial Statistics Unit – Based on national sources of OECD Member countries.

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Notes

1. This publication is based on contributions by Matija Rojec, Matej More, Marko Simoneti, Mojmir Mrak, Andrej Svetlicic and Mirjam Mocnik, prepared for the Ministry of Economy of the Republic of Slovenia for the OECD review.
2. IMAD, 2001*a*.
3. *i.e.* companies with 10 per cent or higher foreign equity share.
4. The decrease of stock by US$109.3 million in 1999 is predominantly due to high appreciation of the US$ against the SIT in that year; in fact the stock measured in Euro increased by Euro 317.8 million.
5. Rojec 1998.
6. Shifts of the shares are importantly influenced by heavy reduction of the share of Croatia. This is mostly due to the fact that since 1998 the Croatian share in the Nuclear Power Plant Krško is no longer included in the FDI stock; Slovenia and Croatia still negotiate the future status of the plant.
7. Rojec, 2000*a*.
8. These investors are Goodyear and Kirkwood Industries from United States, Renault, Leclerc and Société Générale from France, Meyr Melnhof, Henkel, OMV, Brigl and Bergmeister, Interspar and Bank Austria from Austria, E.G.O. from Switzerland, Siemens, Reemtsma, Pfleiderer and Porsche from Germany, etc.
9. Svetličič, Rojec and Trtnik, 2000.
10. Rojec 1998.
11. Other major investments include: (Iskratel), Kirkwood Industries from the United States in commutators (Kolektor), Danfoss from Denmark in compressors for refrigerators (Danfoss Compressors) and in heating and ventilation control systems (Danfoss Trata), Bosch-Siemens from Germany in small household appliances (BSH Hini aparati), Reemtsma from Germany and Seita from France in cigarettes (Tobačna Ljubljana), Pfleiderer from Germany in insulation materials (Pfleiderer Novoterm), Henkel from Austria in detergents and cosmetics (Henkel-Zlatorog) and in chemical industry (Henkel Ecolab), Goodyear from the United States in car tires (Sava Tires, Goodyear Engineered Products), Gruppo Bonazzi from Italy in synthetic fibers (Yulon) and textiles (Aquasava), Hella from Germany in car lighting equipment (Saturnus Avtooprema), Messer Griesheim from Germany in industrial gases (Messer Slovenija), Safilo Group from Italy in spectacle frames (Carrera Optyl), Bayer from Germany in pharmaceuticals (Bayer Pharma), Inexa from Sweden in steel, Johnson Controls from Germany in automotive components manufacturing (NTU Johnson Controls). In trade, major FDI projects are Interspar from Austria, Porsche from Germany and Leclerc from France; in banking there are Bank Austria Creditanstalt and Volksbank from Austria and Société

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Générale from France, while in telecommunications there are Mobilkom from Austria and Western Wireless from the United States.

12. Svetličič and Jaklič 2001.
13. Dunning 1993, Caves 1971, 1982.
14. Rojec and Stanojević 2001.
15. Rojec and Svetličič 1998*a*.
16. Lorentzen, Moellgaard and Rojec 1998.
17. Rojec and Svetličič, 1998*b*.
18. Rojec and Stanojević 2001.
19. In practice, there was no alternative, because FDI objectives could never be achieved by investment at home, because acquisition opportunities made the investment more rational, and simply because both projects were made in the context of internationalisation processes of parent companies.
20. Rojec and Stanojević 2001.
21. Rojec, 2000*b*.
22. FIEs in the Slovenian manufacturing sector are, however, not only much more export but also much more import oriented than DEs. In 1997 the share of FIEs in total manufacturing sector exports was 28.2 per cent, in imports 34.4 per cent and in trade balance surplus 16.6 per cent. In FIEs imports to sales ratio was 54.4 per cent while in DEs only 27.7 per cent. Both groups of companies, FIEs and DEs, realised high surpluses in their foreign trade flows, but the relative effect on foreign trade account (measured by the surplus to exports ratio) was much higher in the case of DEs (40.5 per cent) than FIEs (20.5 per cent).
23. WIIW 1999.
24. See, for instance, the cases of Tobačna Ljubljana (Rojec and Svetličič 1998*b*), Sarrio Slovenija (Rojec and Svetličič 1998*a*), Yulon and Saturnus Avtooprema (Rojec and Stanojević 2001).
25. On average, in all activities with 1 SIT of labour costs FIEs are able to produce SIT 1.78 of value added, which is 25 per cent more than DEs (see Table 11 for details).
26. Rojec and Stanojević 2001.
27. See for instance Dedek and Novak 1998, Rojec 1998.
28. See for instance FIAS 1998, TIPO 1999.
29. For more on the investment opportunities for foreign investors in Slovenia see especially in FIAS 1998, and TIPO 1999.
30. In Slovenia during 1993-2000, stock of FDI per capita increased from US$479 to US$1,411, while the share of FDI stock in GDP increased from 7.5 per cent to 15.5 per cent, Hunya and Stankovsky 2001.
31. Rojec 1998, Dedek and Novak 1998, IMAD 1999, FIAS 1998, FIAS 2000.
32. They included measures to control the credit activity of banks, such as limited transformation of foreign savings into domestic liquidity and limited transformation of bank short-term liabilities into long-term assets. Other measures raised the costs of foreign funds. Among them, the most important were a 40 per cent non-interest bearing tolar deposit for each foreign loan with maturity of up to five (and later on seven) years that

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is intended for conversion, which was introduced in February 1995, and the introduction of custodian accounts to regulate the inflow of portfolio investments.

33. Mrak, Rojec and Potočnik 2001.
34. According to the September 2000 issue of E*uromoney*, Slovenia's political risk rating was 17.43 (of maximum 25 points), that of Czech Republic 17.11, Hungary 17.06, Poland 16.56 and Slovakia 12.86.
35. Rosati 1998.
36. Which is a specific case because the only cigarette-manufacturing factory in Slovenia is in foreign ownership.
37. Rojec 1998, 2000*c*.
38. Rojec 2000*c* and Rojec, Damijan and Majcen 2000.
39. Agens 1999, Rojec and Svetličič 1998*a*, 1998*b*, 1998*c*, Svetličič and Rojec 1998.
40. For more detail on the issue see Rojec 1998.
41. Koo 1993.
42. For analytical purposes it is useful to distinguish among the following ownership categories of DEs: *i*) public (owned predominantly by external owners, *i.e.* various funds) and *ii*) non-public companies (owned predominantly by internal owners, *i.e.* managers and other employees) which both went through the privatisation process, *iii*) personal companies (with domestic natural persons as the largest owners) as a rule established *de novo*, *iv*) subsidiary companies, largely not a subject of privatisation, since their owners (mostly public and non-public companies) were known from the very beginning, and *v*) non-privatised companies, still waiting to undergo privatisation and largely composed of loss-making companies (for detail see Simoneti, Rojec, Rems 2000).
43. For more on the issue see in Simoneti, Rojec and Rems (2000).
44. OG RS 36/95.
45. OG RS 44/97.
46. OG RS 44/97.
47. OG RS 66/97.
48. OECD 1997*c*, CICD 2001.
49. Potočnik, Senjur and Štiblar 1995.
50. Mrak, Potočnik and Rojec 1998.
51. E*uromoney* 2001.
52. TIPO 1999*a*.
53. CENTRE FOR INTERNATIONAL CO-OPERATION AND DEVELOPMENT, I*nvesting in Slovenia*, Ljubljana, 2001.
54. Situation as of November 2001. Slovenia has presented its negotiating positions in 29 chapters; chapters 30 "Institutions" and 31 "Other Issues" have not yet been addressed. Slovenia is among the most advanced candidate countries in terms of the number of negotiating chapters which have been preliminarily closed. These are Free Movement of Goods, Free Movement of Services, Free Movement of Capital, Company Law, Fisheries, EMU, Statistics, Social Policy and Employment, Energy, Industry, SMEs, Science and Research, Education and Training, Telecommunications, Culture

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and Audiovisual, Environment, Consumers and Health, Customs Union, External relations, Foreign and Security Policy and Financial Control.

55. Potočnik, Senjur and Štiblar 1995.

56. Bobek *et al.* 1996.

57. Štiblar and Rojec 1997.

58. OG RS 44/01. As of 1 September 1999, Investors have been exempt from the requirement to establish a custody account concerning portfolio investments of one year or more.

59. Mrak, Potočnik and Rojec 1998.

60. CENTRE FOR INTERNATIONAL CO-OPERATION AND DEVELOPMENT, *Investing in Slovenia*, Ljubljana, 2001.

61. IMAD 2001*b*.

62. The Programme of the Government of the Republic of Slovenia for the Promotion of Foreign Direct Investment in 2000 (TIPO 2000) was the first attempt to tackle some of the above issues. Measures, which aimed at improving Slovenia's competitiveness as a destination for FDI, were: *i*) simplifying administrative procedures, *ii*) improving accessibility of building sites to the greenfield investors, mostly in industrial production, and *iii*) adjusting the current system of economic incentives, so that it would be accessible to foreign investors and comparable to the incentives in other competitive countries as regards attracting FDI. The Programme also pledged that privatisation would be more open to foreign investors (strategic and institutional), especially concerning the public utilities and companies owned by the Slovenian Development Corporation and other state-owned industrial enterprises (Slovenian Ironworks – Slovenske elezarne). The Programme also provided for foreign investors having an active role in the privatisation of the financial and other services sectors.

63. Administrative barriers to investment in Slovenia have been analysed in detail by FIAS (2000), who also gave a number of recommendations for improvements in this field.

64. OG RS 30/93.

65. OG RS 47/97.

66. OG RS 23/99.

67. OECD 1997*a*.

68. Non-resident investment in domestic securities traded on capital markets (securities with maturities of one year or more) were fully liberalised on 1 July 2001).

69. According to the Foreign Exchange Act, the 10 per cent threshold does not automatically qualify an investment as a direct investment. The basic criteria of establishing lasting economic links and gaining possibility of effective influence on the management of the company also have to be met.

70. According to the previous Foreign Investment Act from 1988, which was replaced by the Foreign Exchange Act, wholly foreign-owned companies (no maximum foreign share was specified) were not allowed in the military equipment field, rail and air transport, communications and telecommunications, insurance, publishing and mass media.

71. OG RS 23/99.

72. In analysing administrative barriers to investment in Slovenia, FIAS is more critical of the issue, saying that although considerable progress has been made in the process in

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recent years, registration still takes 1-3 months, depending on which local court is involved. FIAS suggests that "Slovenia could do something by simplifying the court procedures, training judges with appropriate mindset and skills, and introducing a time limit for the registration process. In the longer run, the Government may consider removing the company registration from the court system, as a number of countries in the region have been doing." (FIAS 2000, p. vi).

73. CICD 2001.
74. OG RS 45/2001.
75. OGRS 23/99.
76. Restrictive Measures Act – OG RS 35/01.
77. In addition, the legislation has some important omissions: there are no provisions for foreigners who are shareholders in a business without being directors. Having no work contract, such persons are ineligible for a work permit, and they are similarly excluded from the fast-track work permit, which applies exclusively to directors; see WORLD BANK and INTERNATIONAL FINANCE CORPORATION (Foreign Investment Advisory Service), *Slovenia – administrative barriers to investment*, April 2000.
78. OG RS 66/00.
79. CENTRE FOR INTERNATIONAL CO-OPERATION AND DEVELOPMENT, *Investing in Slovenia*, Ljubljana, 2001.
80. See ROJEC, M., "The role of FDI in the process of Slovenia's accession to the European Union", paper prepared for 3rd Workshop of Monitoring Preparations of transition countries for EU accession; Ljubljana, May 2001; WORLD BANK and INTERNATIONAL FINANCE CORPORATION (Foreign Investment Advisory Service), *Slovenia – administrative barriers to investment*, April 2000.
81. CHENE, B., "La Slovénie : un pays aux portes d'Europe", mémoire, July 2000.
82. RS OG 42/93.
83. CENTRE FOR INTERNATIONAL CO-OPERATION AND DEVELOPMENT, *Investing in Slovenia*, Ljubljana, 2001.
84. WORLD BANK and INTERNATIONAL FINANCE CORPORATION (Foreign Investment Advisory Service), *Slovenia – administrative barriers to investment*, April 2000.
85. ECONOMIC INTELLIGENCE UNIT, *Country Report – Slovenia*, August 2001.
86. WORLD BANK and INTERNATIONAL FINANCE CORPORATION (Foreign Investment Advisory Service), *Slovenia – administrative barriers to investment*, April 2000.
87. ECONOMIC INTELLIGENCE UNIT, *Country Report – Slovenia*, August 2001.
88. OG RS 27/91.
89. Government Office of European Affairs, 2001.
90. United States DEPARTMENT OF STATE, *Country Commercial Guide: Slovenia*, FY2000.
91. WORLD BANK and INTERNATIONAL FINANCE CORPORATION (Foreign Investment Advisory Service), *Slovenia – administrative barriers to investment*, April 2000.
92. *Op. cit.*
93. OG/RS 21/95, 09/01 and 30/01.
94. OG/RS 45/01.
95. OG/RS 45/95.

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96. SLOVENIAN INTELLECTUAL PROPERTY OFFICE (MINISTRY OF ECONOMY), *Annual Report* 2000, Ljubljana, 2001.
97. United States DEPARTMENT OF STATE, *Country Commercial Guide: Slovenia*, FY2000.
98. *Op. cit.*
99. The Court of Auditors Act (OG RS, No. 48/94); the Act of Social Attorney of the Republic of Slovenia (OG RS, No. 69/95).
100. Government Office of European Affairs 2001.
101. OR RS 26/00.
102. OG RS 1/01.
103. Government Office of European Affairs 1999.
104. Government Office of the Republic of Slovenia of European Affairs 2001.
105. NLB (Nova Ljubljanska banka) and NKBM (Nova Kreditna banka Maribor) absorbed the domestic assets of their predecessors, while LB and KBM only retained the assets and liabilities relating to the former Yugoslavia.
106. CHENE, B., "La Slovénie : un pays aux portes d'Europe", mémoire, July 2000.
107. CENTRE FOR INTERNATIONAL CO-OPERATION AND DEVELOPMENT, *Investing in Slovenia*, Ljubljana, 2001.
108. CENTRE FOR INTERNATIONAL CO-OPERATION AND DEVELOPMENT, *Investing in Slovenia*, Ljubljana, 2001.
109. CENTRE FOR INTERNATIONAL CO-OPERATION AND DEVELOPMENT, *Investing in Slovenia*, Ljubljana, 2001.
110. The banks were rehabilitated so that a large proportion of their non-performing loans were transferred to the Bank Rehabilitation Agency, which in return gave the banks 30-year government bonds.
111. IMAD 2001*b*.
112. See IMAD 2001*b*, p. 72.
113. *Op. cit.*
114. Beter *et al.* 2001.
115. Ministry of Finance, Agency for Insurance Supervision data.
116. Beter *et al.* 2001.
117. Operating costs to gross premium ratio was 22.0 per cent in 1999 (Beter *et al.* 2001).
118. OG RS 13/00.
119. Beter *et al.* 2001.
120. OG RS 13/00.
121. IMAD 2001*a*.
122. SORS 2000.
123. OG RS 18/01.
124. OG RS 18/01.
125. OG RS 92/99.
126. OG RS 30/01.
127. OG RS 79/1999.

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128. According to the Foreign Exchange Act, the 10 per cent threshold does not automatically qualify an investment as a direct investment. The basic criteria of establishing lasting economic links and gaining possibility of effective influence on the management of the company also have to be met.
129. CENTRE FOR INTERNATIONAL CO-OPERATION AND DEVELOPMENT, *Investing in Slovenia*, Ljubljana, 2001.
130. *Op. cit.*
131. ROJEC, M., "The Role of Foreign Direct Investment in the process of Slovenia's accession to the European Union", paper submitted to the 3rd workshop, Monitoring Preparations of Transition Economies for EU-Accession, Budapest, May 2001.
132. Simoneti *et al.*, 2001.
133. *Op. cit.*
134. *Op. cit.*
135. ECONOMIST INTELLIGENCE UNIT, *Country Report – Slovenia*, 2001.
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148. The only exception was duty free imports of foreign investment in kind (mostly of machinery and equipment) which was abolished in 1994.
149. TIPO 2001.
150. TIPO 2001.
151. Slovenska izvozna družba 2000.
152. The capital gains tax rate is 30 per cent. Taxes are levied on sale of property, shares and securities within less than three years of purchase.
153. More detailed employment incentives related to the social security contributions are the following:
    - Taxpayers employing first job holders, who were previously registered with the employment agency for at least 6 months, are entitled to 50 per cent refunds of social security contributions for the first 2 years, and 25 per cent for the third year.

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– Taxpayers employing workers previously unemployed and registered with the employment agency for at least 12 months are entitled to 50 per cent refunds of social security contributions for 2 years.

– Taxpayers employing persons older than 50 years, who are beneficiaries of the employment agency, are entitled to 50 per cent refunds of social security contributions for the first 3 years, and 25 per cent for each following year.

– Taxpayers employing beneficiaries of the employment agency are entitled to social security refunds for a period twice as long as the rest of the term in which the beneficiaries would have been entitled to employment agency benefits.

– Small companies (less than 50 employees) employing unemployed persons or persons formerly dismissed for technological surplus reasons are entitled to a 100 per cent refund of social security contributions for the first year, 50 per cent for the second year and 25 per cent for the third.

– Taxpayers employing persons for at least 2 years who increase the total amount of employees (except persons over 50 years of age) are entitled to refunds of social security contributions.

154. 1 July, 1999.

155. CENTRE FOR INTERNATIONAL CO-OPERATION AND DEVELOPMENT, *Investing in Slovenia*, Ljubljana, 2001.

156. See *www.investslovenia.org*

157. IMAD 2001*b*.

158. OG RS 39/00.

159. OG RS 78/99.

160. Government Office of European Affairs 2001.

161. European Commission, 2000 *Regular Report*.

162. According to the guidelines of the IMF and the OECD, direct investments include: *i*) equity capital and reinvested earnings, *ii*) claims on affiliated enterprises abroad, *iii*) liabilities to affiliated enterprises abroad, as well as those investments whose aim is long-term business relationship between a direct investor and an affiliated company and a considerable role on the part of the direct investor in managing the company. Until the end of 1993 countries employed various criteria to define direct investments. The fifth edition of the IMF's Balance of Payments Manual set a minimum of a 10 per cent share of ordinary shares or voting rights in a company as a benchmark which would ensure the compatibility of data. However, there are two exceptions: *i*) if an investor owns less than 10 per cent of all ordinary shares or voting rights but has considerable influence on the management of the company, the investment is considered a direct investment; *ii*) if an investor has at least 10 per cent of all shares but has no influence on the management process, the investment may be considered not to be a direct investment. The IMF advises that the data concerning equity capital (and within this category the value of reinvested earnings) be published separately from data concerning remaining capital. Remaining capital consists of claims on and liabilities to affiliated companies without short-term claims on or liabilities to banks, which the IMF recommends classifying as portfolio or other investments.

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