



Framework of Economic
and Social Reforms
for Increasing
the Welfare in Slovenia

THE FRAMEWORK OF ECONOMIC AND SOCIAL REFORMS
FOR INCREASING THE WELFARE IN SLOVENIA

Government Office for Growth
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REPUBLIC OF SLOVENIA
GOVERNMENT OFFICE FOR GROWTH

The Framework of Economic and Social Reforms for Increasing the Welfare in Slovenia

Adopted by Slovenia's Government on 3 November 2005

Foreword

Reforms are a process. A process in which fundamental system parameters are changed with a view to increasing efficiency. A package of economic and social reforms before you is an attempt at modifying the economic and social paradigm that has been in existence ever since we became independent. With them, we would establish a different relationship between the economic effectiveness of the market and the social responsibility of individuals and the partner-state in Slovenia. All this with a view to attaining a higher standard and quality of life, and to preserving the welfare state.

The very wish to attain a better standard of living of all inhabitants of Slovenia, and a more competitive and successful economy has been the key motivation of all of us who have shaped the framework of reforms. June 2005 saw the appointment of a Committee of Reform pooling more than two hundred experts in various disciplines. Together we have structured priority areas to be reformed, and determined optimum solutions within individual working groups of the Committee.

When planning reforms we have borne in mind that the competitiveness of the Slovenian economy and the welfare state can be ensured only through changed incentives and work opportunities of individuals and economic operators so that they will increase their activity of their own accord. Our common principles here have been: greater economic freedom; simpler and more transparent functioning of the state; an entrepreneurship-friendly state; elimination of various bureaucratic and administrative barriers; an ownership structure more effective and suitable for market conditions; lower tax charges and simplified tax regulations; a more transparent system of social transfers that encourages the activity of individuals; a more effective system of incentives for the knowledge flow between industry and university; greater economic liberalisation of markets; investment opportunities and easier access to funding; selection of major national projects supported by the EU Funds; a more economical and sustainable health care system; and a pension system encouraging work activity.

All Committee members have worked on a voluntary basis and without payment because we have believed in the future of Slovenia as an exceptionally successful country. We have believed that by joining forces we can create conditions for greater effectiveness of the Slovenian economy.

The framework of economic and social reforms to increase the prosperity in Slovenia and concrete proposals for reform measures constitute a common denominator of all of us who have been involved in the planning of this reform package. I should like to thank with all my heart all experts who have participated in the Committee of Reform, for their selfless work on the preparation of reform measures. I should also like to thank all employees of the Government Office for Growth and all employees in other Government departments, who are now actively involved in the implementation of reforms. An exceptionally great deal of creative energy has been released during this reform process. It is important to succeed in maintaining it and putting it to good use in the process of changing Slovene society and economy. Today and also tomorrow. Because we work for our common good. We work for the common good of us and of our children. For our Slovenia of tomorrow.

Jože P. Damijan
July 2006

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Introduction

The framework of economic and social reforms for increasing the general welfare in Slovenia has been prepared by a group of more than 200 experts who were invited to cooperate in the Committee for Reform. The motivation, common to all individuals who collaborated in the preparation of the reform proposals was to prepare a group of measures for providing development momentum for a better future for Slovenia. The key guideline in the preparation of the reform was the inclusion of all interested professions and a partnership exchange of opinions among members of the working groups. In addition, we tried in our work to achieve the maximum possible agreement among the heads of the working groups in relation to the proposed measures and also among their members. Although this was not, of course, entirely possible in all areas, the proposals made by the committee nevertheless represent a kind of lowest common denominator of proposals of all individual members of the committee. The report is thus the result of a creative method of working of a group of individuals with very diverse views and opinions which, through working groups, co-created a complex, integral and harmonised proposal of reforms.

The report contains a proposed group of measures for implementing Slovenia's Development Strategy (SDS) and is organised under individual SDS priorities. Because the Committee for Reform was given the task of preparing proposed measures by which we can achieve the aim of faster economic growth and higher employment (which are the central aims of the renewed Lisbon Strategy), we did not prepare individual measures for some of the areas or priorities that are covered in the SDS (for example, for the areas of the environment, culture, birth rate, regional development and local government, agriculture and rural development). This does not mean that the government in its work devotes less attention to them but only that from the standpoint of economic growth and employment, measures in these fields are not of central importance, or that the government should continue work in these areas in accordance with Slovenia's Development Strategy and normative programmes. Because the proposed measures can have an impact on some of these fields, we draw particular attention to this (for example, links between the tax system and culture). Similarly, with measures in which this is possible, we also take other aims into account. Thus, for example, in the selection of large projects for co-funding from EU funds, we also take the regional and sustainable development aspects into account. Measures in the sphere of housing policy and more adaptable employment can also contribute to a gradual rise in the birth rate.

Detailed reasoning of individual measures is given in the second half of the report. It will be necessary to make a further quantitative assessment and simulation of the effects prior to the implementation of some measures. Similarly, detailed solutions are not in all cases given, but broader guidelines – this was unavoidable because of the preliminary nature of the report and because of the time that exact stimulation of effects requires.

The report classifies the entire group of measures into those that, in the opinion of the Committee for Reform, the Government can begin to realise immediately, and those for which it is necessary to make further analyses and specify the measures in more detail.

- Measures that we propose the Government begins to prepare immediately for introduction already in 2006 are such that they do not require particularly demanding additional calculations and they can have positive effects irrespective of measures in other fields. An example is measures for a better business environment, for simplifying the tax system and procedures for drawing EU funds better, for the more effective use of knowledge, for improving employment policy, for greater transparency and simplicity of the system of social transfers and so on. Some of the measures from this group are such that they can immediately begin to be implemented, although more time will be needed for their final implementation (e.g., privatisation and reduction of general government expenditures).
- Measures that we propose be implemented only after more detailed costing and simulations and at the same time (from the start of 2007), are in particular measures that signify thorough tax reform in connection with complementary measures in the field of social transfers and the labour market. We draw attention that there is a consistent integrity in this part of the proposed reforms, whereby the implementation of some measures requires also implementation of support measures in other fields, so they cannot be implemented *à la carte* or it is not possible to separate only individual parts. Only with coordinated planning and simultaneous implementation of these measures is it also possible to ensure that the position of individuals, especially those with the lowest incomes, will not be weakened by the reforms.

Measures that the government can begin to implement immediately

First development priority: competitiveness and economic growth

Measure 1: Reducing general government expenditures

Proposed measures for reform of the tax system

Measure 5: Simplification of the tax procedure

Measure 7: Changes to tax on real estate transactions

Measure 8: Changes to tax on inheritance and gifts

Proposed measures for increasing competitiveness

Measure 10: Promoting entrepreneurship and competitiveness of companies

Measure 11: Improving the competitiveness of markets

Measure 12: Improving the competitiveness of Slovenia on the global market of business locations

Measure 13: Public procurement

Measure 14: De-monopolisation of the real estate market

Measure 15: Support for and execution of a small number of major projects of national importance

Proposed measures for more effective use of EU funds for faster development

- Measure 16: Preparation and selection of criteria for preparation of a group of major projects
- Measure 17: Defining indicative ratios for directing development funds in the period 2007-2013
- Measure 18: Indicative group of project ideas for further elaboration into major projects

Proposed measures for privatisation and development of the financial system

- Measure 19: Change of practice of the state, KAD and SOD in withdrawal from the economy
- Measure 20: Transformation of KAD and SOD into portfolio investors
- Measure 21: Coordinated privatisation of the largest commercial enterprises in state ownership
- Measure 22: Development of the financial sector in support of the withdrawal of the state from the economy
- Measure 23: Privatisation of Telekom

Proposed measures for the liberalisation and competitiveness of public utilities

- Measure 24: Market transformation of power supplies - reviving the wholesale market and removing critical inefficiencies
- Measure 25: Competitive supply of final energy users
- Measure 26: Use of the public communication structure of all public utilities
- Measure 27: Competitive transport and logistic services

Second development priority: efficient creativity, two-way flow and use of knowledge for economic development and quality of the workplace

- Measure 28: Reform of education
- Measure 29: Improving the efficiency of use of knowledge and innovativeness
- Measure 30: Technology Agency of Slovenia (TIA) – change of legal status
- Measure 31: Technological and innovative programmes for economic growth
- Measure 32: Programmes for the transfer and raising of knowledge in the business sector – »1000 young experts«
- Measure 33: Programmes for promoting the transfer of world technologies to Slovenia
- Measure 34: Programmes for linking the business sector with universities

*Third development priority: an efficient and cheaper state***Proposed measures for a more efficient and cheaper state**

- Measure 35: Improvement in procedures of preparation and execution of the budget
- Measure 36: Rationalisation of the functioning of the public sector
- Measure 37: Regulatory impact assessment

- Measure 38: Setting up central records of rights to public funds
- Measure 39: One-stop shop - a single place for exercising and decision-making on social rights
- Measure 40: Setting up a Real Estate Register
- Measure 41: Proposed reforms of the tax and customs administrations
- Measure 42: Introducing public-private partnership (PPP) and private financing of the construction of large infrastructural objects
- Measure 43: Setting up a micro-simulation model for monitoring the financial effects of proposed legislation

Proposed measures for improving the system of drawing EU funds

- Measure 44: Concentration of funds for co-funding EU operative programmes under a common budget heading
- Measure 45: Regular education and training of staff for work in areas of cohesion policy
- Measure 46: Determining operative programmes and implementing structures for cohesion policy 2007-2013
- Measure 47: Setting up a joint management authority for structural funds and management authorities for the Cohesion Fund and a joint paying authority

Fourth development priority: a modern welfare state and higher employment

Proposed measures for a more flexible labour market and higher employment

- Measure 50: Encouraging greater activity of unemployed persons
- Measure 51: More efficient employment policy
- Measure 52: Stimulating and enabling life-long learning
- Measure 53: Arranging a system of scholarships for the young

Proposed measures for a fairer and more motivational system of social transfers

- Measure 55: Unifying elements that affect decisions on social rights
- Measure 56: Unifying valorisation mechanisms for transfers
- Measure 57: Determining and unifying the upper limit of wage compensation
- Measure 58: Setting up a uniform system of long-term care
- Measure 59: Measures for increasing possibilities of active work and preventing the trap of unemployment and inactivity

Proposed changes and supplements to the pension system

- Measure 61: Increasing incentives for remaining longer in active work
- Measure 62: Extending compulsory insurance cover for those who are "little active" with low earnings
- Measure 64: Systemic separation of collective and individual insurance

Proposed measures for better quality and efficient healthcare

- Measure 66: Adapting the system of compulsory health insurance

Measures that require preparation of more detailed proposals and coordinated implementation

First development priority: competitiveness and economic growth

Proposed measures for reform of the tax system

- Measure 2: Introduction of a flat tax rate on the income of natural persons
- Measure 3: Introduction of a flat VAT rate
- Measure 4: Changes to the Corporate Income Tax Act
- Measure 6: Introduction of tax on real estate and assets
- Measure 9: Ensuring the social moderation of the transfer to the new tax system

Fourth development priority: a modern social state and higher employment

Proposed measures for a more flexible labour market and higher employment

- Measure 48: Setting up a new wage system
- Measure 49: Agreement on a new wage policy
- Measure 54: Increasing the flexibility of the labour market and facilitating employment

Proposed measures for a fairer and more motivational system of social transfers

- Measure 60: Changing measures and conditions for entitlement to some social rights with the aim of stimulating work

Proposed changes and supplements to the pension system

- Measure 63: Suitable combination of social acceptability and economic sustainability in compulsory pension insurance
- Measure 65: Additional incentives for voluntary pension insurance

Proposed measures for higher quality and efficient healthcare

- Measure 67: Improvements in the work of providers of public health services

1. *Why are reforms needed?*

Nowadays, reforms are a reality for Europe. This does not mean renouncing European values, such as a high level of welfare, social cohesion and solidarity, high quality of life, accessibility of education and health care, participation of citizens in decision making, or sustainable development. On the contrary, change and modernisation of European policies are required, so that these values may be upheld in this ever more dynamic and globalised world. Contrary to the prevailing belief, globalisation is not merely an outflow of low-paid jobs and profits into countries with lower social standards. Just the opposite, new competition threatens Europe in areas that have until recently had the incontestable comparative advantage of the developed world. Every year, universities in India pour a quarter of a million new engineers into the world labour market and, judging by the amount of money spent for research, China could catch up with Europe by the end of the decade. We can only respond to these challenges by achieving a greater flexibility of economic entities, public services, the State, legislation and individuals.

In such an environment, Slovenia has to cope with a double challenge. On the one hand, as a member of the developed world and sharing in European development values, it has to accept to an equal extent all of the findings and challenges that apply to the whole of Europe. On the other hand, it belongs to the less developed part of Europe, which means that it has to set for itself the goal of bringing its economy to the level of the more developed countries. However, during recent years, certain weaknesses have emerged in its endeavours to reach this goal, and this situation dictates more thorough changes than those required in other more developed countries or in those that have already carried out important reforms in recent years.

Direct goals of the proposed reforms are primarily faster economic growth and increased employment. It is true that economic development does not in itself guarantee general welfare and that some of the more developed countries do not have the high social standards that Slovenia has been aiming for, but it is nevertheless also true that the welfare we have in mind can only be achieved as a result of a higher level of economic development. The proposed reforms are therefore an important part of the tasks we need to accomplish in order to reach the overall aims of social development. The reform proposal thus touches only partially upon important development and national identity areas such as culture, values, social relations and attitude towards nature and the environment. At the same time, no measures are provided in certain other important areas of the Strategy of Slovenia's Development, such as *regional development, agriculture and rural development, and local self-government*. This does not reflect our value judgement concerning these areas but only the fact that they are outside the mandate and competence of the Government Reform Committee and will therefore be the subject of other governmental policies.

What do we propose?

Slovenia has reached a developmental crossroads. This perception is shared by both the professional and political public. In order to respond to the challenges of the

future, we must now thoroughly revitalise Slovene society and set up new, better developmental foundations.

Key motives of the individuals who prepared the reform proposal were the wish to achieve a better standard of living for all inhabitants of Slovenia and a more competitive and successful economy. In this regard, we are aware that in order to reach a higher standard and quality of life while maintaining the welfare state, we have to improve economic growth. If we want better economic growth, we have to implement structural reforms so as to improve our competitiveness in the global economic environment. Slovenia must establish a different relationship between the economic effectiveness of the market and the social responsibility of individuals and the partner-state. Slovenia must overcome economic and social paradigms that have been in effect since our gaining independence. The new developmental course must be conceived as a partnership agreement between social partners and all other spheres of the Slovene society and State.

In order to achieve a breakthrough, it will be necessary to change the system parameters in such a way that they can improve the institutional development climate and stimulate individuals and companies towards more vigorous and better-quality activity.

Our proposal intends to influence the following most important mechanisms for an enhanced development climate:

- motivation for activity (transfers, remuneration of work);
- possibilities for activity (tax reform, promotion of entrepreneurship, and a more flexible labour market);
- incentives for productivity, productive use of knowledge and employment (taxes and technological subsidies);
- free economic initiative (privatisation, entrepreneurship and liberalisation);
- an efficient and less expensive State (restructuring of public finance + limitation of public spending + better regulation + public private partnership + drawing EU funds + national projects + elimination of court backlogs);
- an efficient welfare state (transfers + health care + pension system).

Providing these mechanisms are operative, the reform proposal provides:

- greater economic freedom;
- simpler and more transparent operation of the State;
- an entrepreneurship-friendly State;
- elimination of various bureaucratic and administrative obstacles;
- a more effective ownership structure, better adapted to the market situation;
- lower tax burdens and simplified tax regulations;
- a more transparent system of social transfers that enhances the activity of individuals;
- a more effective system of incentives for the transfer of knowledge between the economic sector and universities;

- greater economic liberalisation of markets;
- possibilities for investment and easier access to financial resources;
- a set of major national projects, supported by resources from EU funds;
- a streamlined healthcare system;
- a more sustainable and activity-promoting pension system.

If the proposed measures are effectively implemented, this reform should promote:

- greater economic efficiency;
- more dynamic growth of companies;
- greater economic growth;
- a higher employment rate;
- greater social security and justice;
- greater social welfare.

Explanation of proposals

By proposing these measures, we wish to produce considerable impact on the following areas:

1. By reforming the **taxation system** through introducing a flat tax rate and simplifying tax regulations, we primarily intend to lighten the burden for the Slovene economy and establish conditions for its greater competitiveness on world markets. This is an important move towards establishing systemic requirements for the achievement of the Lisbon Strategy goals, i.e. increased competitiveness of the Slovene economy, restructuring of the economy in the direction of a greater level of technological complexity, greater intensity of human capital, greater added value and an increased employment rate. We particularly anticipate two key impacts. Firstly, lowered gross labour costs due to the abolishment of the payroll tax and introduction of the flat tax rate; this will reduce the cost of labour and produce an increase in business surpluses which could then be used for greater spending on research and development, increased investment in new technologies and new production programmes, and additional employment. Secondly, by introducing the flat tax rate, the relative labour cost of the more skilled labour force, in comparison with the less qualified labour force, will be reduced. Companies will thus feel more inclined to employ a better-educated labour force and, in so doing, improve the possibilities for increasing their creative potential, their ability to keep pace with the leading high-tech companies, as well as stimulating innovation. Simplified tax regulations, proposed changes in corporate taxes and in the value added tax will reduce administrative and operational costs of companies. At the same time, the proposed changes in taxation of real property and assets will increase the possibility of a more rational use of real property and more productive investment of income.
2. By **reforming the system of social transfers and the labour market**, we wish to create an environment that will motivate people to be active and facilitate

easier and quicker employment while also preserving the required level of social protection. Systems of social insurance will be adapted so as to provide an adequate level of security to future generations as well. This will encourage the development of a more flexible economy sector, which could provide more work while not being burdened by the costs of maintaining the social systems. Due to a better exploitation of resources this will enable greater economic growth without interference in the basic postulates of the welfare state. The basic change we wish to achieve in this area is to motivate the unemployed and the recipients of social transfers for a more active job search and the development of their abilities, as well as for accepting contingent and temporary employment which still constitutes activity. The State will help them by pursuing a modified employment policy and by creating incentives for investment in education and training (strengthened programmes for life-long learning, *job rotation* programmes, standardised scholarship policy and its strengthening through a scholarship fund, corporate tax relief with regard to donations to educational institutions). Changes in labour market regulation will then make it easier for companies to decide on new employment and dismissal; linked to changes in taxation, which will make the labour force relatively cheaper for employers while maintaining the same level of earnings, this will increase the rate of employment and reduce unemployment. Due to the streamlining and unification of the system, these measures also render it possible to limit the costs of social transfers and the mandatory pension and healthcare insurance; however, this is not the aim of changes in this area. Sacrificing the welfare state or limiting entitlements is not the issue in question here, but rather the establishment of more just and sustainable welfare state in the long term which could also motivate people to be more active. A simpler and more transparent system of social transfers will enable assistance to be received by those who truly need it, while also preventing the fairly common abuse of the social assistance system.

3. **Changes in the pension system** will reward those who remain in active employment longer, make it possible that specific rights can be ensured and acquired on the basis of short-term employment, encourage saving in the voluntary system, and introduce a fairer distribution of burdens and entitlements from the pension system.
4. **Changes in the health system** are directed chiefly towards a more efficient management of existing resources and towards incentives for more rational behaviour of both suppliers and users of health services, both of which will make it possible to better satisfy actual needs with existing resources.
5. In order to **encourage competitiveness** of the economy, it will be necessary to improve the business environment of companies. We propose a package of measures making access to the resources that an entrepreneur needs easier and less costly; these are measures in the area of labour, capital, knowledge markets, infrastructure and state support services, and measures that promote entrepreneurship and reduce administrative obstacles.
6. By proposing measures for the **university system and the two-way flow of knowledge**, we wish to improve Slovenia's use of national and foreign knowledge for its economic development. We will thus encourage the

development of a more innovative and technologically advanced economy, in addition to creating better jobs for a better-educated and trained work force.

7. For efficient and faster growth of productivity, it is necessary to implement a **second wave of privatisation**. This time, the best Slovenian enterprises will be subject to privatisation because they are more suitable for dispersed privatisation and ownership by financial investors than the 1350 companies privatised in the first wave. The domestic non-transparent consolidation of ownership at low prices must be replaced with a process that will be open to international participation. We suggest a set of measures for the transparent and gradual withdrawal of the State from the economy, so that the State (KAD – Capital Corporation and SOD – Slovene Compensation Corporation) will no longer be involved in active management of companies, as well as various models of privatisation of companies in direct state ownership. In order to make the withdrawal of the State from the economy more effective, we suggest a package of measures for increased efficiency of the financial system, and in addition to this, a package of measures for more efficient operation of the capital market.
8. For effective financing of future development priorities, we suggest a reduction in general government spending by two percentage points by 2008 (and an additional two percentage points by 2012), as well as the restructuring of public expenditure. Parallel to this, we propose measures for improving administrative efficiency and absorption capacity for drawing EU funds, along with measures for the more effective use of these funds. Concerning administrative efficiency, we propose a **centralised management of structural funds**, which allows better follow-up of structural policy effects in addition to faster detection of capacity (or incapacity) for drawing funds on the level of individual programmes at individual ministries, and at the same time, a faster reallocation of funds to areas where drawing capacity is more effective. With the intention of ensuring a more effective use of EU development funds in Slovenia, we suggest that all projects eligible for the Cohesion Fund (CF) be large projects and that the co-financing budget drawn from the EU structural funds (ERDF and ESF) be determined with a ratio that favours large projects.
9. In order to establish a more efficient and cost-effective State, while reducing fiscal expenditure by two percentage points by 2008 and restructuring public expenditure, we propose to set up central registers for entitlements to public funds, a one-stop office for determination and exercise of social rights, a central real estate register, and to link certain institutions (such as customs and tax administration). For monitoring the financial effects of proposed legislation (in various areas: e.g. taxes, retirement, social benefits, healthcare and labour market), we propose that a microsimulation model be set up.
10. To narrow the gap between the needs of the State for investment in infrastructure and the available traditional financial sources, we suggest that **additional private capital be engaged** in the form of a public-private partnership. We propose that certain legislative amendments be made so as to stimulate (and no longer suppress) the business interest of private capital in financing infrastructure projects.

- 11. To improve the efficiency of public utilities**, we propose measures for liberalisation and competitiveness of these services, which include the market restructuring of the electrical energy sector, competitive supply to final energy consumers, using the public communication structure in all public utilities, and competitive transport and logistic services.

Why reforms?

Transition inertia

During the transition period, Slovenia succeeded in considerably reducing its lagging behind the EU average, especially in the economic development area. During the transition period it maintained high and stable economic growth. Between 1993 and 2003, the average rate of real economic growth amounted to 3.8 percent. Although not the highest, this growth was the most stable among all countries in transition and was achieved without any macroeconomic and social instability. However, the nature of this growth indicates that it will not be possible to maintain it without radical structural reforms.

Limits to continued gradualism

During recent years and along with a deterioration of circumstances in the main economic partner states, Slovenia's economic growth decelerated due to the slow restructuring of the economy and weak development policy. Slovenia is no longer the new Member State which used to be the fastest in reducing its developmental lag behind the EU. The slow restructuring of the economy manifests itself in modest innovation ability, poor entrepreneurial activity, maintenance of a high proportion of labour-intensive industry, low-tech exports, slow growth of market services and financial intermediation, and an ineffective non-tradable sector of the economy. All of this diminishes the possibilities for faster economic growth and development of companies.

The slow restructuring to date results from the prevailing gradualist approach and has reached the point in Slovenia where the developmental costs of gradualism are greater than the benefits. This means that we need a breakthrough in the area of structural reform of the welfare state and an active policy of global competitiveness which can stimulate entrepreneurship and the restructuring of companies. This, in turn, requires more radical development reforms, the kind that will resolve the main developmental problems and overcome resistance to faster social change.

Dramatic decline in competitiveness

As a result of these slow changes, Slovenia has begun to lose its global competitiveness. Some other countries in transition, particularly those that have carried out bolder and more thorough structural reforms, are catching up with us and are even overtaking us in specific fields. Even the most recent IMD analysis (2005) showed a steep decline in the global competitiveness of the Slovene economy. According to this analysis, Slovenia fell during the 2002-2005 period from 35th to 52nd place among 60 countries in the sample. In merely four years, Slovenia dropped from the world average position among other countries in terms of the competitiveness of its economy to the very tail end of the list. This trend of steep

decline in global competitiveness of the Slovene economy can be traced to the fact that the developmental climate in Slovenia is not adequate for achieving the so-called Lisbon goals, i.e. investment in research and development, innovation, employment of a highly educated labour force and restructuring the economy towards more technologically intensive production with higher added value. The IMD survey, involving managers of 100 representative Slovene companies, shows that the main comparative disadvantages of Slovenia in terms of the developmental climate are primarily in the tax system, the modest allocation of resources for research and development, a closed national culture and the low professional abilities of Slovene engineers.

Corporatist rigidity

Slovenia has so far been developing as a corporatist society, this being a predominant model in the continental part of Europe. This means that public systems of the welfare state are primarily responsible for the welfare of the citizens; within these systems, traditional social partners (employers and trade unions) cooperate actively, but companies and individuals less so.

With successful economic development during the transition period, Slovenia managed to maintain a relatively favourable level of social development and, according to numerous indicators, it reaches the average EU-15 level. The degree of poverty risk has been diminishing, measured wage inequality has not been increasing, unemployment is lower than the EU average, and regional differences have been growing at a considerably slower pace than in the majority of other transition countries. Along with all of the above, life expectancy has been increasing and infant mortality decreasing. However, the price paid for such results was high, because social stability was often achieved by the irrational subsidising of less productive parts of the economy and by developing a non-transparent system of social benefits.

Challenges of a long-lived society

During the forthcoming decade, Slovenia will increasingly feel the economic and social challenges posed by the changing demographic structure, low level of fertility and by the increasingly longer-lived society. This leads to ever greater public expenditure (as a share of GDP) for pensions and healthcare services. Next to the modest and even falling international competitiveness of the Slovene economy, this will create, in mid-range terms, an increasingly more difficult budgetary situation and considerably reduced possibilities for development promoted by the State. Negative demographic trends, an ageing population and unadapted social models could endanger, on a long-term basis, the previously achieved level of social welfare among the population.

This means that the current model of intergenerational solidarity has become an ever greater burden on the active population. We can add to this the short-term problem caused by insufficiently targeted social benefits. The solution can therefore be found in the reform of social systems towards clearly defined, restricted and activity-promoting universal public programmes of social security which should be based on the greater responsibility of individuals.

Bureaucratisation of the business environment and inefficient State

The Slovene economy is over-regulated, and the bureaucratized business environment restricts the development of enterprises. Another restriction factor in this framework is space management by the public sector which is not adapted to the dynamic demands of the market economy. The existing market economy and bureaucratic State have therefore turned increasingly more into a source of old developmental traps rather than becoming a source of developmental potential and opportunity.

We need a trim country, able to satisfy with equal efficiency social needs at a lower cost of operation and with lesser tax burdens. People must give up the conviction that only the State can provide a safe economic and social future. Thus the future solution to this is a better distribution of responsibility among the State, enterprises and individuals, where the State is just one of the partners in ensuring social security. Better partnership between private and public sectors, the State, the market and the civil society must provide a better-balanced share of responsibility for the welfare of people, and consequently, greater social justice.

How can the reforms be implemented?

Slovenia must improve the economic development, the gradual approach to reform and the neocorporatist regulation of society of the past with a new developmental model.

Instead of the prior gradual approach, we need a drastic reformist push in the direction of the increased competitiveness and sustainable development of Slovenia. We should therefore change our current model of the economic system and welfare state, and establish different democratic mechanisms of mutual accord about our shared responsibility for common development. The new political and economic vision of Slovenia takes the shape of a developmental model which will combine a more liberal market economy with a more economically effective and flexible social partnership state.

| Development model to date | New development paradigm |
|---|---|
| Regulation and bureaucratisation of markets | Deregulation and liberalisation of markets |
| Restrictive entrepreneurial environment | Promoting the establishment and growth of enterprises |
| Relatively closed financial markets | Openness of financial markets and competition |
| State-corporatist ownership structure | Privatised economic sector with actual owners |
| Inadequate flexibility of labour market | Greater flexibility of labour market |
| Collective systems of social security | Individual needs and responsibilities |
| Corporatism of big social partners | Open and wide partnership cooperation |
| Bureaucratic-hierarchical system of public administration | Decentralisation and public private partnership |
| Emphasis on macro-economic and social balance | Emphasis on sustainable development based on structural reforms and greater social dynamics |

Even though some of the proposed measures can be implemented immediately and would bring results regardless of whether other measures are being or have been implemented, their main body represents a consistent whole, considering that the implementation of certain measures requires supporting measures to be implemented in other areas. Effective market operation can only be assured through combined activities of the actual privatisation of Slovene companies, deregulation and liberalisation of the market, reduced administrative and financial obstacles to the development of entrepreneurship and effective incentives for faster development of small and medium-size companies. For social sustainability reasons, comprehensive tax reform must be linked to measures concerning social transfers and the labour market, but its implementation will simultaneously become an important generator of developmental changes in addition to setting off other urgent structural reforms and changes in the behaviour of economic players. In this respect, the reforms are intentionally bold, but due to the Slovene tradition of using a step-by-step approach, they may also appear radical. However, this does not mean that we cannot afford to take sufficient time for preparing them and for taking into consideration all possible simulations of relevant effects when shaping individual solutions.

The state administration must be trained for the implementation of reforms. The first step is to inform all civil servants about the goals of the reforms and the measures that are required. Target-oriented training is required for measures within the competence of individual offices or units, and for senior civil servants. In addition to the committee with the afore-mentioned mandate, reform should also be monitored by a wider network of persons from political circles, state administration, expert organisations and civil society organisations. In order to implement reform, expert and information instruments and effective public relations service are required.

A frequent issue in discussions of Slovenia's development model is the question about whose example we should follow. In our proposals, we did not use a single model, but tried to find the best European practices in individual fields and combine them into a cohesive whole that will be best suited to the Slovenian environment and to developmental challenges. In terms of the welfare state and labour market, we modelled ourselves on some developed countries (Denmark, The Netherlands) which excel in having a high level of employment and flexible security. With regards to the effective economic sector and state regulation, we modelled ourselves primarily on states with the most liberal market economies and economy-friendliest regulations among the initial EU-15 Member States (e.g. Great Britain). In knowledge application, we used the model of the most technologically advanced countries with the greatest investment in knowledge (Finland, Sweden, Ireland). In the enhancement of technological development and its financing, we modelled ourselves on Finland. As far as the new EU Member States are concerned, we sought examples of countries that showed resoluteness and simplification in their reform concept, although we place a greater emphasis on social partnership and societal consent.

Social sustainability of reforms

The reforms are not based on redistribution but rather on increasing value. They are conceived in such a way as to improve the competitiveness of the Slovene economy

and its growth, and promote employment. Employment, in and of itself, reduces social exclusion and increases social security. At the same time, the reforms are designed to avoid worsening the social situation of lower income groups. This is our basic criterion for social sustainability of the reforms. Regarding tax reform, social sustainability is provided by a higher level of general tax relief than the existing one, fairer child dependence relief (which will no longer be higher for people with higher incomes), and by harmonising general tax relief with a possible increase of the cost of living after the initiation of the single VAT. In the labour market domain, this goal is ensured by a set of measures which will facilitate job searches for the unemployed or for those who are not active, and by maintaining and developing their work abilities and experience. In the domain of education, the goal will be reached by strengthening the scholarship fund and delaying school tuition payments, which have a built-in social corrective mechanism. As far as social transfers are concerned, the same goal will be reached by a simplification and better accessibility of the system and by maintaining the same protection of the most vulnerable groups.

The reforms naturally bring changes to many areas. Such changes can be quite unpleasant, particularly for those who have so far enjoyed relative security, e.g. when operating under the “soft budgetary restrictions” typical of state ownership and the public sector, or if they profited from economic advantages resulting from inefficient regulations that unnecessarily limited competition. While fulfilling the condition of social sustainability, the reforms are designed so as to open new opportunities for ambitious and assertive companies, as well as for creative and independent individuals. In areas where we propose changes that could be understood as a “diminishing of rights” or various benefits, we always propose complementary measures promoting the balancing of negative by positive incentives. For example, the measures for increasing the flexibility of employers in providing employment (without going beyond regular EU options) and for stimulating the beneficiaries of social transfers to become active are accompanied by strong measures that make job searches easier and improve the employability of unemployed and inactive persons. Experiences of other countries demonstrate that the more flexible the labour market, the greater the employability rate, rather than the opposite.

Numerous measures seeming to have the potential of increasing inequalities are actually changes in those areas where social concern is only an appearance. It has thus been empirically proven that the lowered VAT benefits much more those persons with higher incomes, so we suggested that it be abolished and substituted by more effective mechanisms in terms of redistribution (such as greater general income relief). An overly rigid protection of work posts is not only a hindrance to faster growth of employment, but also discriminatory to the unemployed who seek work or to those who are also willing to accept temporary work, or those who wish to be in a liberal profession but are driven out of it. Something similar applies to tax privileges with regards to occasional employment of a part of population with reference to the remaining part. Maintaining progressive taxation, which is based on the argument of fair redistribution, actually works against this goal, because it excessively reduces the work efforts of the most productive or forces them to move into the grey economy or abroad. The system of social transfers, which in the case of certain groups of people means that they cannot increase their income through employment, actually forces these people to remain passive and consequently pushes

them into social exclusion, yet at the same time it reduces the available common welfare. The higher education financing system permits great differences in payments, depending on status, and charges for various services in a non-transparent manner in addition to awarding subsidies regardless of social status or success of the study. We are therefore convinced that the proposed reforms will make it possible to establish a system that will be both more stimulating for economic growth and also fairer socially.

The issue of social inequality is particularly sensitive in Slovenia. The official data show that income inequality and poverty are on a similarly low level as in the Scandinavian and certain other formerly socialist countries. However, experience shows that inequality in terms of wealth has been enormously increased through ownership transformation processes. We therefore suggest greater taxation of assets and spending, lower taxation of income and taking into account the value of assets when deciding on social transfers. Although we have one of the lowest rates of income inequality in the EU, it is still possible that income differences may occur, at least temporarily. But these differences should be based on the contribution of individuals to development, providing that the benefits are indirectly accessible to all – and this is precisely what we want to achieve through the proposed reforms. We thus propose changes in the tax system and in the use of knowledge which will permit better remuneration and promotion of the most creative and capable individuals. Along with ever-greater competition, taxation of passive assets, promotion of employment, and participation of employees in profits, we are thus establishing an environment in which companies will invest the results of their greater competitiveness and effectiveness into the development, employment and remuneration of the employed. So we can conclude that the reforms are not a zero-sum game aiming at redistribution, but rather a change which can benefit all of us.

2. First development priority: competitiveness and economic growth

2.1. Proposed measures for restructuring public finances

Achieving a sustainable budget deficit and reducing the structural deficit of the general government sector by 2010 is one of the basic aims of public finance policies in the medium and long term. In order to achieve this aim, the share of general government expenditures in GDP must be reduced. The scenario by means of which we determined the required extent of reducing expenditures is based on the premise of the absence of additional systemic changes, but takes into account all changes presented publicly at this moment (e.g., gradual abolition of the payroll tax). We also followed in the simulation the recommendation of the Stability and Growth Pact that the annual adjustment of the current balance with the target balance after 2006 should be on an average level of 0.5% of GDP. The fiscal target is quantified in such a way that the general government account is balanced in 2010, and the debt of the RS should be brought below 25% of GDP in 2010.

Reducing expenditures by the amount presented provides the framework for carrying out the proposed reforms. Within this framework it will also be necessary to ensure their restructuring towards a more developmental orientation of expenditures, e.g. for co-funding projects financed from EU sources. However, their implementation will also require a change in the method of preparing the budget. Consistent implementation of already accepted »rules« of budget preparation can partly contribute to greater flexibility. The key changes in the procedure, though, relate to the adoption of rules that will enable expenditures to be determined and monitored in terms of programme or economic classification and to evaluating results of the main programmes and projects financed from public funds.

Respecting the proposed public finance restrictions provides the way of mastering the fiscal position, taking into account a falling share of revenue, which derives both from economic trends (increasing share of exports and falling share of domestic use, drop in income after accession to the EU) and from economic policy guidelines (target of unburdening the economy). The proposed gradual approach to reducing general government expenditures will be achieved by changing the method of budget planning, including restrictive rules for the growth of direct state expenditures, and with the aid of measures proposed by other groups of the Committee for Reform. In the ongoing work, we will carefully assess the public finance impact of these changes and supplement them as necessary in order to achieve a sufficient reduction of general government expenditures.

In order to achieve the aims of Slovenia's Development Strategy, in addition to reducing expenditures, it will also be necessary to restructure them in such a way that they will be better harmonised with the state's strategic aims than has been the case to date. In its ongoing work, the group will prepare a proposed medium term

scenario of restructuring the intended structure of general government expenditure, which will derive from the aims of the strategy, proposals of other groups and international comparisons.

Measure 1: Reducing general government expenditures

Description of the measure:

Reducing general government expenditures as a share of GDP by 2 percentage points in the period from 2005 to 2008 and a further two percentage points by 2012. Gradual reduction of the public finance deficit and its abolishing by 2010.

Purpose:

The main aims of the measure are:

1. To achieve accordance of fiscal policy guidelines with aims specified in the Stability and Growth Pact;
2. To achieve accordance of actual economic policy with public finance goals enshrined in Slovenia's Development Strategy;
3. To reduce the state's public finance risk connected with possible additional reduction of general government revenue;
4. To contribute to unburdening the economy and thus stimulating competitiveness and economic activity;
5. To ensure the operability or the necessary flexibility of fiscal policy for the neutralisation of possible asymmetric shocks.

Proposed changes:

- consistent respect for adopted public finance restrictions;
- changing the method of budget planning, including restrictive rules for the growth of direct state expenditures (see Measure 35);
- rationalisation of public sector operations (see Measure 36);
- establishing public-private partnerships (see Measure 42);
- adapting all currently valid strategies, national programmes and individual development laws that are not mutually coordinated, and similarly do not follow the guidelines and priorities of Slovenia's Development Strategy – harmonisation of content with umbrella documents and, at the same time, with the public finance framework that we propose.

Anticipated impact:

In order to achieve the target in this area, the effects of all the proposed measures must be aligned with the estimated reduction of general government expenditures.

The upper limit of public expenditures (as % of GDP)

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|----------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|-------------|-------------|-------------|
| Revenue | 43.21 | 44.10 | 43.38 | 42.80 | 42.67 | 42.16 | 42.10 | 41.85 | 41.70 | 41.59 |
| Expenditure | 44.69 | 45.48 | 44.78 | 44.00 | 43.47 | 42.59 | 42.09 | 41.71 | 41.50 | 41.48 |
| Balance | -1.48 | -1.38 | -1.40 | -1.20 | -0.80 | -0.43 | 0.01 | 0.15 | 0.20 | 0.11 |
| Debt | 27.31 | 27.05 | 26.73 | 26.34 | 25.52 | 24.41 | 22.93 | 21.41 | 19.93 | 18.63 |

Source: Ministry of Finance

Required legislative changes:

Harmonisation of the enacted development documents with the adopted financial framework, implementing the proposals of the Committee for Reform.

Responsibility:

Ministry of Finance and other ministries responsible for individual measures.

Open question:

To prepare a scenario of restructuring expenditures according to purpose.

2.2. Proposed measures for reform of the tax system

Slovene managers believe that the tax system here almost entirely discourages people from work and advancement, while, for example, Icelandic, Estonian and Slovakian managers give their national tax systems a three times higher assessment for being stimulative than Slovene managers do. As the last Development Report (IMAD, 2005) shows, Slovenia has the highest labour costs, immediately behind Great Britain, per unit of GDP. In the developmentally most propulsive European countries such as Sweden, Denmark or Finland, despite the high level of development and wages, labour costs per unit of GDP are 10 to 20 percent lower than in Slovenia. Taxation of work in Slovenia in relation to its productivity is several times too high, and the system of social transfers too non-transparent and indulgent, so people are not encouraged to activity. This is, of course, ultimately a reflection of the fact that Slovenia is ranked third from the bottom among EU members in terms of number of working hours per week. Individuals and companies in Slovenia are systematically de-stimulated from working more and better.

The aim of these measures is a thorough tax reform, which must first essentially change systemic parameters (tax levels) and simplify tax regulations, and remove administrative tax obstacles that systematically deter individuals and companies from greater activity.

The main aim of tax reform towards introduction of a flat tax rate and simplifying tax regulations is primarily to unburden the Slovene economy and to create conditions for its greater competitiveness on world markets. It is the first step towards enabling the systemic conditions for achieving the Lisbon aims, i.e., increasing the competitiveness of the Slovene economy, restructuring the economy towards greater technological complexity, higher intensity of human capital and higher added value, and more jobs. The flat tax rate system essentially lowers company costs (including the removal of payroll tax (PT), and at the same time, because of the uniform, lower income tax rate, it essentially lowers the gross labour costs for Slovene companies. This actually has two positive effects on Slovene companies. The first, reducing gross costs by the removal of payroll tax and introduction of flat tax rate has the effect of lowering labour costs and thus increasing business profits, which companies can devote to increasing expenditures on research and development, increasing the required investment in new technology and new production programmes and for additional employment. The second, with the introduction of flat tax rate there is a reduction in the relative cost of employees with higher education in relation to employees with lower levels of qualification. It will thus be made more attractive to employ a better educated workforce, by which possibilities will be improved for increasing creative potential, ability to follow the technologically leading companies on a world level and the innovative capacity of companies.

Other measures in the sphere of changes to the tax system (flat VAT rate, changes to the corporate income taxation, simplification of tax procedures, tax on real estate and assets, ensuring the social moderation of the transition to the new system, uniting and modernising the Tax and Customs Administrations) enable a harmonised transition to the new tax system, which will encourage and support faster development and greater global competitiveness of the Slovene economy. The Ministry of Finance

has already respected some of the proposals included in the measures, especially from the point of view of simplifying the tax system, in actual proposed amendments to tax legislation.

In shaping the proposals in the area of tax reform, we have not taken into account the aspect of regionalisation or the structure of sources of various levels of the state. These solutions will have to be sought together with the preparation of proposals for possible creation of regions.

The thorough tax reform towards flat tax rate must necessarily go hand in hand with reform of social transfers, especially if we wish to consider a more developmentally oriented and fairer tax system. This, of course, requires unifying all information bases in Slovenia: income tax (Tax Administration, Ministry of Finance), for social transfers (Ministry of Labour, Family and Social Affairs), assets (Ministry of Finance) and vehicle owners (Ministry of the Interior). All these databases are currently unconnected, so we propose in particular two measures: (1) setting up central records of rights to public funds and (2) one entry point for exercising all social rights. This is the only way to create an optimal tax system and system of social transfers in Slovenia, which will stimulate economic development and, at the same time, will be socially and financially sustainable.

Measure 2: Introduction of a flat tax rate on the income of natural persons

Description of the measure:

Introduction of a flat tax rate on the income of natural persons, whereby the current highly progressive taxation of the income of natural persons is abolished.

Purpose:

Encouraging competitiveness and economic activity by unburdening the economy and reducing the tax burden on the wages of more highly qualified personnel, who generally contribute higher added value, reducing the cost of calculating tax on the part of those liable to tax and the tax body, ensuring greater legal security of tax payers with simple and transparent solutions, introducing neutral links between personal income tax and corporate income tax.

Proposed changes:

Tax on the income of natural persons (personal income tax):

- Introduction of flat tax rate, envisaged at 20% on all income of natural persons who are not exempt from taxation and signify market income;
- Abolishing of all current reliefs and thus enlarging the tax basis, except:
 - Introduction of a general relief (110% of minimum living costs)
 - Replacement of existing reliefs for the maintenance of family members with a single tax deduction.
- Adjusting the current gross wages of employees on the level of tariff or wage class in order to preserve at least the same net wage level for employees (see Measures 48 and 49);
- Changes to the contribution rate for pension and health insurance so that incomes remain unchanged;
- Abolition of the payroll tax and special tax on certain income.

Anticipated impact:

- Releasing funds of the economy:
 - SIT 78 billion from the payroll tax,
 - SIT 39 billion from the personal income tax,
 - Total SIT 117 billion (around 1.8 % GDP annually).
- Making the highest educated labour force cheaper by 15 % (2GW) to 31% (5GW)
- Creating the possibility of greater investment of these savings in R&D, new investments or jobs.
- The tax reform is budget neutral in effect, public expenditure is reduced by 1% GDP.

Legislative changes required:

1. Personal Income Tax Act;
2. Tax Procedure Act;
3. Payroll Tax Act;
4. Special Tax on Certain Income Act;
5. Tax Administration Act;

6. Employment Relationships Act;
7. collective contracts;
8. Social Security Contributions Act;
9. legislation relating to transfers;
10. legislation that regulates calculation of wages and other receipts of employees in the private and public sectors.

Responsibility:

Ministry of Finance, Ministry of Labour, Family and Social Affairs

Open questions:

- Crucial link between tax reform and reform of social transfers and changes in the area of labour law legislation and pension and health insurance. The suitability of the present determination of the level of the subsistence minimum should be studied within this framework.
- To consider capping contributions paid.
- To consider the introduction of contributions on special types of income from work (work contracts, copyright contracts, student work) and taking such into account in establishing the basis for calculating rights.
- To consider reliefs for investment in individual additional insurance, where it concerns compensating a reduction in rights from collective social insurance (pension, health).
- In ongoing work, the effects will be studied of the introduction of flat tax rate in the area of agriculture (including from the point of view of determining the basis) and viticulture.
- To study the effect of flat tax rate on recipients of income which is not wages – income from contract work, income from activities, income from property, income from capital, pensions (also in connection with the current »pension reliefs«).
- To study the effect of flat tax rate on financing municipalities or to seek substitute sources.

Measure 3: Introduction of a flat VAT rate

Description of the measure:

The introduction of a flat tax rate in the area of taxing goods and services with VAT, whereby the current lower level of VAT would be abolished, and reliefs in compliance with EU Guideline VI would be preserved.

Purpose:

Simplification of the VAT tax system and the transfer of financing public expenditure from direct taxation (flat personal income tax rate, abolishing the payroll tax) to indirect taxation.

Proposed changes:

Value added tax (VAT):

- Introduction of a flat tax rate, 20% envisaged, but it is not necessary that it is the same as the flat personal income tax rate) for taxation of all transactions in goods and services, except transactions that are subject to reliefs or are outside the framework of VAT (transactions between member states, exports, other exemptions).
- Simplification of keeping records for VAT purposes, thus ensuring greater administrative simplicity and, consequently, reducing the costs of calculating VAT.
- Increasing the legal security of tax payers by removing border cases of taxation (e.g., in the area of medicines and printing, when it is not entirely clear at what rate it is taxed).
- Greater neutrality of VAT taxation.
- Simpler control of calculation of VAT and, consequently, lower costs of supervision by the tax body.

Anticipated impact:

- Financial effect:
 - Simulations by Ministry of Finance show that fiscal income from VAT would be the same as the current income assuming the flat VAT rate between 16% and 17%,
 - With a flat VAT rate of 20% and taking into account the structure of use in 2004, the fiscal income from VAT would bring into the budget SIT 115.4 to 134.5 billion more than under the current system.

Legislative changes required:

1. VAT Act,
2. Rules for applying the VAT Act.

Responsibility:

Ministry of Finance

Open questions:

- A more precise assessment of the impact of a flat VAT rate on the consumer price index;

- To evaluate the financial impact taking into account a rise in those central or general government expenditures in which the “state” is the tax payer as a buyer or a client, and to assess the effect on the costs of the healthcare fund;
- To evaluate the effects on the income of groups of VAT payers who have the right to lump sum taxation;
- To devote particular attention to the trade in goods and services that are taxed at a lower level under the current system, but operate in monopoly conditions;
- In future work, the effects of the introduction of flat tax rate in the area of culture will be studied in detail as well as the rationale and effectiveness of subsidies for financing original Slovene art and culture, and encouraging a public-private partnership in culture;
- In further work, also to study in detail the effects of introducing a flat VAT rate on the international competitiveness of activities (e.g., tourism) whose products and services are today taxed at a lower level;
- To consider also increasing budget revenues from other forms of taxing consumption such as excise duty on tobacco and tobacco products and alcohol, and ecological taxes. The purpose of such taxes is to penalise burdening the environment and obtaining sources for rehabilitation of environmental damage.

Measure 4: Changes to the Corporate Income Tax Act

Description of the measure:

Adoption of a new Corporate Income Tax Act setting out clear tax standards, abolishing economic double taxation introduced at the end of 2004, lowering the effective tax rate, adjusting the tax basis to balancing in accordance with international standards of accountancy reporting and Slovene accounting standards, will enact all the necessary norms for protecting the tax basis and for preventing tax evasion. It will also provide for a consistent implementation of the European directives in the sphere of taxation of the incomes of legal entities. The new law will be developmentally oriented and will not contain restrictive tax standards unless this is urgently required to protect fiscal interests.

Purpose:

To ensure a clear and specific legal text, without disproportionate interventions into the tax basis, that will provide residents and foreign investors with transparent tax conditions of business and suitable motivation for investing capital and direct investment. A transparent tax law will enable reduced cost of taxation for tax payers, reduced costs of supervisory procedures and in the long-term fewer tax disputes being brought before the courts.

Proposed changes:

- To specify clearly tax sources for non-residents in Slovenia;
- To determine the seat of actual administration for tax purposes, which is the criteria for taxation according to world income;
- To specify the tax basis for permanent business units in Slovenia;
- To define concealed payment of profit, which is treated as dividend;
- Tax basis:
 - To introduce the practice of removing double taxation/double non-taxation of the same tax source;
 - To specify conditions for determining the tax basis using up-graded Slovene accounting standards (2006) and international financial reporting standards (IFRS);
 - To determine the tax consequences of transition to the updated Slovene accounting standards (2006) and IFRS;
 - To redefine connected entities;
 - To redefine the extent of required documentation of transactions between connected entities;
 - To redefine restrictions in reservations – only for headings which may be of a tax speculative nature and to determine an institution for removing double taxation;
 - Otherwise to arrange unrecognised expenditures because of decline of economic categories;
 - To rearrange recognising the costs of depreciation;
 - To arrange the conditions for tax recognition of good name.
- To remove double economic taxation of dividend income for natural and legal persons;
- To establish an arrangement whereby capital profit is taxed at the time of

- realisation of income;
- To rearrange conditions for transferring tax losses to the following period;
- To define specifically and clearly expenditure not recognised for tax purposes;
- In view of calculations and analysis, to determine suitable nominal tax levels;
- Consistent integration of directives from the area of material status transformations;
- To introduce taxation of hidden reserves in the case of cessation – liquidation of tax payers;
- To redefine revenues that are similar to dividends;
- To study the possibility of removing tax deductions in entirety, or at least their thorough simplification and reduction to a level to 15% or 10%;
- Simplification of the tax procedure
 - Rearrange the procedure of cessation and division, association, transfer of activities and exchange of capital shares;
 - To introduce the institution of self-correction of the tax calculation under legal conditions;
 - Newly to arrange the proof required of transferred prices;
 - To reduce administration in claiming benefits under agreements on the avoidance of double taxation;
 - To remove reporting in cases among residents in which there are no tax deductions (ODO-2);
 - To introduce monthly reporting for tax deductions and monthly payments (ODO-1) – currently for each payment individually;
 - To speed up introduction of electronic exchange of data with the Tax Administration of the Republic of Slovenia.

Anticipated impact:

- Analysis of various combinations of nominal tax rate and tax reliefs, deriving from two basic alternatives: (i) determining a low internationally competitive rate at the same time as removing all tax reliefs, except for donations intended to encourage transfers to civil society (schools and universities, humanitarian, cultural and similar institutions, in particular public-private funds for financing education and training); (ii) determining the same rate as with income tax with the aim of the same tax treatment of different forms of obtaining income and performing activities, at the same time as studying the rationale of introducing some developmentally stimulating reliefs, e.g., for investment in research and development and education.
- Necessary analysis for evaluating direct budgetary effects. In any case, there will be a larger tax inflow than on the basis of the old Corporate Income Tax Act. The estimate of losses in 2005 also requires an estimate of inflows for 2005 (final data, namely, will only be known in 2006).
- A simplified, clear and transparent law will also be positively received by foreign investors and by residents, because it will reduce the costs of calculating tax.

Legislative changes required:

1. Taxation Procedure Act,
2. Corporate Income Tax Act,
3. Tax Administration Act (register),

4. Customs Service Act,
5. implementing regulations.

Responsibility:

Ministry of Finance

Open questions:

- To study corporate income taxation in comparable countries, mainly in countries which have decided for thorough changes to the tax system towards flat tax rate.

Measure 5: Simplification of the tax procedure

Description of the measure:

Adoption of a new Tax Procedure Act, by which the current tax procedure would be simplified and updated, since the former procedure requires too much unnecessary administration both for tax payers and the tax authority. The new Tax Procedure Act will be adapted to the needs of flat tax rate.

Purpose:

Simplification of tax procedures and thus reducing the administrative burden for tax payers and the tax office and improving the tax ethics of tax payers.

Proposed changes:

- Integral change of the general part of the Tax Procedure Act;
- Introduction of a glossary;
- Legislating tax confidentiality until the tax procedure is final;
- Reducing inefficient administration with the introduction of limit amounts up to which a tax procedure is not initiated and tax not paid (on the principle of the cost-benefit of the procedure);
- Introduction of electronic communication of data to the tax authority, which simplifies and reduces the cost of the procedure of collecting data by the tax authority;
- Transmitting declarations or corrections to declarations after the expiry of the deadline for submission;
- Self-declaration;
- Equal treatment of tax payers;
- Use of the principle »when in doubt to the benefit of the tax payer«;
- Possibility of initiating a tax inspection at the request of the tax payer;
- Studying the possibility of the introduction of a mandatory ruling (»advance ruling«);
- Studying the possibility of settlement in the payment of tax debts;
- A decision on merit at second instance;
- Compulsory time limit of duration of an inspection and time for solving complaints;
- Extending enforcement to property rights, shares in companies and shares not quoted on the stock exchange;
- Simplification of calculating personal income tax;
- Possibility of claiming tax deductions until the issue of a decision in a procedure of tax supervision;
- Possibility of agreeing on a time limit for the handing in of annual tax statements for various groups of tax payers;
- Simplifying payment of tax payments and determining payment deadlines;
- Ending the issue of unnecessary permits, which unnecessarily burden the tax authority;
- Readjustment of tax violations in terms of the new text of the tax law;
- Legal regulation of the profession of tax consultant.

Open questions:

To study the possibility of introducing a single tax amnesty at the time of transition to the new tax system. To study the possibility of equalising procedures and methods of taxing various forms of organisation. To study the possibility of lowering the level of default interest.

Anticipated impact:

- We consider that the proposed changes to the Tax Procedure Act will not have essentially negative effects on the national budget and, in addition, because of the simplification of tax procedures the costs of both tax payers and the tax authority will be reduced.
- Assessment by Ministry of Finance: the possibility of a single withdrawal of fiscal income because of the withdrawal of payments under the heading tax payments and social contributions (SIT 106 billion in 2004).
- A simplified, clear and transparent tax procedure will also be positively received by foreign investors, who do not want unnecessary administration.

Legislative changes required:

1. Personal Income Tax Act;
2. Corporate Income Tax Act;
3. Civil Tax Act;
4. Special Tax on Certain Income Act;
5. Tax Administration Act;
6. Social Security Contributions Act;
7. Tax Consultancy Act.

Responsibility:

Ministry of Finance, Ministry of Justice

Open questions:

Harmonising with changes in the area of inspection procedures and in the area of payment of social security contributions.

Measure 6: Introduction of tax on real estate and assets

Description of the measure:

Introduction of tax on real estate and assets

Purpose:

Equitable distribution of the public burden under the heading real estate and other assets of large value.

Proposed changes:

- Taxation of real estate in relation to the facility;
- Enlarging the tax basis;
- Local appurtenance of the tax;
- Suitable valuation of real estate;
- Study of this institution according to the property law code in relation to taxation with flat tax rate and VAT;
- Taxation of other forms of immoveable and moveable assets of large value (luxury consumption) and thus de-stimulating non-productive consumption and the 'grey' economy.

Anticipated impact:

At least the replacement of current general government revenue under the heading compensation for the use of building land.

Open questions:

- To study the sense of exemptions and reliefs (for instance for humanitarian purposes).
- To prepare a proposal for determining the tax basis in terms of the type of real estate.
- To study the effect of tax from the aspect of the high share of owner occupied small apartments used by the owners as their only residence (a particularity of Slovenia and partly a result of the method of privatising housing). To study the possibility of tax credits for persons who actually reside in the real estate.

Legislative changes required:

1. Adoption of a new law and abolition of the tax on property and compensation for the use of building land.
2. Changes to the Tax Procedure Act (perhaps).
3. To set up a register of real estate (see Measure 40).

Responsibility:

Ministry of Finance

Measure 7: Changes to tax on real estate transactions

Description of the measure:

Tax on the trade in real estate must be harmonised with parallel legislation – obligation and property law.

Purpose:

The tax does not follow the current contract relations, nor taxation on transactions by some institutions introduced by the Law of Property Code. Numerous transactions therefore remain untaxed. Real estate transactions are thus not treated equally.

Proposed changes:

Study of new institutions under the Law of Property Code in relation to taxation with flat tax rate and VAT, such as:

- To determine the real tax base with leasing real estate;
- To tax original methods of obtaining real estate;
- To tax trade in building rights, etc.

Anticipated impact:

Anticipated increase in government revenues.

Open questions:

To study changes of tax in terms of the question of the »cascade effect« and in connection with VAT. To study harmonisation of the proposal in relation to taxing trade in agricultural land, means of subsistence, inheritance.

Legislative changes required:

1. Changes to the Real Estate Sales Tax Act.
2. Possible amendments to the Tax Procedure Act.

Responsibility:

Ministry of Finance

Measure 8: Changes to tax on inheritance and gifts

Description of the measure:

Changes to the Civil Tax Act. The tax must be fundamentally adapted to the current legal institutions – especially new contract relations in the sense of gift and inheritance transactions.

Purpose:

Adaptation of the principle of the current tax law.

Proposed changes:

- Harmonisation of gifts and inheritances with modern contract relations (Code of Obligations)

Open questions:

To study the suitability of levels of tax rate, especially for relations other than between relatives, comparable with EU countries and consistently in relation to the entirety of measures of the proposed tax reform.

Anticipated impact:

An increase in public revenues is anticipated.

Legislative changes required:

1. Changes to the Civil Tax Act.
2. Possible amendments to the Tax Procedure Act.

Responsibility:

Ministry of Finance

Measure 9: Ensuring social moderation of the transition to the new tax system

Description of the measure:

With the interlacing of measures to ensure the social moderation of the transition to the new tax system: determination of higher general tax deductions, transition to a new wage system, exceptional adjustment of payments for increased prices after the introduction of a flat VAT rate, to tax non-active real estate and to regulate profit sharing.

Purpose:

With the introduction of a flat tax rate to ensure that the real income of persons with the lowest wages will not fall in real terms, and to prevent there being a strongly increased differences in net incomes during the transition to the new tax system. At the same time, such a transition, together with tax unburdening, enables a reduction of the labour costs of companies and other organisations, which will contribute to greater competitiveness or efficiency of companies and other organisations, and consequently to greater economic growth and employment.

Proposed changes:

- Transition to a new wage system in the public and private sectors so that at the time of the changes in tax legislation the net income of employees will not be worsened (see measures 48 and 49);
- To determine the general tax deduction for income tax in such a way that it will be higher than the present by the estimated increased cost of living at the time of transition to the flat VAT rate and then each year increase it by the rise in the cost of living in the past year;
- Because minimum living costs are also the basis for determining the total level of social receipts under the proposed system, their increase (or raising the general deduction) will also automatically raise the income of people who are not employed;
- To agree an exceptional adjustment of wages or suitable raising of the general deduction if the price increase in the three months after the introduction of the flat VAT level exceeds the foreseen increase (see measures 48 and 49);
- To create a wages system that will enable flexible remuneration in relation to the success of individual employees and regulation of profit sharing (see measures 48 and 49);
- To tax non-active real estate and thus to stimulate investment of business surpluses in development (see measure 6).

Anticipated impact:

- Adaptation will not cause a drop in general government revenues, because it will be respected within the framework of the effects of the introduction of flat tax rate.
- We do not consider that adaptation in companies and other organisations will bring significant additional expenses, except specific one-off administrative costs connected with the realisation of calculations and adaptation.
- Since adaptations, for the sake of simplicity and efficiency, will be carried out on the level of tariffs or wage classes, companies and other organisations will

have to make the final adaptation on the micro-level if they wish to ensure that no employee will have lower net wage than prior to the introduction of flat tax rate; this will probably contribute to a small increase in average net wage.

Legislative changes required:

1. Employment Relationships Act,
2. Public Sector Wage System Act,
3. general collective contracts, branch collective contracts, company collective contracts,
4. Social Security Contributions Act,
5. other laws and regulations that determine the starting point for forming wages and other receipts under employment relations in the private and public sectors.

Responsibility:

Ministry of Labour, Family and Social Affairs, Economic and Social Council, Ministry of Public Administration, Ministry of Finance.

Open questions:

- Urgent timely harmonisation of approaches with all social partners.
- To study the impact of the proposed solutions on the recipients of low pensions and to foresee additional corrective measures as necessary.

2.3. Proposed measures for increasing competitiveness

In order to stimulate the competitiveness of the economy, the business environment for companies must be improved. Measures of economic policy should operate mainly in facilitating and reducing the cost of access to the resources that an entrepreneur needs. A consensus was achieved within the Committee in relation to the basic changes in the business environment. We propose the following group of measures (see more detailed division in the proposals of individual measures in this and other chapters of the Framework):

Labour market:

- To enable flexible employment contracts, thus to enable greater freedom for employers in determining employment conditions (period of employment, assigning working tasks, training etc.) and greater freedom for employees in the choice of the form of working activity (free or flexible forms of work) (see Measures 48 and 49);
- To reduce the progression of tax and fiscal burdens for highly qualified and top workers by determining the maximum amount of social contributions and the introduction of flat tax rate (see Measure 2);
- To facilitate administrative procedures and quota restrictions in employing highly qualified foreign workers in relation to other profiles;
- Deregulation of professions or performing certain activities. In the activities that will remain regulated, as a minimum protection of consumers to ensure independent information on quality, removal of minimum prices and compulsory tariffs, to remove exclusivity of representation, to remove compulsory membership of associations (see also Measure 44).

Capital market:

- Setting-up of a mixed venture capital fund for financing the start up phases of technologically demanding companies and fast growing companies (appropriate tax arrangement of the status of venture capital funds according to good European practices);
- Liberalisation of land use – national spatial plan, by which land use categories would be changed (to achieve a target percentage of increasing the provision of land for building, perhaps in connection with roads and railways), to centralise and simplify obtaining permits and to determine time limits and possibilities of appeal, to take away the power of land cartels.

Knowledge:

- To promote on-the-job training (see Measure 52);
- To finance student training in start-up companies in key world development points;
- To link university studies with the business environment, also by means of scholarship schemes (see Measure 53);
- Help in development of managerial knowledge and techniques – e.g., seeking talents, creating star teams, soft management methods etc.

Infrastructure:

- To promote low-cost air flights to Slovenia and shared use of business planes;
- To prepare offers of business interest for investments by the private sector in infrastructure, including for example, offering investors who bind themselves to the construction of necessary infrastructure, the use or purchase of existing parts of the network (e.g., offering existing motorways for use/purchase to an investor who would construct all the remaining necessary motorways within 2 years);
- To build business zones beside motorways and, where necessary, through national spatial plan to change the purpose of land and obtain it for the investor (state or infrastructural investor);
- To construct a national network of wireless broadband mobile access to the internet for all citizens.

Public services:

- To provide an entrepreneur-friendly public administration and consistently to implement the provisions of the decree on administrative operations, which prescribes compulsory finding of the satisfaction of users with administrative services and other quality standards for administrative services.
- Extending the project »one-stop-shop«, which is implemented by the Ministry of Public Administration and the Ministry of the Economy with the aim of all public services required for starting up the operations of companies is performed at a single entry point and that a company can start to do business not later than in one week from the visit to the single entry point. If required for achieving this aim, the transfer of competence for registration from the courts to the Agency for Public Legal Records and Related Services (AJPES) and to combine the court and business registers.

The most important part of the reform in this area is to ensure conditions for successful operation of the private sector on the global market. Providing favourable conditions for companies means that entrepreneurs and managers do not need to deal with things that are given to their competitors under favourable conditions. It provides conditions that enable entrepreneurs to deal with key activities: innovation in the areas of products, services, technologies, processes etc., i.e., by ensuring those competitive advantages that distinguish successful companies and entrepreneurs from the less successful. This means that, in addition to general competitive conditions, i.e., availability of a high quality labour force, premises, land etc. at competitive prices, it is necessary to introduce specific measures that are directly oriented to the support of entrepreneurs. These measures cover four areas:

- Promoting entrepreneurship and a business-friendly environment,
- Knowledge for the business sector,
- Promoting innovativeness for increasing the competitiveness of companies,
- Financial mechanisms.

The first area embraces promotion of entrepreneurship and education for entrepreneurship. This includes activities such as: promotion of entrepreneurship and a business culture through the media, competitions for innovative business

ventures, conferences, round tables, cooperation in international conferences, entrepreneur of the year and the fastest growing companies. The aim of this is to improve the social status of entrepreneur and, consequently, greater interest in entrepreneurship. An important part of this is teaching entrepreneurship at all educational levels. The second part relates to the support environment for entrepreneurship. The aim is finally to establish the operation of two systems: one-stop-shop and the system of information on EU activities (EU-one-stop-shop). The aim is that an entrepreneur gets complete informational and consultancy support in one place in standardised form.

The second field, knowledge for the business sector, covers all kinds of professional and vocational education, the flow of researchers into the business sector and development of natural sciences and technical knowledge and internationalisation of knowledge for the needs of the business sector. In all these fields, measures are directed at state support for the development of knowledge that measurably contributes to increasing the competitiveness of companies. Measures are given within the context of the second priority.

The third area, promoting innovativeness for increasing the competitiveness of companies, contains the development of systems for increasing productivity in companies and systems of networking between companies. Umbrella networks of bodies for assisting companies (one-stop-shops, Local Business Centres, Public Agency for Entrepreneurship and Foreign Investments, etc.) belong in this system, the development of university incubators, technology parks and business incubators, the development of business zones, clusters and technology platforms. The key task is to provide the efficient operation of such systems through public authorities and supervision of them on the basis of achieved results.

The fourth field, financial mechanisms, contains the further development of the Slovene Business Fund, which must develop more fully the linkage between private and public capital and linkage with other support institutions, such as incubators and technology parks, both at home and abroad. Assistance must be developed for fast growing, innovative small and medium-sized companies, with both equity and debt sources of financing. Mixed venture capital will play a special role, which will be financed from funds of the European Investment Fund and EU structural funds. Further development must be ensured of guarantee schemes for small and medium-sized companies. An important new measure is grant for the founding and growth of companies, mainly for high technology investments in university incubators.

Anticipated impact:

- Increasing the net entry of new companies;
- Increasing direct foreign investments in Slovenia;
- Accelerated growth of companies with high added value;
- Accelerated internationalisation of companies;
- Increasing the efficiency of companies;
- Reducing corruption in public administration;
- Increasing the confidence of entrepreneurs in the state.

Legislative changes required:

See necessary changes under individual proposed measures.

Responsibility:

Ministry of Finance, Ministry of Labour, Family and Social Affairs, Ministry of the Economy, Ministry of Higher Education, Science and Technology, Ministry of Transport, Ministry of the Environment and Spatial Planning, Ministry of Public Administration, Ministry of Justice.

Open questions:

To attract the social partners to implementing the proposals on the basis of joint study of good practices in carrying out reforms (example of Denmark, where the social partners make a crucial contribution to creating a competitive labour market, which helps companies and is at the same time favourable for employees). To provide the necessary trained civil servants for implementing the reforms, with training, rewards and applying sanctions in cases of non-constructive behaviour. To enable civil servants to obtain knowledge of good practices throughout the world (education, visits and the exchange of experience).

Measure 10: Promoting entrepreneurship and competitiveness of companies

Description of the measure:

Introducing and building on interconnected institutions, systems and projects for promoting entrepreneurship and ensuring the efficiency of their operations.

Purpose:

To establish a business environment that will rank Slovenia among the most business-friendly environments in the world. To support the most creative part of Slovenes and connect them within networks that will accelerate the placement of innovative products, services and technologies on the world market and that will develop innovative business processes and business models.

Proposals:

- To set up an integral system of support for companies (one-stop-shop, e-one-stop-shop, EU-one-stop-shop);
- Promotion of a supportive environment to entrepreneurship and a business culture (through the public media, Slovene competition for the best innovations or business ideas, presentations of good practices and successful business groups, market niches, preparation of thematic brochures, organisation of entrepreneurship days, organisation of conferences and other events);
- Setting up a formal education process of entrepreneurship in primary schools, secondary schools, colleges and universities;
- To promote the employment of young researchers from science in the business sector and greatly support the total number of researchers in the business sector; to support specialisation, vocational, professional and graduate education of employees in SMEs (see Measures 31 and 32);
- Through vouchers to the best researchers (natural science and technical sciences) in companies enable education at the best universities in the world;
- Annually to enable 100 students from various faculties to obtain credit points for one semester of study, including practice done in start-up companies in the area of their studies, in the most business innovative points in the world (Boston, Silicon Valley, London, Singapore, Shanghai etc.) on the example of Norway, in connection with business representative offices;
- With the aid of concessions, to support the development and operation of business, college and university incubators and technology parks;
- Support in the networking of subjects in an innovative environment (incubators, parks, networks, clusters, centres of excellence, technology platforms etc.);
- Setting up of a Slovene centre for the transfer of innovations, including stock exchange of innovations;
- Setting up mixed venture capital funds (state + investors) which would be financed from Slovene Enterprise Fund as well as from The Capital Fund (KAD), the Restitution Fund (SOD), pension funds;
- Providing start-up and seed capital for companies-beginners located in incubators on the principle of de-minimis (SIT 25 million/3 years). Funds required for the measure are around SIT 1.2 billion/annually; providing favourable credits, guarantees and leasing for companies through Slovene Enterprise Fund;

- Accelerated introduction of business models of excellence in companies (e.g. EFQM);
- Earliest setting up of economic points for entry to foreign markets for Slovene companies, especially in so-called BRIC countries (Brazil, Russia, India and China);
- Strengthening the operation of Slovene Export Corporation for the support of SMEs and large companies in investments on foreign markets;
- To organise close contacts between the implementing bodies of the proposed measures in Slovenia and implementing bodies of similar measures in countries of good practices. To make personal contacts through exchange visits, training, exchange of documents and the implementation of joint projects;
- To ensure that holders of public authority and holders of concessions obtain these on the basis of references and the achievement of measurable aims (international benchmarking);
- By the end of the year collect data on the state of innovative projects with possibilities of commercialisation on world markets, including with the assistance of a public call by the Ministry of the Economy to those responsible for projects;
- The Government of the Republic of Slovenia is starting activities for the gradual harmonisation of data and possible combining of the land register, land cadastre and register of buildings, in terms of content and organisation. It will study the possibilities of combining real estate records, the land register, land cadastre and register of buildings into a single record. The land register at individual district courts to be connected into an integrated hierarchical system with uniform supervision. Preparation of a proposal for changes to regulations governing the land register and land cadastre, ensuring the necessary staff, premises and equipment and method of harmonising data of the land register, land cadastre and cadastre of buildings for the operation of an integral system;
- The main measures for ensuring greater efficiency of the judiciary or for removing court arrears are: (i) providing spatial conditions in compliance with the strategy of spatial development of the judicial system, (ii) additionally providing and organising human resources or the employment of professional associates for a fixed period, until 31 December 2010, by which time it is foreseen that arrears will have been removed, (iii) providing incentives for judicial staff and judges for removing court arrears. Other measures for increasing the efficiency of the judiciary are: (iv) simplifying legislation and standardisation of judicial procedures, (v) complete computerisation of courts and judicial procedures, (vi) additional training of judges and prosecutors, especially in the area of economic crime, corruption and organised crime, (vii) reorganisation and better management of the courts.

Legislative changes required:

- Changes to and simplification of the entire procedural and organisational judicial legislation

Responsibility:

Ministry of the Economy, Ministry of Higher Education, Science and Technology, Ministry of Public Administration, Ministry of Justice, for the one-stop-shop project,

also Agency of the Republic of Slovenia for Public Legal Records and Related Services) and Tax Administration of the Republic of Slovenia.

Open questions:

On the basis of the study of good practices of successful countries, to specify more precisely the content and method of implementation of the proposed measures. To ensure the harmonisation of the measures with European Union directives.

Measure 11: Improving the competitiveness of markets

Description of the measure:

Improving the competitiveness of markets.

Purpose:

To prevent monopoly structure in all areas.

Proposals:

- To reduce existing obstacles preventing entry of new providers in all areas (simplification of the system of concessions etc.);
- Preventing the emergence of monopoly structures in existing branches;
- To build positive attitudes to globalisation and foreign direct investors
- To build competitive markets of knowledge and assure equal access to public incentives for public private, domestic and foreign knowledge providers.

Responsibility:

Ministry of Finance, Ministry of the Economy, Ministry of Higher Education, Science and Technology, Ministry of the Environment and Spatial Planning, Ministry of Public Administration

Open questions:

A working group will prepare a proposal for a set of recommended institutional changes.

Measure 12: Improving the competitiveness of Slovenia on the global market of business locations

Description of the measure:

Improving the competitiveness of Slovenia on the global market of business destinations.

Purpose:

Increasing the attractiveness of Slovenia for domestic and foreign entrepreneurs.

Proposed changes:

- Setting up 3-5 large business zones at motorway crossings;
- Actively striving to attract regional administrative centres (hubs) of multinationals;
- Training sufficient workers for new and expanding companies
- Incentives for large projects involving FDI.

Responsibility:

Ministry of the Economy, Ministry of the Environment and Spatial Planning, Ministry of Transport, Ministry of Labour, Family and Social Affairs, Government Office for Local Self Government and Regional Policy, Ministry of Public Administration.

Measure 13: Public procurement

Description of the measure:

Introduction of a transparent, centralised information system and supervision of public procurement. To specify the method of ensuring access of small and medium sized companies to public procurement.

Purpose:

Regulating the area of public procurement in a way that will prevent specific bidders being unfairly favoured and disable the establishment of cartel links and monopolies in individual branches. To enable small and medium sized companies, despite their smallness, to gain access to a suitable share of public contracts. To achieve the establishment of competition between bidders in individual branches.

Proposed changes:

- To amend the Public Procurement Act in such a way that it enables consistent enforcement of the basic principle of public procurement, i.e., transparency of procedures and, at the same time, allow state intervention to establish competition among providers and the development of innovativeness.
- To simplify the procedure of public procurement and to ensure the possibility of a bidder rectifying minor formal deficiencies of a tender.
- To abolish the autonomy of those placing public contracts anywhere where cartel links can be observed (absence of real competition) and other deviant phenomena, and to abolish monopolies or cartel links in particular procurement markets.
- To modernise the public sector so that it is capable of enforcing suitable conditions in relation to contractors, mainly suitable (market) prices of public contracts.
- In concluding contracts to ensure that whenever contractors are large companies and this is sensible, small and medium-sized companies are also involved in implementation. Payment to contractors to be bound to settlement of obligations to sub-contractors.
- In order to unify and improve practice of public procurement to adopt common principles for the behaviour of public contractors, which will also respect the guidelines described above.
- To create and implement stricter penalties (confiscation of illegally obtained material benefits) for violators of the principles of public procurement, both the natural persons on the part of the client and legal and natural persons on the part of contractor.
- Introduction of a central public internet database for all public contracts with information on all the key elements of public contracts from calls to tender to completion and evaluation (value for money). All data must be included on key participants (tender commission, responsible person of the contractor, evaluation commission etc.)

Anticipated impact:

- Reducing the price and improving the quality of implementation of infrastructural projects (roads, hospitals, communal infrastructure etc.)
- Increasing participation of small and medium sized companies in public procurement.
- Improving competitiveness and reducing corruption.

Legislative changes required:

- Public Procurement Act

Responsibility:

Ministry of Finance, Ministry of Public Administration.

Measure 14: De-monopolisation of the real estate market

Description of the measure:

To increase the provision of building land for business and housing construction and for public infrastructure.

Purpose:

The public sector must provide: (1) a sufficient amount of land equipped with public utility infrastructure in public and private ownership which (moderately) exceeds actual demand; (2) territorial spatial regulatory acts adjusted to real, economically verified needs, which will simultaneously resolve the functional problem of urban space; (3) a genuine market environment. To disburden business persons from spending too much time obtaining quality premises at competitive prices and thus enable them to focus time and money on basic activities. To provide favourable living conditions for mobility, especially for highly qualified professionals from other regions and countries.

Proposed changes:

- Change of spatial and urban planning policies, to enable the concurrent satisfaction of the need for building land and public financing of main infrastructural lines to building land, within the frame of adopted general social and economic strategies.
- Increasing the efficiency of the public sector in the supply of building land through an active land policy, especially for industrial needs and housing construction.
- Removing privileged access to land by individual investors or abolishing land cartels.
- Establishing legal, urban planning, administrative-technical, financial, fiscal and other conditions for markets in real estate, with adequately competitive offers, to be established and develop, both in land and housing.
- Introduction of tax on unused building land, the level of which is relative to the level of urbanisation of the environment in which the building land is located (see measure 6).
- Establishing conditions for increasing the supply of affordable housing.
- Setting up criteria for achieving a reduction of price and increase in the quality of business, residential and infrastructural real estate in Slovenia, by regions, in comparison with competitor countries.

Anticipated impact:

- Achieving prices of land and business, infrastructural and residential premises at or below the average price in competitor countries.
- Essentially improving possibilities of fast growth of companies needing spatial enlargement.
- Essentially improving the motivational packet for quality workers. This is a crucial element for increasing flexibility of the labour market in conditions of globalisation.

Legislative changes required:

1. All regulations relating to the environment and spatial planning
2. Tax legislation.

Responsibility:

Ministry of the Environment and Spatial Planning, Ministry of Agriculture, Food and Forestry, Ministry of Public Administration, Ministry of Finance, Government Office for Local Self Government and Regional Policy

Measure 15: Support for and execution of a small number of major projects of national importance

Description of the measure:

Support for and implementation of a small number of major projects of national importance. Major projects shall also have a regional impact where this is feasible and shall provide coherency with smaller projects in terms of implementation and in terms of management. The drawing of EU funds is foreseen in this, for projects where this is possible. Projects are proposed in connection with Measure 18, in such a way that as a whole they comply to guidelines of quality development (economic competitiveness, knowledge, services, infrastructure, the environment, balanced regional development) and applicable national strategic development priorities. Selected Criteria are taken into account for the selection of the projects that targets central importance for the development of Slovenia stated in Measure 16.

Purpose:

Through major projects to provide support to groups of companies and individuals that have proven the potential for achieving business excellence on world markets; to support the development of an infrastructure of knowledge, to improve the efficiency of absorption of European Cohesion funds.

Proposed changes:

- Project “Made in Slovenia”;
- National Centre for Industrial Design (see Measure 18);
- Broadband infrastructure and general mobile wireless access to the internet (see Measure 18);
- Project of sustainable synergy: integration of energy supply, renewable energy and increasing energy efficiency (see Measure 18);
- To support projects that will be created from technological platforms;
- To support the creation of new universities and college centres (see Measures 15 and 28).

Responsibility:

Ministry of the Economy, Ministry of the Environment and Spatial Planning, Ministry of Transport, Ministry of Higher Education, Science and Technology, Government Office for Local Self Government and Regional Policy.

Open questions:

The proposal of specific projects is preliminary and can be supplemented in the future, for instance with proposals collected within the context of the project of continuous monitoring of investment projects that can contribute to the development potential of Slovenia (Chamber of Economy of Slovenia) or from the initiative Art+Craft Slovenia (Chamber of Craft of Slovenia) as a supplement to the project Made in Slovenia.

2.4. Proposed measures for more effective use of EU funds for faster development

The proposed measures will contribute to improving the efficiency of use of EU development funds in Slovenia. The essential proposal is that all projects within the framework of the Cohesion Fund (CF) will be central projects of national importance and that the majority of funds will be directed towards these projects. The ratio between projects defined as major in this proposal and other projects that will be co-financed under the heading EU structural funds (ERDF and ESF), will be determined in a ratio that will be clearly directed to the advantage of major projects.

In the area of preparation of major projects, draft criteria for their preparation have been produced, and a proposal has been put forward of indicative ratios for directing development funds in the period 2007-2013, as well as indicative set of project ideas and a system for their further division into central projects of a national importance. The major effort must be invested in preparatory work of defining and elaborating major projects of national importance. Where this is possible, these projects will be financed within the framework of multi-year programmes of financing and funds will be divided as directly as possible in accordance with the criteria.

Measure 16: Preparation and selection of criteria for preparation of a group of major projects

Purpose:

The key element for the elaboration of major projects is represented by clear standards based on the four pillars: **(a)** financial size of the project, **(b)** contribution of the anticipated results to the development momentum of Slovenia, **(c)** cross-sectoral effect of the project, **(č)** concentration of local/regional contents in national project, **(d)** grounds for public intervention based on identified market failure.

Proposed changes:

Such standards for the aims of projects within the framework of elaboration of development documents of an implementing nature (National Development Programme (NDP), Single Programming Document (SPD) and regional development programmes) have not been prepared. The standards will be prepared on the basis of: (1) experience to date with development policies in Slovenia, (b) definition of major projects on the EU level.

Anticipated impact:

- Greater transparency of development projects,
- Greater transparency of monitoring and evaluating the impact of projects,
- Concentration of development funds in large projects provides a greater possibility of development momentum. The latter contributes to greater absorption and rationalisation of management of EU funds.

Legislative changes required:

Public Procurement Act

Responsibility:

Government Office for Local Self Government and Regional Policy, Ministry of Finance

Measure 17: Defining indicative ratios for directing development funds in the period 2007-2013

Purpose:

To define as early as possible the ratios: (1) division between major and other projects and (2) share of EU cohesion policy funds among individual funds.

K (1): with a clear orientation of ratios between major projects that will most transparently contribute to development momentum and other projects, clear direction will be given to coordinators of the preparation of national strategic documents that are of a developmental nature (NDP, operative programmes) will be given. The guideline for planning central projects will have at least a triple effect: (a) more clearly visible contribution to development, (b) less administration because of the smaller number of projects and consequently improved absorption of funds, (c) better possibilities of transparent monitoring of projects at the actual place of implementation or deployment.

K (2): Fast determination of indicative ratios between Cohesion Fund and European Regional Development Fund (ERDF) and the European Social Fund (ESF) will give those preparing national development documents of an operative nature clearly guidelines in preparing these documents and at the same time will alleviate preparation of model calculations and variant scenarios.

Proposed changes:

- All projects within the framework of the Cohesion Fund (CF) should be treated as major projects
- Ratios between projects given in this proposal as major, and other projects that will be co-financed under the heading EU structural funds (EUSF and ESF) should be directed to the advantage of major projects.
- The Cohesion Fund represents 1/3 of all funds that Slovenia will obtain under the heading cohesion policy in the period 2007-2013. The indicative framework of preparing programmes/projects for drawing from the CF should be 33%, from ESF 15 to 20% and from ERDF between 47 and 52%.

Anticipated impact:

The effects will be national, regional and also sectoral. However, the effects depend on the division of project ideas into specific projects, and their geographical distribution into statistical regions. A direct effect of this decision will contribute to increasing the absorption capacity of the country in the sphere of planning programmes for the period 2007-2013 and negotiations on these with the European Commission.

Responsibility:

Government of the Republic of Slovenia, Government Office for Local Self Government and Regional Policy, Ministry of Finance

Measure 18: Indicative group of project ideas for further elaboration into major projects

Purpose:

By means of a specific statement of project ideas and their approval by the Government, a start will be made to creating project groups for the preparation of projects (task force). Project groups will communicate the division of project ideas in the form of specific projects in the first half of 2006. This form of work is recommended for the preparation of projects under the heading of all three funds: CF, ERDF and ESF.

We stress that these are the starting points of proposed projects prepared by the working group of the Committee for Reform on the basis of a wider group of proposals obtained from relevant sources (see reasoning). In ongoing work it will be necessary to check the correspondence of the choice with more detailed analysis of costs and benefits and the feasibility of individual projects and to include the chosen projects in the National Development Programme and the National Strategic Reference Framework.

Proposed changes:

Cohesion policy

The Government RS will confirm the group of project ideas for co-funding under the heading **cohesion policy** in the period 2007-2013.

- For each project idea (or ideas linked in terms of content and implementation) a project group is specified that prepares a specific project on the basis of the project idea.
- The following will cooperate in the project group:
 - Head of the relevant directorate at the ministry responsible for the area of the project,
 - Technical assistance outsourcing.
- The relevant ministry will provide the funds required for carrying out the activities of the project group.
- In the middle of 2006, the Government RS will confirm the group of projects/programmes for co-funding under the heading of cohesion policy.

For co-financing under the heading European *Cohesion Fund* it will be applied to the preparation of central projects¹:

- **Environment and nature**
 - Sustainable use of natural and energy sources,
 - Protecting sources of potable water as a long-term strategic natural wealth.
- **Transport infrastructure**
 - Phyrn motorway (study of the possibility of the use of public-private partnership);
 - Third development axis.

¹ With projects co-funded from the CF it will be necessary to take account of the proposal of the group that dealt with introducing the »PPP« (public-private partnership) and the necessary systemic changes.

Structural funds

In accordance with the proposals of Measure 17 it should be applied to the preparation of major projects for co-funding under the heading European Regional Development Fund (ERDF). We propose the following areas:

- Network of logistics and technological centres and business zones,
- Mobility for development momentum (public transport/access to knowledge),
- Group of projects with networking of natural and cultural potentials for the development of services (health spas/healthcare/knowledge/nature/cultural heritage/concentration of economic subjects),
- In the group of large and small projects are also included local and regional projects that represent key initiatives for regional development.

For co-funding under the heading *European Social Fund* (ESF) it will be applied to the preparation of the following projects:

- Networking education for linking research and development with the economy (regional concentration of knowledge for development and national decentralisation of higher education institutions; university, RIS etc.) – see this proposal in connection with the proposal of Measure 28 – Reform of higher education.
- National centre for industrial design, which is divided in more detail within the framework of groups of related projects.

For co-funding under the heading technical assistance (TA) an attempt will be made to find possibilities that these funds are also devoted to the elaboration of technical documentation for railway traffic (investments in railway traffic in the period after 2013 can provide a significant development opportunity).

Anticipated impact:

The effect of the elaboration of central projects is the preparation of bases for multi-year programme financing and, consequently, improving the administrative capacity for drawing funds.

Responsibility:

- Government RS,
- Government Office for Local Self Government and Regional Policy,
- Ministries responsible for individual areas of a central project.

Open questions

All the project ideas stated here do not represent a final group, but they represent the core of those that can contribute to the development momentum of Slovenia. We stress that this is a selection of project ideas which will have to be elaborated into projects (preparation of feasibility studies and similar analyses of feasibility, sustainability and the impact of projects).

2.5. Proposed measures for privatisation and development of the financial system

For greater efficiency and faster growth of productivity of Slovene companies, it is necessary to carry out another wave of privatisation. This time the subject of privatisation will be the best Slovene companies that are more suitable for dispersed privatisation and ownership on the part of financial investors than the 1350 companies that we privatised without charge in the first wave. We must replace the domestic non-transparent consolidation of ownership at low prices with a process which will be open to international participation and which will ensure respect for the rights of small shareholders. We propose a group of measures for a transparent and gradual withdrawal of the state from the economy, which covers measures for the withdrawal of the state (KAD and SOD) from active management of companies and we propose various models of privatisation of companies that are in direct state ownership. For a more effective withdrawal of the state from the economy, we propose a group of measures for increasing the efficiency of the financial system, and at the same time propose a group of measures for the more efficient functioning of the capital market.

Measure 19: Change of practice of the state, Capital Fund (KAD) and Restitution Fund (SOD) in withdrawal from the economy

Purpose:

Preparation of a concept and time plan for a transparent and gradual withdrawal of KAD and SOD from active owner management of companies and for the necessary transformation into a portfolio investor.

Proposed changes:

- The immediate start of activities for an additional stock market quotation of partially privatised companies (Telekom, NLB bank) and shareholding companies from the portfolio of KAD and SOD, which fulfil economic criteria for quotation.
- Preparation of a concept and time plan for the partial sale of KAD and SOD investments to domestic and foreign portfolio investors and the two funds gradual transformation into portfolio investors. The combined capital share of KAD and SOD in an individual company is to be limited at 10%.
- In public shareholding companies, KAD, SOD and other state affiliated institutions should offer their shares independently and in compliance with the rules of the organised market.
- In non-public share companies and limited liability companies, KAD and SOD operate in a coordinated way with the aim of seeking fast and favourable opportunities for withdrawal from these companies. The withdrawal of the funds from these non-market investments also provides a major opportunity for domestic investors to take over responsibility for the development of smaller and medium-sized Slovene companies.

Additional time will be needed for the preparation of a long-term investment strategy for KAD and SOD and the preparation of privatisation programmes for the privatisation of large corporations (banks, Zavarovalnica Triglav, Telekom).

Measure 20: Transformation of KAD and SOD into portfolio investors

Purpose:

The assets of KAD and SOD are intended for covering the obligations for deficits in the public pension fund (Pension and Disability Insurance Institute) and obligations to denationalisation beneficiaries. In terms of content, it is a national financial reserve for covering obligations that would otherwise directly burden the taxpayer. The extent of taxes collected for covering such state obligations depends mainly on the success of the domestic economy. At the same time, the success of asset management by KAD and SOD depends on the performance of the same economy, as all their assets are invested in shares of domestic companies. Because of the concentration of investments in the domestic economy, the risk is increased, instead of the risk being reduced by dispersion of investments globally. This is in conflict with elementary economic logic. We propose that KAD and SOD be transformed into portfolio investors with a globally dispersed portfolio and that the focus of these institutions shifts from active management of companies to pure portfolio management.

Proposed changes:

With the amendment of legislation, Statutes or rules of business, it is necessary clearly to define KAD and SOD as portfolio investors and to set a transitional period for transforming their portfolios and business policies. The main characteristics of transforming KAD and SOD are as follows:

- all residual shares in »strategic« companies should be in direct state ownership;
- assets should be invested mainly in market securities, non-market investments having a cap of 10% of the value of the portfolio;
- ratios to be specified between ownership and debt securities (separately for KAD and SOD);
- investments must be globally dispersed with a suitable proportion of foreign securities;
- a maximum permitted ownership in an individual company is to be specified (maximum 5 %);
- a maximum exposure to an individual issuer is to be specified (e.g., 1% of the value of all KAD and SOD investments). Sufficient dispersion is achieved when investing in at least 50-100 companies, providing that the companies are geographically dispersed and operate in different markets;
- in the case of supervisory board membership such investment shall be considered non-market are is to be limited at 10% of the value of the portfolio,
- commitment to trading with marketable securities on the organised market with the aim of achieving optimal returns;
- allowing the possibility that part of the portfolio or the entire portfolio be transferred by contract to the management of a licensed external asset manager.

In the case of KAD it is most important that the short-term and long-term obligations to the public pension fund are first specified, since without this it is not possible to define the most appropriate investment policies. Irrespective of the obligations, the investment strategy must be directed at a global dispersion of investments.

In connection with the transformation of SOD, the key question is the transformation of the portfolio and a new organisational structure. Restructuring, in other words, is not possible until the ratio between obligations and market share investments and the manner of covering the denationalisation gap (insofar as this exists) is exactly defined. With regard to the given level of obligations, it is also possible to verify the optimality of the existing portfolio structure and to calculate an optimal structure, on the basis of which the portfolio must be transformed.

For the transitional period, it is necessary to make a similar plan of restructuring the existing portfolio in both institutions. For market securities, activities should mainly take place through the stock market. For non-market securities (or non-public companies) standardised procedures of sale, conversion, purchase by the issuers and similar mechanisms should be prepared, which are harmonised and compatible between KAD and SOD.

Measure 21: Coordinated privatisation of the largest commercial enterprises in state ownership

Purpose:

In case of certain large companies, which have a large market share on the domestic market (telecommunications, banks, insurance companies, etc.) it cannot be denied that a specific national economic interest exists for their successful business. For such companies, partial privatisation and mixed ownership by the state (26%), strategic owners (X) and financial owners who actively trade on the organised market (Y) is sought. In the long term, the state retains at least 26%, or such a share that in any particular case gives them the power of veto on the most important decisions at assemblies, while responsibility for active management is transferred to the private sector. For the sake of simplicity we start from the premise that this share is 26%, but alternatively the power of veto could be achieved via suitable shareholders' agreements.

A programme of privatisation must be prepared for each subject of sale, which must derive from an analysis of the branch and the needs of the company in relation to further development and, on this basis, to propose a suitable combination of privatisation methods. The preparation of the programme is responsible professional work but nevertheless, it is possible to advocate a similar concept of partial privatisation and mixed ownership for all four large foreseen privatisations (Telekom, Zavarovalnica Triglav, NLB, NKBM).

The main restriction in the preparation of privatisation programmes is that, even before the start of privatisation, there is a large number of minority shareholders in these companies. Without a stock market quotation, these owners do not enjoy real protection. A quotation before the implementation of the programme is an additional guarantee for minority shareholders that in selling their shares, the state will not place them in an unequal position. At the same time, a quotation signifies an additional restriction in the implementation of the privatisation programme. **In the case of Telekom and NLB, we propose** an immediate start for the preparation of a stock market quotation. Above all in the case of Telekom, the state thus does not impose additional restrictions since the rules of Takeovers Act already apply for this company.

For all four candidates it is the case that in relation to size and quality they are already today suitable for a stock market quotation ($y > 0$), except in the case of NKBM, which perhaps has to be previously restructured by the strategic owner ($x < 50$ or $x > 50$). A more detailed analysis will show whether and what kind of a strategic owner Telekom needs, while it is almost certain that Zavarovalnica Triglav currently does not need such an owner for further successful development ($x = 0$). For NLB, which already has a key foreign investor ($x < 50$), the question is mainly raised on assurances that this share will not increase in the future, while NLB can be placed on the stock market and the state share reduced towards 26%. The basic dilemmas that are opened with all four candidates are schematically shown in the table.

| | State | key/majority | | financial | |
|------------------------------|-------|--------------|----------|-----------|---------|
| | 26 | $x = 0$ | $x < 50$ | $x > 50$ | $y > 0$ |
| NLB | ✓ | | ✓ | | ✓ |
| Zavarovalnica Triglav | ✓ | ✓ | | | ✓ |
| Telekom | ✓ | ? | ? | | ✓ |
| NKBM | ✓ | | ? | ? | ? |

With the 26XY model it is difficult to ensure that such an ownership structure will remain stable in the long term, since key/majority owners have a natural tendency to increase their share to 100%. Here, only contract relations between the state and large owners are possible, which must also be revealed to the public at the time of quotation. In any case, the Takeovers Act applies, which ensures small shareholders the right to withdraw under the same conditions in the case of changes in the ownership of control packets over 25%.

An additional advantage of the 26XY model is that it is possible to implement it out gradually in relation to the absorption capacity of the domestic capital market and in relation to the regulative situation in an individual area. So, for example, at the start, the state retains a 51% shareholding in telecommunications and gradually reduces its share depending on the market conditions. In the meantime, financial owners have the opportunity to trade on the stock market and price formation provides additional pressure for successful business.

Common principles of all privatisation projects

In conceiving all transactions, we must follow the same principles, as well as taking into account the particularities of individual companies:

1. Application of the **model of partial privatisation** (26 %), mixed ownership and a high level of protection for small shareholders who are already co-owners of these companies (Telekom, Zavarovalnica Triglav).

2. **The model of partial privatisation (26 %) is well-founded because of:**

- the macro-economic importance and market dominance of the companies (Triglav, NLB, Telekom),
- lack of regulation of the sector (Telekom),
- consolidation and linkage within the sector by which the state wishes to retain the possibility of veto (Triglav, NLB, NKBM),
- the broad professional and general publics in Slovenia do not currently support 100% privatisation of these companies.

3. **Respecting the interests and rights of all other private shareholders** who are already co-owners of Triglav, NLB and Telekom, and quotation on the organised market. The state should not try to realise additional premiums in the sales prices on this account in order to deprive other shareholders. In practice, this means an immediate quotation of Telekom, the quotation of NLB immediately after extending the shareholders' agreement and a quotation of Triglav immediately after the end of privatisation for legal and physical persons. The advantage of a quotation is also

that share prices of companies that are to be subsequently merged are established in a transparent manner.

4. Clear delineation of tasks and responsibilities of management, supervisory boards and the state as owner in compliance with the legislation of the Republic of Slovenia: the bearers of merging (Triglav, NLB) are the managements and supervisory boards, who are responsible for strategic decisions and preparation of proposals for shareholder assemblies; the body responsible for the sale/privatisation is the state as the owner; the body responsible for the sale of a »daughter« company (Abanka) is the management/supervisory board of the »parent« (Triglav).

5. During preparations for privatisation or mergers, managements are primarily responsible for the efficient business and development of the company. Possible merging in the “financial pillar” should be carried out with projects based on business logic. **Projects of privatisation or mergers** must stem from the development needs of companies. Managements and supervisory boards have a key role in this.

We propose in principle a decision in favour of partial privatisation of all financial companies and retaining a state ownership share that provides the power of veto (26%). The initiative for merging is thus transferred to the private sector, and the state retains the power of supervision of these processes.

6. Before we start to implement further steps of privatisation or merging, the Ministry of Finance must rehabilitate the obsolete situation of ownership in the financial sector. This also includes the quotation of both financial companies (Triglav, NLB) on the stock exchange market even before starting the process of merging, which must pass a prior test of economic justification. In cases in which it is already clear in advance that a public call for offers will bring good offers that are not in the strategic interest, it is also necessary to seek alternative routes (Variant proposal: A transaction can be carried out by the path of cooperation and/or merging with private institutions. For the implementation of such transactions in a transparent and legal manner it is necessary to supplement legislation in the sphere of management of state assets for cases in which the private sector initiates the takeover and merger of commercial companies in state ownership).

Measure 22: Development of the financial sector in support of the withdrawal of the state from the economy

Purpose:

The financial sector in Slovenia cannot at present provide suitable support for the withdrawal of the state from the economy, since the most important players among insurance companies, banks and asset managers (KAD, SOD) are still dominated by the state. It is necessary to:

- carry out the privatisation of large financial companies (NKBM, Zavarovalnica Triglav, NLB, Telekom);
- execute consolidation and merging on economic basis, in which the state as owner should not have the leading role in creating the pillars, but where business interests of individual business entities should primarily be respected;
- increase the absorption capacity of this sector, which should also cooperate more actively as a portfolio investor in the foreseen withdrawal of the state from the economy. One of the measures to be taken is the abolishment of the “required return clause” for pension fund.
- Harmonise regulations with EU directives and adopt a legislative framework for financial institutions and instruments that are not yet in place in Slovenia.

The Slovene state needs to develop a functional capital market for the planned withdrawal from management and ownership of the best Slovene companies. Active trading with shares on the stock market, on the part of domestic and foreign portfolio investors, enables the state gradually to withdraw from active ownership of public shareholding companies in which it has a minority share. The formation of a fair market price for individual shares, namely, means that on a daily basis professional investors, with their buying and selling, assess the work of the managements on the basis of publicly available data and comparisons with similar companies in the international markets. The cooperation of real domestic and foreign portfolio investors in privatisation is only viable on the condition that shares are traded in an organised way, following the one on a liquid market. Our capital market today, without additional legislative and developmental measures, still cannot fully support such privatisation projects.

Proposed measures for the development of the financial sector:

- To allow the possibility of creating new pension funds, including such that do not fall under the required return clause (see Measure 64);
- Harmonisation with EU legislation for banks, insurance companies and the capital market (Securities Market Act) and the removal of transaction particularities;
- Legislation for real estate, venture and hedge funds (non-UCITS);
- Analyse the possibility of integration of supervision;
- Mortgage debentures and land register (proposed legislative changes are already going through government procedure).

Proposed measures for improving the capital market:

- Encouraging new quotations of companies in state ownership and in the ownership of KAD and SOD, which are suitable for quotation;

- Employee Shareholding and Employee Participation in Management Act,
- Amendments to the Companies Act in order better to protect the rights of small shareholders;
- Removal of transaction particularities in the Takeovers Act and harmonisation with EU directives;
- Adoption of a code of good management by KAD and SOD;
- More transparent trading in shares not quoted on the stock market (non-market securities) (Securities Market Act);
- Reporting on all business in securities (Securities Market Act);
- More transparent arrangement of trading in bundles and reducing the significance of the 'grey market' (Securities Market Act);
- Gradual transformation of para-state funds, KAD and SOD, into portfolio financial investors;
- Respecting the rule of best execution for all financial organisations
- Integration of the capital market into international financial flows (international promotion, harmonisation of rules);
- Simplification of taxation on the capital market, which will increase liquidity
- Reducing costs of all institutions of the capital market (stock exchange, Central Securities Clearing Corporation, Securities Market Agency).

Measure 23: Privatisation of Telekom

Description of the measure:

Preparation of the programme of privatisation of Telekom by the end of 2005, with the majority of the planned privatisation to be executed in 2006.

Purpose:

Acceleration of the programme of privatisation, which has been planned but has been continuously deferred for a number of years. Setting up a case of good preparation and implementation of privatisation of major state assets. Increase competitiveness in the area of telecommunications. Implementation of new e-services and advanced telecommunications technologies. Positive fiscal effects and faster repayment of private investors, as specified by law.

Proposed changes – basic quantifications:

- It is necessary to define (by the end of 2005) the detailed extent and method of privatisation: what proportion will be privatised in the first step (all/25%/privatisation by parts) and which procedure to use in this. To assess the desired ownership structure in relation to the development of Telekom (strategic partner, portfolio investors; dispersed ownership). The programme will envisage the privatisation steps that will be carried out in 2006.
- To include shares of Telekom in stock market quotation immediately the strategy of privatisation is known.

Anticipated impact:

A value of the state share, which amounts to 72.4% of the capital of Telekom Slovenije, of between 0.94 and 1.1 billion euro, with an estimated share value of 49,000 – 55,700 SIT/share. Around half a million euro would be realised with the sale of half the present share of Telekom.

Legislative changes required:

Not required.

Responsibility:

Ministry of Finance, Ministry of the Economy, Post and Telecommunications Agency
RS

Open questions:

To resolve the details as stated above in the course of preparation of the programme of privatisation.

2.6. Proposed measures for the liberalisation and competitiveness of public utilities

Measure 24: Market transformation of power supplies – reviving the wholesale trade and overcoming critical inefficiencies

Description of the measure:

- Preventing conflicting movements and reviving the wholesale market, to direct the major part of the legally specified purchase of electricity to the commodity market, to open part of import/export to free trade; to create new market actors with break-ups and new mergers, to create a second pillar of trading (EL-GEN),
- Removing critical inefficiencies in market mechanisms: reducing cross subsidy, to require profitability of state capital by segments.

Purpose:

Market transformation of the electricity sector will be manifested in the EU in the final phase of 2007. Retrogressive trends have prevailed in Slovenia in recent years: reduction of market trading (from 3.2% to 0.3% of use), the market share of Slovenian Power Plants Holding (HSE) has become too large (from 50% to more than 90%), new actors are prevented. Critical inefficiencies remain untouched or are increasing. To subject agreed transactions among power supply companies in Slovenia to market rules and to up-grade production and trading companies for possible privatisation.

Proposed changes – basic quantifications:

- Increasing trade on the commodities market from the current minimal amount to around 10% of use in Slovenia (later similar shares in the region) with regulations on compulsory offer on the open market for the majority of electricity from »priority dispensers« (around 15% of Slovene use) and other measures: daily »implicit« auctions on the borders, auctions for virtual electricity as required.
- Creating the second pillar, with Nuclear power Plant Krško – NEK as the basis (EL-GEN). In the current standstill this enables momentum to the halted market transformation. It is also based on the envisaged various privatisation plans of parts of the electricity production and marketing sector.
- Defining the required capital profitability of power supply companies. To define obligations to consumers who are now subsidised, with gradual abolition of this. To improve the reflection of real costs in the tariffs for network use.

Anticipated impact:

The commodities exchange still has a possibility of being widely established on the southern part of the central block UCTE (neighbouring regions of Austria and Italy; Slovenia, Croatia, Bosnia and Herzegovina) and in southeast Europe. Developed trading in this area will enable operational and investment savings. The size of savings is up to 8% of the system costs (up to 40 million €/ annually).

Cross subsidy can be removed gradually, over several years. The required price of electricity for TALUM, TDR etc. (20% use = 2.5 TWh) is below 40 €/MWh. Production costs of TET, TEŠ, TE-TOL is 70 – 90 €/MWh (opportunity costs of CO₂ emission trading coupons). Ratios indicate possible savings of dead losses of more than 50 million €/annually.

Legislative changes required:

These are not required for the first step, an amending act to Energy Law later.

Responsibility:

Ministry of the Economy, Energy Agency of the Republic of Slovenia

Open questions:

The Ministry of the Economy determines the rules for ensuring the strategic reliability of supply, with explicit taking over of risks by consumers and suppliers, except for households and other critical consumers; respecting the rules of European associations and EC directives (under preparation).

Measure 25: Competitive supply of final energy users

Description of the measure:

To select a management model for the power supply grid and model of privatisation. To enable the integration of local public utilities or supply with energy and valorisation of energy efficiency and renewable energy (EERE) in market conditions.

Purpose:

To enable catching up with processes in the EU in the area of market transformation of power supply (electricity, natural gas, heating, fuel). Slovenia has formally taken over EU rules (Energy Law, 1999, amended Energy Law, 2004), but in fact companies, for the most part in state ownership, still operate an agreed economy. In 2007, all consumers (electricity, gas) will get a choice of supplier. Companies must modernise for market competition. The state should also arrange withdrawal from the economy in this area. The transformation of companies must enable privatisation that will be optimal for Slovenia. The arrangement must also enable new concepts for synergy among commercial public services on a local level (multi-utility concept, integrated local power supply systems, EERE under market conditions).

Proposed changes – basic quantifications:

Immediately to revise (cancel) the present concept of privatisation of electricity supply, which has not achieved realisation. To enable rounding off production and marketing activities in the Slovenian Power Plants Holding (HSE) and EL-GEN with the transfer of marketing to entitled consumers from distribution companies. To determine (by the end of 2005) further details of the extent and method of privatisation for electricity distribution; the priority concept is complete separation between marketing activities (supply) and monopoly ones (infrastructure and the functions of system operator); privatisation of integrated electricity distribution is an alternative solution. To determine the management concept for state infrastructure for the transmission of natural gas, with priority privatisation of the marketing part of transmission companies.

To prepare an amending act to Energy Law and the Public Utilities Act (first half of 2006) for competitive local supply. To determine the rules for supply of heat (and cooling), taking into account the integration of local systems and possibilities of a competitive appearance of suppliers of heat (cooling) in the system. To facilitate the use of priority multi-utility concepts and other methods of integration of local supply, including the valorisation of measures of EERE.

Anticipated impact:

The anticipated impact is not available. The current fragmentation and impossibility of integrating local power supply systems in particular obstruct an innovative approach to energy supply and efficient energy use. Supply companies did not make use of opportunities for the directing of energy use through consumers under The Energy Law. Slovenia's critical energy intensity (around 80% above the EU average) has been increasing in recent years.

Legislative changes required:

They are not required for the first step of the project, in 2005a. Amending acts to Energy Law and Public Utilities Act in 2006.

Responsibility:

Ministry of the Economy, Ministry of the Environment and Spatial Planning, Energy Agency of the Republic of Slovenia

Open questions:

The infrastructure management model and the concept of privatisation, to be resolved within implementation of the project.

Measure 26: Use of the public telecommunication infrastructure of all public utilities**Description of the measure:**

In addition to Telekom d.d., other companies in state ownership have infrastructure for electronic communication (Motorway Company of the Republic of Slovenia, Slovenian Railways, and Electricity - ELES, 5 electro-distribution companies; optical lines in/along basic public utility infrastructure).

Purpose:

Use of available infrastructure of state-owned companies for accelerated construction of competitive networks of electronic communications.

Proposed changes:

- To change the method of managing telecommunications infrastructure (ICT) of the state company Motorway Company of Slovenia, Slovenian Railways and electricity transmission and distribution. The company Geminet, established for marketing surplus ICT capacities of Motorway Company of Slovenia and Slovenian Railways, is not founded in a suitable way statutorily and is to be abolished. An administrator must be authorised for further completion of the system and integral marketing, which the present relations do not allow.
- By the end of 2005 to inventory ICT uniformly. Simplification of regulations for construction of networks for electronic communications.
- Through public calls for tenders hand over management of the infrastructure of Motorway Company of Slovenia, Slovenian Railways and electricity distribution companies to operators of electronic communications, and their recapitalisation as required – February 2006.

Anticipated impact:

Increasing the level of competition in each of the electronic communications markets (by suitable methods). Detailed assessments of the effects have not been carried out but they will undoubtedly be beneficial.

Legislative changes required:

Legislative changes are not required, amendments to implementing regulations.

Responsibility:

Ministry of Finance, Ministry of the Economy, Post and Electronic Communications Agency.

Open questions:

To resolve in the course of preparation of the privatisation programme.

Measure 27: Competitive transport and logistics services

Description of the measure:

To prepare conditions for a more competitive approach by providers of traffic and logistics services deriving from available and planned Slovene traffic and traffic connected infrastructure in such a way that the state encourages the creation of business systems that combine services in infrastructure with services of carriers, forwarding agents, agents and other providers that appear in the transport chain on routes into and from the Port of Koper. Special attention must be devoted to the development of distribution and logistic centres, with which is connected the development of a suitably linked information system (also according to criteria of integral management and security of informational means under international standards).

Purpose:

The geo-strategic position of Slovenia in the heart of Europe is one of its competitive advantages. The route through the Port of Koper is 6 – 10 days shorter from lands of the Far East and Mediterranean to Central Europe than the route through northern European ports. The purpose of the project is to make use of this geo-strategic advantage.

Proposed changes:

- To reorganise the harbour and Port of Koper towards a modern logistics system respecting the principles of EU directives;
- Development of public transport infrastructure, such as: to extend existing container terminal to 300,000 TEU, subsequent construction of a container terminal with capacities of around 1 million TEU, if necessary with a reduction of reloading of dispersed loads;
- To resolve the bottleneck of railway traffic at the port;
- Overall integration of the information system of Slovenian Railways and the Port of Koper into a common project. Combined approached in reloading at Koper goods station of the Port of Koper and Slovenian Power Plants Holding; coordinated operation with the Ministry of Transport;
- Within the framework of proposals for more efficient drawing of EU funds (see Measures 15 to 18) also to check the possibility of drawing for development projects in the area of railway transport and logistics, in terms of increasing the speed of reloading, upgrading the crossing of corridors 5 and 10, electrification and upgrading signal safety equipment;
- Implementing projects of interoperability and implementation in practice;
- Harmonisation of standards and simplification of systems in all areas;
- Interoperability and harmonisation also to be applied with systems of road tolls in free traffic flows.

Anticipated impact:

Each additional quantity of goods (ton of goods) brings the Slovene financial system from 20 to 30 EUR and can be essentially more.

Legislative changes required:

Maritime Code of the Republic of Slovenia;

Responsibility:

Ministry of Transport, Ministry of the Environment and Spatial Planning, Ministry of the Economy, Ministry of Finance, Port of Koper, Slovenian Railways, forwarding agents, agents, shippers, customs RS, Ministry of the Interior, Railway Transport Agency.

Open questions:

- Organisation of the Port of Koper and Slovenian Railways
- Maritime Code of the Republic of Slovenia
- Status of port infrastructure
- Harbour management and awarding concessions

3. Second development priority: efficient creativity, two-way flow and use of knowledge for economic development and quality of the workplace

The proposed measures are intended to achieve Slovenia's better use of domestic and foreign knowledge for its economic development than to date. We will thus encourage the creation of a more innovative and technologically advanced economy and open higher quality jobs for a better educated and trained labour force.

The basic change that we wish to achieve in this area is strengthening cooperation between research, or the academic sphere, and the business sector. The joint work of experts and businesspersons in the development of new technological, organisational, design, marketing and other business solutions, is the best path to the economy's greater innovativeness and faster technological progress. These are the basic factors of competitiveness in the global economy. Our aim is the creation of an efficient and open »innovative system« in which all key participants will interactively cooperate (companies, universities, public and private research institutions, state administration and para-state support institutions, such as agencies, technological parks, finance organisations etc.).

Although the measures also foresee a gradual increase in public funds for research and development and tertiary education, systemic measures are most important. We propose the creation of an environment in which there would gradually be a transformation of existing universities, their links with institutes and the founding of new private higher education institutions. The necessary competitiveness and openness of the university space would thus be achieved. Financing higher education should in future be based on a system of vouchers and deferred tuition fees, which enables greater influence of users on the quality of education services, together with ensuring the accessibility of studies irrespective of social status. The system of scholarships and public information on the quality of universities and the success of students should be directed towards studies of vocations that are deficient today. In the area of research and development, we propose above all a reallocation of funds to technological development and cooperation with the business sector, facilitating procedures for obtaining funds and centralisation of technological policies into a single body.

Measures in this area are linked to reforms in other areas, especially tax reform, which will greatly reduce the labour costs of highly qualified and educated people. At the same time, the measures are also linked to changes in the labour market that will improve the system of assistance and incentives for employment, and life-long learning and training of the labour force, which will thus be able to fill jobs in the technologically more developed and innovative economy.

Measure 28: Reform of education

Purpose:

To reform the system of education and training towards higher quality and increased competitiveness, to the user's benefit (school pupils, students, adults and the business sector). To guarantee citizens quality education and knowledge at the highest possible level and the possibility of life-long learning (see Measure 52).

Proposed changes:

- To create conditions for the endogenous transformation of the structure of vocational, secondary and tertiary education, which should be more connected to demand and the principle of competition. To include the social partners, primarily employers and local and regional communities, in the planning and implementation of programmes. To encourage the founding of private institutions, the founding of schools in regional centres and the creation of model schools with publicly recognised programmes (schools with innovative programmes and specific organisations that achieve the prescribed educational aims of primary schools).
- To create suitable conditions for the founding of new higher education institutions and programmes. The long-term aim should be the creation of a university system with 7-10 universities, at least half of which private.
- To plan and implement a system of evaluation of institutions that provide educational programmes. To elaborate standards for evaluation. (Initial proposals: quality of knowledge in terms of academic and pedagogic excellence; cooperation with the business sector in terms of applicative research; market (employment) possibilities for students or study/learning and enrolment success of pupils and students; international cooperation.) The results of evaluation should be connected with the system of financing, and to the specific level of education and with the revoking of a licence or the ending of a programme. The results of evaluation should be published publicly.
- To create a system of financing that will enable the administrative autonomy of institutions in the allocation of funds for different purposes and encourage their rational use. This means in primary and secondary education to introduce a lump-sum system of financing; in higher education to move over to a voucher system, combined with a system of deferred tuition fees and publicly available results of the overall evaluation of providers; to equalise conditions of public financing for public and private institutions and, at the same time, also to equalise rules in relation to the use of funds, e.g., in forming teachers' salaries.
- To create incentives and suitable conditions for the excellence of universities. The total expenditures of the public and private sector for tertiary education up until 2010 to increase to 2% GDP. To improve the quality of work with students, with the gradual introduction of a system of academic tutors.
- To provide the conditions for retaining study programmes of national importance that are meant for small numbers of students and that cannot be subject exclusively to the principle of demand, especially in the area of humanist studies, culture, languages.
- To establish automatic recognition of the diplomas of suitable secondary and tertiary institutions of all EU member states and other countries with a comparable quality of education system. Nostrification should also be removed

for diplomas at individual universities and a more flexible system of comparability of studies introduced.

- To ensure a balance between educational provision of programmes and the needs of the labour market and business sector on the basis of decentralisation and deregulation of the system, output-oriented preparation of programmes, consistent recognition of informally and occasionally obtained knowledge and ensuring the qualification modularity of programmes.
- To regulate education in the working process systemically, which is part of secondary (vocational) or higher education programmes, and is done in companies, and to provide suitable co-financing by the state.
- To ensure the international exchange (mobility) of teachers, pupils and students, including by accelerating international cooperation and exchange, for instance with national and EU programmes of international mobility of individuals and groups. Setting up an effective system of lifelong career guidance.
- Introduction of a credit system.
- To introduce one foreign language spoken on the territory of the European Union as a compulsory subject in educational university programmes for teachers.
- To remove restrictions on the use of English in transferring up-to-date knowledge, the work of foreign teachers and creating international educational programmes and, at the same time, to encourage translation of basic works from all scientific fields into Slovene.
- To study the status of student work (see Measure 54).
- To promote the development of research at universities.
- To supplement criteria for habilitation in such a way that applicative work for the business sector and society as a whole will also be taken into account as complementary.
- To transform the scholarship system in such a way as to stimulate the enrolment of pupils and students in deficit areas, especially vocational and natural science technicians.
- To include basic knowledge about entrepreneurship in study programmes.
- To encourage the creation of »patent offices« at universities.
- To carry out programmes of the pact for the young within the framework of the Lisbon process (and to promote the inclusion of the young in planning changes in the education system).

Legislative changes required:

1. Vocational and Technical Education Act,
2. Gymnasium Act,
3. Adult Education Act,
4. Financing Higher Education Act.

Responsibility:

Ministry of Higher Education, Science and Technology, Ministry of Education and Sport

Open questions:

Removal of discriminatory treatment of »extraordinary« students and limiting the possibility of charging additional costs of study bypassing the valid system.

Measure 29: Improving the efficiency of use of knowledge and innovativeness

Purpose:

To redirect the activity of highly qualified people and top experts into activities that indirectly and directly contribute to a rise in the productivity and business success of the national economy.

Proposed changes:

- To simplify the system of obtaining and use of domestic public funds. Promoting innovativeness on principles of agreement and group learning; to introduce a non-bureaucratic, business-friendly and transparent method of preparing programmes and measures for promoting innovativeness. Supervision should be directed at the evaluation of project results. Financial supervision should be done by occasional reviews by experts and no longer by simultaneous bureaucratic control of each document individually. The strict rules and keys in relation to the structure of use of funds and division of costs should be abolished and the principle of planning and calculating actual costs introduced. Carrying forward of unused budget funds to the following year should be enabled.
- Simplification of the system of drawing EU funds and up-grading public administration for assistance to companies and institutions in obtaining EU funds (see Measures 33-36). Changes in connection with the introduction of the principle of paid realisation, problems of mutual invoicing by participants in consortiums, costs of managing investments, possibility of multiple competing in public calls for tenders.
- Increased investments in research and development in line with the aims of the National Research and Development Programme (NRDP). By 2010 to achieve a 3 % share of GDP of expenditures for science and technology, of which the public expenditures should be increased to 1% GDP. To share additional public funds for science and technology in a ratio 20% for science and 80% for technology. To ensure a system that will enable supervision of the realisation of these aims.
- To ensure economic motivation for greater demand from the business sector for science and innovation, with a reduction of the labour costs of top experts and with favourable tax treatment of material expenditures for research and development (accelerated depreciation of technical equipment) (see Measure 2).
- To change the system of remunerating researchers in such a way that they will have greater authority and autonomy in managing projects, including the use of funds. An integral part of the obligations of university lecturers, as well as meeting pedagogic responsibilities, should also include suitably defined minimum research obligations.
- Consistently to implement the changes in financing public research institutes foreseen in NRDP. To change the ratio between programme and project financing, by 2008, in such a way that a maximum of 40% will be devoted to programmes and 60% or more of budget funds for research projects and programmes together with the obligation that all additional funds will be devoted to project financing and that programme financing will be adequately focused on groups that are already established in the international arena and it is sensible to maintain them

in the long term. The share of funds for research and development that natural science and technical parts of higher education obtain from cooperation with business sector will approach 20%, and with public research institutions in this area to 50% of their total income.

Responsibility:

Ministry of Higher Education, Science and Technology, Ministry of the Economy, Ministry of the Environment and Spatial Planning, Ministry of Transport, Ministry of Labour, Family and Social Affairs, Ministry of Regional Development, Ministry of Public Administration

Measure 30: Technological Agency of Slovenia (TIA) – change of legal status

Description of the measure:

Change of legal status of the Public Agency for Technological Development of the Republic of Slovenia (TIA)

Purpose:

The ministry responsible for TIA becomes the »Ministry of Development« which will be founded as a government service with the task of coordinating the implementation of the reform and headed by a minister without portfolio. Suitable contents and development programmes that the agency will be responsible for implementing under the Act of constitution, will thus be transferred to the new ministry. TIA is one of the most important implementing institutions for achieving the aims of the Slovenia's Development Strategy and implementing the National Development Research Programme. Its central task is accelerating technological development, innovativeness and technological entrepreneurship, with the aim of improving the competitiveness of the Slovene economy. The operation of TIA must follow the example of the technologically most advanced economies of Finland, Ireland, the USA. It should formulate and implement fast, simple and transparent mechanisms of incentives and seek and obtain financial support for them, both from the state budget and from domestic and international commercial and private sources.

Proposed changes:

- Status change of TIA with amendments to relevant legal documents.
- Contents and staff of TIA consequently transferred to the Ministry of Development.
- To agree about the division of competences of funds and staff in the area of technological development (heading 504) among the Ministry of Higher Education, Science and Technology, Ministry of the Economy, Ministry of Defence (together with the Ministry of Finance).

Anticipated impact:

The Public Agency for Technological Development of the Republic of Slovenia, as the state implementing agency can carry out the activity independently of the »scientific lobby«, which will contribute to intensive technological development and an improving Slovenia's competitiveness. By means of active policies, the Agency will speed up economic development of Slovene companies and increase the investment of private sector funds in R&D. The main effect will be economic development and increasing Slovenia's competitiveness and raising the R&D/GDP, as one of the important aims of the Lisbon Strategy.

Legislative (and regulatory) changes required:

1. The Decision on founding the Public Agency for Technological Development of the Republic of Slovenia (Official Gazette RS, no. 12/04, hereinafter: Decision) specifies that the Ministry of the Economy is responsible. The Decision must be adjusted.

Responsibility:

Ministry of Higher Education, Science and Technology, Ministry of the Economy, Ministry of Development, Ministry of Public Administration, Ministry of Finance.

Funds:

For the operation of TIA, 275 million SIT is envisaged in 2006 and 2007, which has been reserved under the heading Ministry of the Economy.

Open questions:

On the model of successful foreign agencies (Finnish TEKES) it is crucial to involve in the Agency projects such as: IRC (Innovation Relay Centre), Eureka, technology platforms and other international projects in the area of technological development that are currently under the auspices of various institutions and thus poorly connected and coordinated.

Measure 31: Technological and innovative programmes for economic growth

Description of the measure:

Within the framework of technological programmes for economic growth, co-financing will be available to technological projects of companies that demonstrate high technology, improving technological processes, services or products of the company, innovativeness, cooperation with knowledge institutions, small and medium-sized companies, high added value, innovations, jobs, ecological acceptability, use of science and international cooperation. Program co-financing will be directed mainly at priority branches specified in Slovenia's Development Strategy (SDS). A smaller proportion of funds will also be devoted to innovative programmes which are by sectors outside SDS or are risky. The competitiveness of the economy, in other words, to a large extent depends on business activities and ability to innovate and take risks.

Purpose:

The basic purpose of technological programmes for economic growth is to increase the competitiveness of Slovene companies in such a way that the development and the use of world technologies and applicative knowledge are promoted. The aim of co-financing development technological programmes for the business sector is the support of development in specific areas of industry and the creation of higher results in the business sector. The specific results of technological programmes will be new products, services and processes, a general rise in the level of technological development of companies and, consequently, establishing conditions for the growth of Slovenia into a creative society.

The aim of financing programmes for stimulating entrepreneurial innovativeness is increasing the number of innovative companies in Slovenia, in all areas, not just in the area of high technology.

The measure will directly with criteria and indirectly with the creation of attractive offers for companies, promote investment of risk capital in the business sector.

Proposed changes:

- Creating a new, efficient, transparent and simple mechanism of awarding funds to companies on the example of successful foreign practices.
- Technological programmes for economic growth will be planned and designed in cooperation with companies and knowledge institutions, designing programmes will take place in the form of working groups and open seminars.
- Each programme will have a committee, coordinator and responsible person at the Technology Agency.
- Open tenders will be held through which funds will be awarded when they are required, until the funds have been used up.
- Programmes will run for 3 to 5 years.
- Half of the projects will be co-funded within the framework of programmes, the participation of companies will be needed for the other half.
- Pre-assessment of projects will be carried out for the purpose of identifying the

most promising.

- Independent evaluation of programmes by internationally comparable criteria with the aid of domestic and foreign experts.
- Monitoring projects and their effectiveness continuously in the field.

Anticipated impact:

- Simplification of bureaucratic procedures for obtaining public funds for companies on the level of the most competitive world economies.
- Creating a more favourable environment for greater investments in R&D, new investments or employment.
- Creating conditions for attracting foreign risk capital.
- Creating high added values for companies and thus new jobs.
- Increasing the number of innovations and innovative companies as an important factor of assessing competitiveness, which is currently extremely low in Slovenia.
- Improving products, processes and procedures, which leads to improved national productivity.
- Raising the competitiveness capabilities of the Slovene economy. Improvement in the ranking of competitiveness.

Legislative changes required:

1. Public Finance Act,
2. Republic of Slovenia Budget Implementation Act,
3. Rules on holding tenders for technological programmes for economic growth.

Responsibility:

Technology Agency of Slovenia

Funds:

- Budget headings for technological development in accordance with agreement (see Measure 30) and funds from privatisation (on the Finnish example),
- Seven billion SIT foreseen in 2006 and 10 billion SIT in 2007.

Open questions:

It is necessary to define the funds required and programmes that are reserved for technological development and economic growth and with this measure transform them into a new effective mechanism.

Measure 32: Programmes for the transfer and raising of knowledge in the business sector »1000 young experts«

Description of the measure:

It is necessary to promote cooperation between the academic sphere and the business sector, in which we are next to last above Poland among EU members, according to assessments. This will be achieved by the employment of 1000 postgraduate and post-doctoral staff in the business sector for three years, by raising the education of those already employed in companies and by attracting experts from abroad. Funds will be devoted to stimulating a flow of young postgraduates and doctors from the academic sphere into the business sector, raising the existing education structure in companies and an inflow of foreign experts, with the exclusive aim of promoting development in companies. Smaller applicative projects, directly connected with the activities and interests of companies in the sense of increasing their competitiveness will also be separately supported up to half for this purpose.

Purpose:

The measure will enable higher education in the business sector and promote the development of companies, which will be reflected in the higher education structure in companies and investment in development activities. The aim of the measure is to encourage an inflow of young experts and educated persons from the academic sphere into the business sector. The transfer of knowledge from universities and institutes into companies will thus be promoted through applicative projects that are directly linked to the activities and interests of the companies.

Furthermore, with the measure of promoting the employment of foreign experts in companies we will gain technical staff that are lacking in Slovenia. World economists predict intensive investment in the coming years in attracting »brains« from abroad, since in order to intensify economic growth, in addition to ensuring funds, the most essential factor is applicable knowledge or a critical mass of creative personnel.

Proposals:

- Programmes for promoting the transfer of knowledge into the business sector and for raising the educational level in the business sector will be planned and designed in cooperation with companies and knowledge institutions through technology offices at universities and representative offices abroad.
- Programmes will run for at least three years.
- Salaries of young experts will be co-funded within the framework of programmes. Funds for the employment of young experts in the business sector will be provided to companies (co-financing) to an extent of 75%, the companies themselves guaranteeing the remaining 25%. Funds for co-financing the salaries of young experts will be awarded for a fixed term of three years. Funds under the programme will provide 75% of salary, including contributions, and material and non-material costs of work. Ninety percent financing is foreseen for small companies.
- Short training visits abroad should be made possible within this financing, to a maximum of half a year, which will enable the easier transfer of technologies or other knowledge that already exists abroad, into Slovene companies.
- In exchange for obtaining public funds, companies should provide competitive

- working conditions in the area of technological development for these experts.
- On average, the annual co-funding of the wage of a doctor will amount to 5 million SIT. Two hundred young experts should be co-funded annually, which is a total annual expenditure of 1 billion SIT.
 - An associated project must cover a problem which is of interest and important for the company. Priority will be given to research that contributes to innovation.
 - A candidate must have an appropriate mentor, envisaged from the business sector. The mentor's suitability will be evaluated on the basis of references of his success in knowledge transfer into the business sector (number of applicative, technological projects, patents etc.)

Anticipated impact:

- Raising the education structure in companies;
- Inflow of new knowledge into the economy;
- Increase in new jobs;
- Obtaining knowledge from abroad.

Legislative changes required:

1. Employment and Work of Aliens Act,
2. Public Finance Act,
3. Republic of Slovenia Budget Implementation Act,
4. Rules on the implementation of programmes for promoting the transfer of knowledge from knowledge institutions to the business sector and for raising the education level in the business sector.

Responsibility:

Technology Agency of Slovenia.

Funds:

SIT 1.5 billion foreseen in 2006 and SIT 2 billion in 2007.

Open questions:

- Restrictions in quotas of employment from abroad must be checked.

Measure 33: Programmes for promoting the transfer of world technologies to Slovenia

Description of the measure:

The programme for promoting the transfer of world technology to Slovenia will cofinance the exchange of Slovene businesspersons in foreign companies within the framework of projects. Bilateral projects of cooperation between Slovene and foreign companies in 2006/2007 are foreseen with the Austrian agencies ERP Funds and ZIT and the Finnish agency TEKES.

Establishing representative offices abroad for monitoring trends in the area of business incentives in the USA and in Finland and enabling Slovenia's access to the American market, which according to the most recent findings of Scandinavian countries ensures the success of companies.

Purpose:

The basic purpose of bilateral cooperation between Slovene and foreign companies is the transfer of knowledge and technology to Slovenia. Transfer of new technologies will take place through the implementation of joint projects.

The office in the USA will enable new technology trends to be followed and promote economic development and assist Slovene companies to break into the American market.

Proposals:

- Programmes for promoting the transfer of technology to Slovenia will be planned and designed in cooperation with the Austrian agencies ERP Funds and ZIT and the Finnish agency TEKES.
- Programmes will run for 3 to 5 years and can be combined with national technological and innovative programmes.
- Establishing an office in the USA, Silicone Valley, which is sensible to combine with other institutions dealing with promoting economic development (Ministry of the Economy, Ministry of Higher Education, Science and Technology, Public Agency for Entrepreneurship and Foreign Investments). Such an office has already ensured the success of TEKES at the start of their operation, and they already have three representatives in Silicone Valley.

Anticipated impact:

- Access to new technologies and the application of these in Slovenia.
- Possibility of making international contacts for young companies.
- Improving the competitive capacity of the Slovene economy.
- Concrete links with the most developed economies.
- Increasing globalisation of ambitious Slovene companies.

Legislative changes required:

1. Public Finance Act,
2. Republic of Slovenia Budget Implementation Act,
3. Rules on implementing programmes for encouraging the transfer of world technologies to Slovenia.

Responsibility:

Technology Agency of Slovenia, Ministry of the Economy

Funds:

SIT 300 million in 2006 and 2007.

Open questions:

To check the possibility of including the measure in the programme of cooperation on the level of the European Commission, which plans scientific and economic cooperation between Slovenia and Finland.

Measure 34: Programmes for linking the business sector with universities

Description of the measure:

The measure is intended to co-finance applicative development projects of research institutions that, with suitable standards, stimulate the applicability of academic research. The measure will promote the transfer of knowledge from universities and institutes to companies through projects directly connected with the interests of companies. Projects will have to cover questions of interest and importance for companies.

Co-funding and promoting technology offices at universities will increase the flow of research results and patents from the university to the business sector and universities will be provided with current information on the needs of the business sector. In addition, technology offices will be the contact point of universities with companies and the coordinator of the campaign »1000 young experts«.

Purpose:

The purpose of the measure is to promote research with applicative value for the business sector and to enable the transfer of the results of such research and personnel into the business sector. To increase competitiveness among universities through gradual reform of the manner of financing these and to enable the flow of personnel into the business sector.

Proposals:

- Programmes for promoting development projects with applicative value and technology offices in universities will be planned and designed in cooperation with companies and knowledge institutions.
- Programmes will run for 3 to 5 years.
- Research with applicative value for the business sector will be co-funded within the framework of the programme.
- Projects carried out in cooperation between research institutions and companies will receive priority co-financing.

Anticipated impact:

- Better flow of knowledge from universities to the business sector.
- Greater effectiveness of research and better exploitation of research resources.
- Increasing the influence of companies on research.
- Setting up two-way communication.
- Stimulating the flow of personnel into the business sector.
- Creating a flexible environment for providing universities with feedback from the business sector on research needs and need for personnel.

Legislative changes required:

1. Public Finance Act,
2. Republic of Slovenia Budget Implementation Act,
3. Rules on implementing programmes for promoting development projects with applicative value and technology offices at universities.

Responsibility:

Ministry of Higher Education, Science and Technology in agreement with the Ministry of the Economy and Ministry of Development.

Funds:

Coordination of programmes Ministry of Higher Education, Science and Technology, Ministry of the Economy and Ministry of Development; SIT 500 million in 2006 and 2007.

4. Third development priority: an efficient and cheaper state

4.1. Proposed measures for a more efficient and cheaper state

Measure 35: Improvement in procedures of preparation and execution of the budget

Purpose:

To increase rationality in planning and executing the budget; to improve the value-for-money ratio and to contribute to the aim of reducing public expenditures.

Proposed changes:

- The budget memorandum must contain only certain specifically defined priorities, which are suitably reflected in the budget and are also chosen on the basis of analysis of the effects and benefits.
- Budget planning must take place on the level of sub-programmes that reflect the content or aims, and not on the basis of accounting categories.
- The procedure of adopting the budget in two phases must be consistently respected – in the second phase, limits in relation to expenditures determined in the first phase of preparation, with segments of expenditure by ministries, must be consistently respected.
- Already in the first phase of budget preparation, standpoints must respect the rule of »zero based budgeting«, such that planning funds for the following year derives from actual needs, not by indexing of realisation from the past year.
- It should allow the carrying over of part of unused funds (variant: only for certain purposes, e.g., investment projects, or in different proportions for different purposes) to the following year and thus de-stimulate irrational use prior to the conclusion of the budget year.
- Heads of government departments, within the framework of budget limitations, will be given greater freedom in the allocation of funds among various purposes and, at the same time, greater responsibility in managing their area or in achieving the measurable aims set in the reasoning of the budget.
- Continuation of the project and preparation of a “result-oriented” budget and, in connection with leadership responsibility, providing sanctions for unachieved results.

Anticipated impact:

- Contribution to reducing public expenditures and greater public benefit with the same funds invested (better achievement of government aims).

Responsibility:

Ministry of Finance

Measure 36: Rationalisation of the functioning of the public sector

Purpose:

To achieve greater public service efficiency, to rationalise the extent of public tasks and to achieve it with lower funds invested, to increase the role of the public-private partnership in the area of public services.

Proposed changes:

- The Government should adopt ambitious and binding aims in relation to reducing the operational costs of the public sector within a period of three years (lowering common operative expenditures and reducing staff costs).
- The Ministry of Education and Sport, Ministry of Culture, Ministry of Higher Education, Science and Technology, Ministry of Health and the Ministry of Labour, Family and Social Affairs should prepare staff plans on the model of a joint staff plan for state administration bodies.
- In the rationalisation of employment, flexible forms of employment should be used as far as possible, such as shorter working time employment and fixed term employment.
- A group of indicators should be adopted by which it will be possible to monitor comparatively the efficiency and rationality of use in various ministerial bodies (e.g., material costs per employee, investment per employee etc.). The group of indicators should be linked into a model by which it will be possible to monitor the efficiency and success of processes, individual workers and the entire body, and should be modelled on established models of business excellence in the private sector.
- To set up a computer supported model of monitoring the quality of operation and services of public administration bodies.
- In the Wage System Act, a mechanism should be established for additionally rewarding an increased extent of work in such a way that, instead of new jobs, an employer can introduce an increased extent of tasks for capable and motivated employees. Funds for paying the increased extent of work will be provided mainly from funds economised in relation to planned and approved use.
- The aforementioned mechanisms, among other things, would try to achieve the aim of an essentially shorter response time of the administration to the demands of clients.
- In all fields in which it is possible, public procurement should be centralised for all budget users and procedures of public procurement simplified (see Measure 13).
- Direct budget users should prepare within a time limit of a few months a review of tasks that they perform and propose which tasks or programmes are less important and could be abandoned or reduced, and which tasks are such that they can be fully or partially transferred to the private sector on principles of the public-private partnership, concessions, public authority or privatisation.
- On the basis of the proposals, the Government should adopt a coordinated plan for reducing and rationalising the tasks of the state, whereby it should above all reduce tasks that the private sector can perform equally well or better and those in which there is duplication of competences and tasks. Increase should only be

foreseen in areas that are important for achieving the aims of the development strategy.

- Personnel plans should take into account the reduction of the scope of the tasks of the state and development priorities. The logic of automatically filling vacant jobs should be abolished and substitute employment should be carefully managed.
- To prepare systemic solutions and specific projects for introducing the public-private partnership in the area of public services, for example in social security, health, education, culture, housing construction, environmental protection and public utilities and so on, and for creating public-private funds for specific aims (e.g., a scholarship fund, see Measure 53, or fund for life-long learning, see Measure 52). To ensure equal participation of small and medium companies in the public-private partnership.
- The main measures for ensuring greater efficiency of the judiciary or for removing court arrears are: (i) providing spatial conditions in line with the strategy of spatial development of the judicial system, (ii) providing and organising additional human resources or employment of professional associates for a fixed term, until 31.12.2010, when we anticipate the arrears will have been removed, (iii) providing wage incentives for judicial personnel and judges for removing court arrears. Other measures for increasing the efficiency of the judiciary are: (iv) simplification of legislation and standardisation of court procedures, (v) complete computerisation of the courts and court procedures, (vi) additional training of judges and prosecutors, especially in the areas of economic crime, corruption and organised crime, (vii) reorganisation and better administration of the courts.

Anticipated impact:

- Adaptation of the extent of the public sector to actual needs for its services and increasing efficiency.

Responsibility:

Ministry of Public Administration; Ministry of Finance; Ministry of Justice

Measure 37: Regulatory impact assessment

Purpose:

To amend or abolish regulations which are inefficient or cause unnecessary costs to the private sector.

Proposed changes:

A mechanism should be established for regulatory impact assessment (RIA), especially from the aspect of the impact of regulations on competition (whether they restrict free commercial initiative and whether they are economically justifiable) and on the administration burden of companies. In particular, cases should be ascertained and abolished when by referring to European regulations, unnecessarily high and restrictive standards and other regulations are introduced.

- The Government should adopt a programme of abolition of administrative obstacles, which will be binding for ministries in the preparation of standards and other work programmes.
- The main bodies responsible for regulatory impact assessment, »gatekeepers«, are the government service responsible for the coordination of development (in terms of economic and social impact) and the Ministry of Public Administration (in terms of administrative burden).
- Standards of cooperation of interested publics (stakeholders) should be determined prior to the adoption of all new regulations, with priority in the economic area. The responsible body will prepare standards and the supervisory body for their implementation will be the Ministry of Public Administration.
- With all the aforementioned measures, the point of views of small and medium sized companies should in particular be taken into account, which are particularly vulnerable to administrative and regulatory burdens.

Anticipated impact:

- Greater economic efficiency of regulations and reduction of administrative burdens

Responsibility:

Ministry of the Economy; Ministry of Public Administration, Ministry of Development.

Open questions:

- To study the sense of introducing RIA also for currently valid regulations.

Measure 38: Setting up central records of rights to public funds

Purpose:

Setting up integral – central records of all rights is a solution used for administrative needs in decision-making and analytical needs. A central record is also important from the standpoint of introducing the concept of decision-making on social transfers on the principle of a one-stop shop. Existing links of databases, or information systems, show that linkage brings faster and more efficient monitoring of changes, greater transparency and higher quality decision-making. Linkage also gives effect to the concept of a lower level of bureaucracy since the exchange of data among database managers reduces the need for burdening clients with the submission of proof.

Proposed changes:

- To set up a central record of social transfers that includes data on the beneficiary and all her or his rights, on the basis of which she or he receives monetary benefits from public sources or is entitled to relief or reduction of payments or other benefits for which funds are provided from public sources and belong under the budget classification of »Transfers to individuals and the economy«.
- To continue setting up and linking databases on social transfers and other databases that enable obtaining data required for decision-making from administrative sources. Linkage of systems which deal with decision-making on rights to social transfers must be set up with the following information systems (hereinafter: IS):
 - with the tax IS,
 - with the IS of institutions such as Pension and Disability Institute of Slovenia, Employment Service of Slovenia, Health Insurance Institute of Slovenia,
 - with the IS of some financial institutions,
 - with the IS on immovable assets,
 - with the IS on transport means,
 - with the IS on enrolment in secondary and higher education,
 - with the central register of the population,
 - with the business register.

Anticipated impact:

- simpler procedure, de-bureaucratisation, more complete data for decision-making,
- less possibility of abuse.

Legislative changes required:

A new Conditions and Procedures for Exercising Rights from Public Funds Act.

Responsibility:

Ministry of Labour, Family and Social Affairs; Ministry of Public Administration.

Open questions:

Preparation of a special project of setting up a central record, which will envisage the time dynamics of setting up and linking IS and the necessary funds for setting up the central record and some IS that are still lacking, and their linkage.

Measure 39: One-stop shop – a single place for exercising and decision-making on social rights

Purpose:

To combine in one place decision-making on social rights which depend on the income and asset position of an individual or family. This would achieve greater transparency, and above all a more economic procedure and rationalisation of funds from both the financial and organisational points of view. There are currently many decision-makers on social transfers, and applicants and implementers are burdened by obtaining various proofs. Additional confusion is caused for users by differences in ascertaining an entry census, and the current method enables applicants to manipulate the system and to present their situation in different ways to different services (including suppressing particular data).

Proposed changes:

- Social Work Centres (hereinafter SWC) become a »one-stop shop« in the system of social rights that are not based on social insurance, or accounting bodies of social insurance do not decide on them. SWC should decide on all types of legal rights that depend directly on the income and assets situation of the claimant and on rights under parental protection and to family benefits (variant: delete rights from parental protection) both those that are already within their competence under currently valid legislation (i.e., state social transfers) and on rights that under current legislation are provided by municipalities and are determined as legal rights (i.e., municipal transfers). At the same time, SWC provide basic information on rights which local communities determine with their own regulations (i.e., other municipal transfers) and rights provided under insurance.
- Rights provided under current legislation by municipalities and are determined as legal rights will be transferred to the state (variant: they remain the responsibility of municipalities but SWC decide on them and not municipal bodies). Other municipal transfers will be awarded on the basis of self-initiative decision-making by municipalities and will not be counted in the basis for awarding transfers by the state, which are legal rights.
- The possibility must be studied of decisions on an individual claimant on specific rights referred to in point one being combined into a single procedure and decision.
- Rights to which a claimant is entitled under health and pension and disability insurance and insurance against unemployment, are not the subject of decision-making by SWC, but SWC should provide claimants with basic information.

Anticipated impact:

- simple system for users,
- simpler system for the decision-maker, too, one decision,
- reduction of the number of procedures, decisions, allocations,
- less chance of abuse.

Legislative changes required:

1. a new Conditions and Procedures for Exercising Rights from Public Funds Act or changes to area laws and implementing regulations:
 1. Social Security Act,
 2. Parental Protection and Family Benefits Act,
 3. Housing Act,
 4. Employment and Insurance against Unemployment Act,
 5. Health Care and Health Insurance Act,
 6. Pension and Disability Insurance Act,
 7. General Administrative Procedure Act,
 8. Rules on subsidising school meals of pupils and apprentices in secondary schools,
 9. Rules on subsidising school meals of pupils in primary schools,
 10. Rules on parental payments for programmes in kindergartens.

Responsibility:

Ministry of Labour, Family and Social Affairs; Ministry of Education and Sport; Ministry of Health; Ministry of the Environment and Spatial Planning, Ministry of Public Administration.

Open questions:

- transfer of rights that are the responsibility of municipalities to financing on the state level,
- transfer of rights under insurance for parenthood to compulsory health insurance.

Measure 40: Setting up a Real Estate Register

Description of the measure:

Introduction of legislation and implementing regulations in connection with the Real Estate Register.

Purpose:

Setting up a multipurpose database to enable less costly ministerial and government statistics. It will also replace the classical censuses of buildings and housing in 2011 and the large financial resources can be used for a more permanent and multipurpose solution instead of carrying out expensive and demanding classical censuses. Linkage with other records, primarily the Central Register of the Population, which will also enable inclusion of the socio-economic background of the population in connection with living conditions and is a precondition for effective monitoring and creation of housing statistics.

Proposed changes:

- Adoption of a law regulating the Real Estate Register as a multi-purpose database for the needs of:
 - setting up quality records for objective conducting and monitoring various policies (social, spatial, tax),
 - abandonment of expensive censuses,
 - setting up less costly ministerial and national statistics,
 - setting up current housing statistics;
- Linkage of spatial or immovable assets records with other databases, such as the Central Register of the Population (CRP);
- Marking housing with a housing number, as foreseen by the Decree on marking housing and housing units (the obligation is stated in the Housing Act, but the activity has not been carried out within the foreseen deadline and in entirety);
- Dissemination and checking data (necessary for setting up the Real Estate Register, mass evaluation and conducting integral tax, social and spatial policies) on the terrain¹;
- The entry of numbers of housing of all persons in the CRP, whereby they become part of the address of residence of persons.
- The Government of the is commencing activities for the gradual harmonisation of data and possible combining of the land register, land cadastre and cadastre of buildings in the content and organisational sense. The possibility will be studied of combining real estate records, the land register, the land cadastre and the cadastre of buildings into integral records. The land register with individual local courts is linked into an integrated hierarchical system with uniform supervision. It is preparing the proposed changes to regulations covering the cadastre and land register, providing the necessary staff, premises and equipment and method of harmonising data of the land register, land cadastre and cadastre of buildings for operation in an integral system.

¹ Carrying out active dissemination using questionnaires and polls in the field and entry of the housing number of all persons, permanently and temporarily registered; with dissemination, owners of buildings and parts of building or users are acquainted with existing data in official records, they check them and with the help of the pollster state the additional data required which do not exist in official records.

Anticipated impact:

The proposed changes and the amendments to the Registering of Real Estate, State Border and Spatial Units Act themselves mention the specific assessment of effects. It is difficult to assess the savings at this stage, since in the short term, large financial resources for the setting up of such a multi-purpose database must be invested. However, in the long term, of course, it means replacing classical censuses, which will provide significant savings for the state and, at the same time, provide the possibility of quality housing statistics and the shaping of suitable housing policies, which the multi-purpose database will enable. From the multi-purpose aspect, the anticipated effects will certainly be positive. However, the register must be set up by the beginning of 2007, which should bring the new system of calculating social transfers and the introduction of tax on real estate and property. The decision and results must also be known in 2007 in order for the records to replace the census around 2010.

Legislative changes required:

1. Amending Act to the Housing Act,
2. Mass-Appraisal of Real Estate Act,
3. Amending Act to the Registering of Real Estate, State Border and Spatial Units Act,
4. Real Estate Agencies Act,
5. Land Registry Act,
6. legislation and regulations in the area of real estate

Responsibility:

Ministry of the Environment and Spatial Planning, Ministry of Finance, Ministry of Internal Affairs, Ministry of Justice, Geodetic Administration RS, Statistical Office RS.

Open questions:

- Financing the development of the Real Estate Register,
- Administrator of the Real Estate Register,
- Urgency of changes to the Housing Act simultaneously with the act regulating the Real Estate Register.

Measure 41: Proposed reforms of the tax and customs administrations

Description of the measure:

- Modernisation in the public sector in line with the arrangement in some EU states,
- Linking fields of work between tax and customs administrations,
- Bureaucracy burdens the state budget,
- Staff seek new personal goals,
- Making society more dynamic.

Purpose:

- Possibility of development of optimal conditions for expert knowledge,
- Improving the image,
- Developing systems for risk oriented inspection and control,
- Possibility of synergy in linking CURS (customs administration) and DURS (tax administration),
- Staff flexibility,
- Setting up mutually compatible tax and customs administrations (benchmarking),
- Reform of tax/customs organisational structures taking into account the social aspects of staff (age, education, knowledge, geographic aspect etc.),
- Modernisation of internal structures (setting up a »team model«),
- Income stimulation,
- Abolishing excessive hierarchies,
- Encouraging self-responsibility, motivation,
- Intensifying services in »daily business« for tax payers,
- Improving internet-access (“e-government”),
- Improving working processes (precondition: analysis of all daily steps in DURS/CURS),
- Focusing on the success of individual organisational units,
- Improving job satisfaction of staff,
- Setting up quality standards, management of science and quality,
- “Staff development” on the basis of “their” capacities,
- Setting up a “control”- system,
- Implementation of New Public Management (NPM) and MbO (management by objectives) in DURS/CURS,
- Introduction of “benchmarking” and best-practice-models.

Proposed changes:

- Providing financial resources,
- Implementation of project group for reform of DURS/CURS,
- Obtaining foreign experts,
- Selection of office that will »pilot« the project (thus bottom up and not top down),
- Interviews with a “representative” number of staff (around 15%) – all segments should be taken into account,
- Time frame,
- Roll-out,
- Implementation throughout the country,
- Evaluation of the reform.

Measure 42: Introducing public-private partnership (PPP) and private financing of the construction of large infrastructural objects

Purpose:

The private sector should be attracted to financing and managing large infrastructural projects.

Proposed changes:

In order for the political support in principle to the development of the PPP to be put into operation, measures of economic policy are urgently required in at least the following three areas.

- **Definition of content priorities and ensuring wider consensus in the country for the concept of PPP;** the public sector must prepare a strategy by which the state will define the role of private investors in financing and/or managing infrastructure and other state assets, on a global and sectoral level, whose value can be increased with suitable business use. Under Slovene conditions, it would probably be sensible for the National Assembly also to hold a debate on such a strategy, in order for the concept of PPP to gain wider political consensus in Slovenia. This is certainly not unimportant in an environment that is not particularly well-disposed to private, especially foreign investments in areas that have traditionally been the state domain.
- **Preparation and adoption of the legislative framework;** This must clearly define the role of the private sector in both financing investment in new and the renovation of existing infrastructural objects and in other state immoveable assets.
- **Setting up institutional support;** The experiences of other countries clearly show that creating effective institutional support is of crucial importance for initiating and developing PPP in the country.

Legislative changes required:

- although a special law is not needed to regulate the public-private partnership, and the necessary statutory arrangement could be provided by the amendment of a large number of individual laws, the symbolic effect of a special law for speeding up the practice of the public-private partnership would probably be greater; **the possibility of a special law appears therefore worth supporting.**
- the special arrangement of the public-private partnership is **sensible to restrict to build-operate-transfer (BOT) projects**, thus relations between public and private partners in which the private partner builds a facility (generally public infrastructure), which will either immediately or after the passage of a certain time become the property of the public partner; the public partner does not pay for this object individually, but the investor pays by the use of it;
- the law must thus enable both completely contract and also status forms of public-private partnership, therefore both in which the public and private partner found a joint legal entity (generally of private law) which executes the project, and prepare a joint business plan, and also the manner of exit of the state from the commercial part of the partnership;
- the law must also foresee the transparent and market based exit of the state from

- such a legal entity, because it is possible in this way better to evaluate the existing state property in immoveable assets;
- statutory regulation of the public-private partnership must be based on a balance of public interest, which the public partner must ensure in the founding contract of the joint legal entity or in special contracts, as well as the interests of the private partner;
 - it must also be made possible for the private partner to be involved in good time in discussion of spatial planning documents of the relevant area, which – with consistent respect for the public interest, should ensure that they are realistic and feasible;
 - risk in this relationship must be allocated in principle such that it is born by the party best able to master it (e.g., political risk should normally be borne by the public partner and technical risk by the private partner); in any case, the private partner must bear the majority of market risks, therefore risks in relation to the extent of demand;
 - the law must ensure that all budget users in all major investment projects **investigate the possibility** of creating a public-private partnership;
 - the law must also make it possible for an initiative for a public-private partnership to be made by interested investors, and that the public partner must consider this initiative and make a decision on it;
 - the procedure by which contracts are concluded must be transparent, competitive and non-discriminatory and, at the same time, must ensure maximum possible flexibility in order to ensure the active cooperation of tenderers in this procedure, terms of the proposed solution and forming the content of the public-private partnership;
 - the statutory arrangement of PPP must enable such rights in constructed facility of public infrastructure and other state immoveable assets, as enable suitable insurance of the loan of the private partner, thus are »**bankable**« (ownership rights, possible building rights): in this connection, it is necessary to change the **statutory arrangement of constructed public goods in the Public Roads Act, Railway Transport Act and the Construction Act, in such a way that that a non-ownership concept of public good is enabled**, by which a public good can also be in private ownership; it is of course necessary carefully to study and specify the constitutional limits of this arrangement, since protection of the holders of ownership must be ensured in cases in which proclamation of a constructed public good leaves only bare ownership right to the owner of real estate in private ownership.

Institutionalisation of PPP in Slovenia:

Although it would be worth accepting a final decision on institutional structures only on the basis of at least preliminary records of potential PPP projects (by number and type) in the country, at the moment the following structures are considered the most suitable:

- *Central PPP unit* with the central task of developing horizontal PPP policies and with the associated role of implementer of PPP projects for fields in which a sectoral PPP unit has not been formed,
- A very limited number of sectoral PPP units (1 to 2) with the exclusive task of

- all-round conduct of PPP projects in its own area, and
- *An advisory body for PPP* as a body that would advise on key questions of the conduct of the PPP policies in the country and would provide a channel of communication with the public.

The central PPP unit, which would be sensible to found as soon as possible, will be responsible in terms of content to the Government as a whole, and in organisational terms will come under the Ministry of Finance, so that its head will be directly responsible to the Minister of Finance. The functioning of the unit must be closely connected and coordinated with budget planning and executing investments in infrastructure and with institutions that are responsible in Slovenia for public procurement. The cooperation of specialised officials and outside experts must be ensured and the education of officials in responsible ministries. In seeking suitable institutional solutions, it is also necessary to check whether solutions that have already been introduced in project financing with the new Stimulating Harmonised Regional Development Act, could also be used.

Measure 43: Setting up a micro-simulation model for monitoring the financial effects of proposed legislation

Description of the measure:

Setting up a micro-simulation model for monitoring the financial effects of the proposed legislation (in various areas: e.g., tax, retirement, social benefits, health, labour market etc.).

Purpose:

- Reduction of the price of analyses of the financial effects of the proposed legislation,
- Simplifying analysis of the financial effects of the proposed legislation,
- Setting up a database, with analytical tools and a secure environment, for analyses of complex contents that analysts of government institutions carry out.

Proposed changes:

- Setting up a micro-simulation model for monitoring the financial effects of proposed legislation.

Anticipated impact:

- Reduction of cost of analyses of the financial effects of laws,
- Reducing the number of legislative amendments required after the adoption of laws.

Legislative changes required:

- Preparation of rules and agreements on cooperation (legislative changes are not needed).

Responsibility:

- Ministry of Finance,
- Institute of Macroeconomic Analysis and Development,
- Statistical Office of the Republic of Slovenia,
- Government Office for Legislation.

Open questions:

- It is necessary to determine the relations between the proposed model and already existing models in preparation (EUROMOD, ILO actuarial model, PROST actuarial model, model for generating invoices etc.),
- It is necessary to decide whether the database supporting the model will be intended only for monitoring financial effects or will be multi-purpose and serve various analyses of government institutions.

4.2. Proposed measures for improving the system of drawing EU funds

The proposed measures will contribute to improving administrative abilities and absorption capacities for drawing EU funds. It is necessary to distinguish here measures that cover two time periods: (1) the period of current implementation of Cohesion Policy (2004-2006), (2) the coming period of new EU financial perspectives (2007-2013). A proposed system for elaboration of »central projects« that will contribute to the development momentum of Slovenia is prepared for the coming programme period.

- **For the period 2004-2006** the proposed measures for improving the absorption capacities both on the part of offer (administrative absorption capacity on the part of state institutions) and on the part of demand (absorption capacity on the part of applicants in tenders, potential implementers).
 - A concentration of funds and institutions for conducting and managing cohesion policy in Slovenia is required, whereby strategic conduct of these policies must be as close as possible to the top of political decision-making in the country.
 - Simplification or abolition of procedures that can be carried out without major institutional changes.
 - Introduction of regular education and training of staff for work in areas of cohesion policy, both on the part of public administration and on the part of potential project applicants in the public and private sectors.
- **For the period 2007-2013**
 - To specify a single central body for planning and coordinating state development policies.
 - One management body will be specified for the area of structural funds. One each management body will be specified for the areas of Cohesion Fund, environment and traffic infrastructure. For the entire area of cohesion policy (thus structural and cohesion funds) a common payment body will be specified.
 - Determining and training an institution that will represent the joint technical secretariat for implementing cohesion policies: strategic conduct of cohesion policy will be done in a single place, which will be provided on the basis of preparation and monitoring of the National Strategic Reference Framework.
 - Cohesion policy funds must be in a common budget heading at the management body, or at the joint technical secretariat for implementing cohesion policy.

With implementation of **centralisation of management of structural funds** it will be easier to monitor the effects of structural policy and, on the other hand, additional employment in state administration on an implementation level will not be needed. The measure will thus bring faster perception of capacity (or lack of it) for drawing on the level of individual programmes with individual ministries and, at the same time, faster transfer of funds to the programme, in which drawing is more effective and faster. In such a way, duplication of implementation structures for measures that are similar and have related effects will be prevented, and employment in implementing bodies will be easier to limit.

Measure 44: Concentration of funds for co-financing EU operative programmes under a common budget heading

Description of the measure:

Funds available for co-financing EU operative programmes shall be available under a common budget heading at the management body (MB), or at the joint technical secretariat for implementing cohesion policy. (Variant proposal: Funds will be transferred under the heading of individual ministries when the management body confirms a call for tenders or specific project. The responsibility of ministries for implementation is thus ensured and the problem of the time discordance of budget preparation with the elaboration of programme documents is also solved. At the same time, the possibility is provided for the MB to transfer of funds away from a ministry without their agreement if it finds that a project will not be implemented in compliance with the plan.) The competencies and institutions for conducting and managing cohesion policies in Slovenia will need to be close to the top of political and strategic decision-making in the state and regularly involved in decision-making on the implementation of policies.

Purpose:

To ensure transparency and effectiveness of drawing funds with a single place, which will also increase transparency of the speed of drawing under individual operative programmes (OP). In the preparation of the proposed changes, evaluations must be prepared of implemented programmes within the framework of pre-accession assistance. Evaluation includes also an assessment of the direct benefits of assistance.

Proposed changes:

- all funds for co-financing European programmes to be concentrated in a single place,
- clear division of funds among implemented programmes and allowing possibility of fast transfer of funds from one OP to another in cases when funds are not drawn,
- preparation of projects and programmes on the part of responsible ministries and project promoters and presentation of these before a central institution,
- monitoring results and effects of programmes from one place will enable monitoring effects across ministerial responsibilities.

Anticipated impact:

Faster recognition of capacities for drawing by individual programmes and faster transfer of funds to programmes in which drawing is more effective and faster. Duplication of implementation structures for measures that are similar and have related effects will thus be prevented, and employment in implementing bodies will be easier to limit.

Legislative changes required:

- Public Finance Act,
- Instructions on the division of competencies among bodies implementing structural policy.

Responsibility:

Government RS, Government Office for Local Self Government and Regional Policy, Ministry of Finance, responsible ministries.

Open questions:

- In planning funds under a common heading, information on their structure must be provided in accordance with the programme or functional classification.

Measure 45: Regular education and training of staff for work in areas of cohesion policy

Description of the measure

Both in state administration and among companies, trade unions and other development partners, it is necessary to introduce a system of regular education in which staff will be acquainted with system planning and project elaboration and implementation.

Purpose

To increase the quality of projects and their feasibility through education will also increase the transparency of operation of the entire system.

Proposed changes:

It is necessary to introduce into the system:

- *Information on financial sources and their purposes in a single place* will enable applicants to elaborate and enter projects to the appropriate financial sources without unnecessary costs, and state officials to inform potential applicants at a single place.
- *Understanding methods of elaboration of projects* must be disseminated to more organisations and knowledge mediators. This is primarily support in terms of availability of information on methods and information on approved and non-approved projects and their evaluation.
- *Clear explanations to applicants and state officials of the quality of programmes* will help applicants and others in the development of projects in advance and with new applications.
- *Regional development organisations should be promoters of projects and certainly not responsible for them*, since their task is development of the region through enabling as many projects as possible, and not concentrating on those that maximise their financial impact.

Anticipated impact:

Implementation of the measure will increase the number of projects and their quality. Competition between applicants and quality support to applicants will also facilitate the work of commissions and approved projects will more quickly and efficiently be implemented.

Responsibility:

Government Office for Local Self Government and Regional Policy

Measure 46: Determining operative programmes and implementing structures for cohesion policy 2007-2013

Description of the measure

For the preparation of new programme documents, it is necessary to decide immediately on the number and content of operative programmes and thereafter immediately begin preparation of their content and implementing structures.

Purpose

In the process of preparation of operative programmes, the needs of the market or development must be understood, and operative programmes prepared on this basis. Implementing structures of the programme will also have to be subordinate to this; those that best correspond to the measures and are qualified to implement them.

Proposed changes:

- Analysis of all regional programmes and determination of groups of projects for direct financing.
- Development of a fast and efficient system of allocating funds for small projects.
- Regions deal in their development programmes with national systemic questions (all levels of education, waste treatment, flood protection, monitoring the condition of the environment, general technological development, scholarship schemes and so on). Such measures and projects of regions must be linked among regions and awarded the status of national projects, with which the state will deal, while regional particularities must be resolved on a regional level.

Anticipated impact:

Quality planning and evaluation of programmes is the key to success in the allocation and effective use of public European and domestic public resources. Through the process of planning, project promoters and those responsible for projects obtain sufficient information to enable them to prepare quality projects, the implementation of which will contribute to achieving the aims of the state and regions.

Development programmes, if they wish to achieve a development leap, must reflect the quality requirements of projects, from suitability (suitable projects in relation to the needs and capacities of the state and regions), feasibility (suitable implementing organisations that are financially and in relation to the content sufficiently qualified to carry out projects and conduct them onwards in a quality manner) to sustainability (an adequate concentration of funds it is needed to ensure a permanent solution or arrangement of a specific sector without it being necessary to invest further public funds later).

Legislative changes required:

Not necessary

Responsibility:

Government Office for Local Self Government and Regional Policy, responsible ministries

Measure 47: Setting up a joint management authority for structural funds and management authorities for the Cohesion Fund and a joint paying authority

Description of the measure:

To achieve faster and more effective implementation of policies through the centralisation of management and decentralisation of implementation.

Purpose:

Implementing structural policies must be centralised in terms of management and thus the clear following of national development aims ensured. Implementing structural policies must be brought as close as possible to users on the level of preparation and implementation of projects and measures.

Proposed changes:

- A group of financial institutions that will cooperate in the system and its introduction,
- To develop a system of prior evaluation of projects,
- A system of reporting and evaluation must immediately be arranged on the level of the impact of projects and on the level of results, since only thus will it be possible justifiably to say whether or not we have been successful and to evaluate the project. Indicators must be built into the system that will also show the harmonisation of the measures and projects with the basic policies of the Lisbon Strategy.
- Partly also to transfer financial control (1st level financial control) to the auditing services market and to require suitable insurance of auditing services from auditing houses, and also to retain the clear responsibility of the management authority and responsible ministries.
- Current managers of European funds must immediately commence production of more precise contents of measures that Slovenia will implement in the future and also achieve agreement in wider debate on standards for the selection of projects. General standards for all calls for tenders and special measures for the particularities of each call for tenders or financial source.

Anticipated impact:

With the introduction of centralisation of management of structural funds, the effects of structural policy will be more easily monitored and on an implementation level, additional employment in state administration will not be needed.

Legislative changes required:

- Public Finance Act,
- Instructions for the allocation of competencies among bodies on the implementation of structural policy.

Responsibility:

Government RS, Government Office for Local Self Government and Regional Policy

5. Fourth development priority: a modern welfare state and higher employment

We wish to create an environment with the proposed measures, in which people will find work more easily and quicker and, at the same time, will also enjoy the necessary level of social protection and security. With adjustments to systems of social insurance, we are trying to ensure that future generations will also be guaranteed an adequate level of security. We will thus encourage the creation of a more adaptable economy, which will be able to use a higher supply of labour and will not be unsustainably burdened with the costs of maintaining social systems which, because of the better use of resources, will better enable faster economic growth without encroaching on the foundations of the social state.

The basic change that we wish to achieve in this area is motivating unemployed persons and recipients of social transfers to actively search for jobs and develop their own capacities and also to accept occasional and provisional employment. The state will help them with this by changing employment policy and with incentives for investment in education and training. As development accelerates, the demand for labour will increase, and changes in the labour regulations will enable companies to decide more easily on new employment. In connection with the changes in the tax area, which will relatively reduce the labour costs for the employer at the same level of wages, this will increase the level of employment and reduce unemployment. Although the measures also envisage a restrictive growth of expenditures for social transfers and for compulsory pension and health insurance, this is not sacrificing the social state or reducing rights but creating a fairer welfare state, sustainable in the long-term. A more transparent and simpler system of social transfers will enable those who really need help to obtain it and we will prevent today's frequent exploitation and abuse of the system of social assistance. The changes in the pension system, which will reward people for remaining longer active, also enable insurance and obtaining suitable rights on the basis of part-time employment and encourage saving in voluntary systems, will enable a fairer distribution of the burden and entitlements of the pension system. Changes in the health system are directed above all at more efficient management of existing resources and encouragement of rational behaviour both by providers and users of health services, which will enable better satisfaction of actual needs with the given resources.

Measures in this area are linked to reforms in other areas, especially the tax reform, which will greatly reduce the labour costs of highly qualified and educated people.

5.1. Proposed measures for a more flexible labour market and higher employment

Measure 48: Setting up a new wage system

Purpose:

The wage system of the public and private sectors must be adapted to changes that have happened in both sectors in the period since the mid-nineties, introduce greater flexibility and incentive, and employee participation in the profit of companies. In connection with reforms of the tax system at least the maintenance of living standards of employees with lower wages must be guaranteed and unjustified increases in wage differentials prevented that are not based on incentives and rewarding successful work.

Proposed changes:

1. To set up a new wage system in the private sector, based on determining new minimum nominal amounts in collective contracts of activities and collective and individual agreements on wage levels with employers.
2. In the public sector to introduce a uniform wage system into practice as soon as possible, legislated in valid laws, and on this basis to remove internal disproportions in the public sector and establish suitable ratios in relation to the private sector. To take into account in this that for comparable levels of complexity of work, a slightly lower level is acceptable in the public sector because of the greater job risk in the private sector, the need to stimulate economic breakthrough and restrictions in public finance policies.
3. In the new wage system of the public and private sectors, to adapt the level of gross wage effect of the introduction of a flat tax rate on the personal income and effect of introduction of a flat VAT rate, so that the transition to the new tax system does not cause major changes in real net wage and that the living standard of employees with low wages does not fall because of the flat VAT rate. Within the framework of agreement on the annual adjustment of wages, to foresee that in 2007, three months after introduction of the tax changes, salaries will be adjusted if there is a rise in prices because of the tax reform, exceeding a certain percentage.
4. To adopt a suitable code for determining wages under individual contracts, and to ensure that during the transition to the new tax system there will not be an administrative increase in them.

Legislative and other changes required:

1. Public Sector Wage System Act,
2. Collective contracts on all levels.

Responsibility:

Social partners, Ministry of Labour, Family and Social Affairs, Ministry of Public Administration

Measure 49: Agreement on a new wage policy**Purpose:**

To agree a new wage policy that will take into account the necessary macro-economic stability and equilibrium, stimulate employees to provide better working results and enable development and new employment.

Proposed changes:

1. In the medium term to enable improvement of standards of employees in such a way that wages will grow in line with productivity trends.
2. In the period until the adoption of the euro we have to take into account also the short-term economic policy goal, according to which growth in wages should lag behind growth in productivity by at least one percentage point.
3. to ensure concordance in wage growth of the public and private sectors in the long term and, after adjustment of suitable ratios between the sectors, to take into account the characteristics of the two sectors.
4. To introduce and stimulate profit sharing.
5. To replace the system of supplements on the working age period with the system that will give more attention to effective productivity and good performance or permanency (see Measure 54).

Legislative and other changes required:

1. Employee Participation in Company Profits Act,
2. Social Agreement.

Responsibility:

Social partners, Ministry of Labour, Family and Social Affairs, Ministry of Public Administration

Measure 50: Encouraging greater activity of unemployed persons

Purpose:

By encouraging unemployed persons to accept work, to increase their activity and retain their employability, to enable at least occasional working activity to unemployed persons and enable them also to provide their own minimum social security (pension and health insurance).

Proposed changes:

- To include each unemployed person, within a time limit of 3-6 months, in one of the active forms of treatment (programmes of assistance in job seeking) or in employment programmes that most effectively increase their employability or work/employment reintegration.
- To improve the ratio between the number of unemployed per employment advisor and gradually approach a ratio of 150 unemployed persons per advisor. To increase the number of unemployed persons dealt with in the network of Centres for Vocational Guidance and Information and in the Information and Advisory Centres for Adult Education, in order to increase the efficiency of mediating vacant jobs to unemployed persons and their inclusion in programmes with the help of which their work/employment reintegration will be ensured the fastest.
- Forming and implementing a programme that will link training of employees and employing the unemployed on the model of the Danish model »Job-rotation«; creating and later implementing this programme requires the cooperation of the social partners on both the national level and on the level of companies or organisations.
- To remove obstacles to the combination of part employment and part retirement also for persons who do not meet all the conditions for retirement.
- To set up clear criteria for the compulsory inclusion of unemployed persons receiving unemployment benefit or social assistance in work or employment and in employment programmes, together with the introduction of suitable control of the granting of social rights (as in other EU members).
- Validating the right to unemployment assistance after the expiration of unemployment benefit with the Employment Service of Slovenia will be transferred to Social Work Centres if persons meet income or material conditions. Recipients of social assistance are obliged to accept work offered or be included in one of the employment programmes (see Measure 60).

Anticipated impact:

- Reducing unemployment, more efficient satisfaction of the demand for labour

Responsibility:

Ministry of Labour, Family and Social Affairs; Employment Service of Slovenia

Measure 51: More efficient employment policy

Purpose:

To establish wider understanding of employment policy as explicitly inter-ministerial (educational and the policy of life-long learning, social, economic, labour relations etc.), supplemented by active employment policy (AEP) programmes as a group of measures and special approaches (projects) for directly intervening on the labour market in order to overcome problems that other policies cannot effectively deal with in the short term.

Proposed changes:

- Combining of AEP programmes into programmes that have clearly defined aims and thus overcome the present fragmentariness of AEP programmes and, at the same time, ensure their greater transparency and implementing efficiency.
- In the preparation of one or multiyear AEP programmes, to separate measures that will be implemented horizontally, with a stable implementing scheme and stable financing from an integral budget (implemented on the level of the entire state) from special approaches/projects that will be the subject of calls for tenders and co-funding from other sources (e.g., ESF and other sources) and will be aimed at activating regional partners in resolving the particular problems of unemployment of individual regions and encouraging links of regional employment projects with other regional development projects (rural development, encouraging business innovation, development of business-small factory zones etc.).
- Additional training or re-training of employment advisors.
- Decentralisation of decision-making in selecting target groups of the unemployed for their inclusion in horizontal AEP measures and creating programmes in relation to the regional labour markets needs or regional unemployment and thus increase the role and responsibility of the social partners in individual regions.
- Evaluating the effectiveness of AEP programmes and measures by independent evaluators.
- Providing better information to employers about measures.
- Better activating more hard to employ categories (disabled, minorities, older persons) through AEP measures with the aim of better integration, so that they will not depend on social assistance.
- Encouraging the employment of women with the aim of reducing employment risks for an employer, especially in the period of deciding on parenthood, by subsidising substitute employment or employment after completion of maternity leave in order to achieve a higher birth rate and thus reduce the structural problem of women.
- Essentially to increase the number of participants in on-the-job training programmes in order to ensure the criteria of employers' labour needs.

Anticipated impact:

- Preventing unemployment from becoming long-term unemployment, increasing the efficiency of mediating jobs and employment, more effective and transparent

implementation of AEP, together with an increased role and responsibility of regional partners.

Responsibility:

Ministry of Labour, Family and Social Affairs; Employment Service of Slovenia; Ministry of Education and Sport; Ministry of the Economy; Government Service for Local Self Government and Regional Development.

Measure 52: Stimulating and enabling life-long learning

Purpose:

To improve individuals' chances on the labour by encouraging and enabling life-long learning and training.

Proposed changes:

- To encourage implementation of programmes of adult education advisory centres. To encourage the operation of independent learning centres. To encourage the project learning programmes (programme is aimed at 'drop-outs' in order for them to complete their education or obtain a vocational qualification).
- To produce a system that will recognise educational and training achievements as partial steps on the way to obtaining the desired target education.
- Creation and development of motivational programmes that encourage employees to re-enrol in formal and informal education and training, or in programmes that raise the literacy level.
- To develop a »Job-rotation« programme that, on the one hand will encourage and enable the training of employees in less demanding jobs and, on the other hand, subsidise the employment of unemployed persons to replace these workers during the time of their training.
- To create incentives for companies which invest in the education and training of their employees (to consider the cooperation of the social partners and creating funds for education and training for employees). To encourage in particular the education and training of employees whose jobs will probably be threatened because of their low level of education. To introduce a system of one third co-financing (the state finances a third of the costs of education if the employer and employee finance the other two thirds). To introduce incentives for companies which employ unemployed persons and include them in a programme of on-the-job training.
- To promote the international standard *Investors in people*. This is one of the standards that does not build on processes but on investment in education and training of employees, communications and the responsibility of all for achieving organisational aims, thus laying stress on human resource management, which is poorly developed in Slovenia.
- To oblige local communities to prepare annual plans of adult education. In the concept of regions, to place adult education among the basic competencies and obligations of regions and to specify sources of financing for this activity.
- To finance training from public funds in the case of training of employees without education or training for anticipated new vocation, skills and competences.

Anticipated impact:

Increasing employability

Responsibility:

Ministry of Labour, Family and Social Affairs; Ministry of Education and Sport

Measure 53: Arranging a system of scholarships for the young

Purpose:

To increase the transparency of the system and orientation of scholarships into resolving the needs of the economy and vocations for which there is great demand; to harmonize the scholarship system with the system of social transfers.

Proposed changes:

- Incorporation of the present system of state scholarships with other social transfers about which Social Work Centres decide. We currently have two administrative systems providing implementation of these two social transfers, which, on the one hand is irrational from the administrative costs aspect and, on the other, illogical from the aspect of the explicit social purpose of the two transfers.
- Development of a scholarship fund which would be co-financed by both employers and the state and would be intended for financing employer scholarships and encouraging education for vocational areas for which there is great demand in individual regions (decisive role of regional partners in defining areas and levels of education of calls for applications); in relation to scholarships for the talented, it would again appear to be worth studying the possibility of introduction of an income census, which would have to be essentially higher than the entry census for the present state scholarships.
- All other scholarship schemes and subsidies which are now financed or provided by the state from the budget (e.g., travel subsidy) to be examined for the purpose of ensuring their uniform provision, either within the framework of an »educational allowance« which is paid together with child allowance, or in the framework of scholarships from the scholarship fund.

Anticipated impact:

Reduction of unemployment of the young, reducing the costs of double record keeping.

Responsibility:

Ministry of Labour, Family and Social Affairs; Ministry of Education and Sport.

Measure 54: Increasing the flexibility of the labour market and facilitating employment

Purpose:

To harmonise the level of job-place protection with the aim of flexible employment. To reduce the fear of employers of permanent employment, to encourage flexible forms of employment, to reduce obstacles to re-qualification and employment of the unemployed, to reduce regulations related to performing vocations and profit-making activities and reduce the tax burden of labour.

Proposed changes:

- To reduce obstacles to permanent employment, to promote part-time employment and other forms of flexible work (transport costs, food, holiday bonus should be proportionate to the extent of working time).
- To stimulate such an arrangement of working time that will better coordinate professional and family life,
- To reduce obstacles to the development and operation of temporary work agencies,
- To regulate student work in such a way that it will not have the character of unfair competition with other forms of occasional and provisional employment and that it will provide students with the necessary insurance and rights deriving from this; student work must above all perform the role of linkage between work and studies and ensure the transfer of knowledge between universities and the workplace.
- To limit the regulation of occupations only to areas in which this is primarily protection of the public interest or is specified by EU regulations (the existing list of regulated occupations must be examined and suitable changes to regulations made).
- To enable the performance of occasional or provisional work in profit-making activities without great regulation and lengthy registration procedures.
- To maximise the level of redundancy pay for workers and managers.
- To study the possibility of shortening the legally specified reasonable period of notice.
- Within the framework of possibilities allowed by ratified international agreements, to remove the causes for the high assessment of rigidity of the »Employment Protection Legislation Index« in the case of collective dismissal.
- To review the system of supplements on the working age period and replaced with the system that will give more attention to work experience and permanency.
- To introduce and possible tax incentive of employee participation in company profits (profit sharing).
- Consistent prosecution of informal work and employment.
- To ensure consistent respect for labour legislation.

Anticipated impact:

- Increasing employment, reducing expenditures on social transfers, removal of obstacles to professional mobility and re-employment of workers.

Open questions:

To study the initiative for the establishment of a fund for taking over risks connected with employment with small employers, which would facilitate employment by sole traders and companies with only a few employees (Chamber of Craft of Slovenia's initiative). To study the possibility that the state takes over part of the responsibilities of employers (e.g., redundancy payments), thereby to protect the position of workers, and itself be able subsequently to enforce payment (model of the guarantee fund).

Responsibility:

Ministry of Labour, Family and Social Affairs; Ministry of Finance; Chamber of Craft of Slovenia, employers' associations, professional associations or chambers to which the state has given public authority in the sphere of regulated professions.

5.2. Proposed measures for a fairer and more motivational system of social transfers

Measure 55: Unifying elements that affect decisions on social rights

Purpose:

In order to remove illogical elements in the system and their exploitation by adjusting data to the arrangement that is more favourable for an individual in a specific case, the definition of income, assets and family members should be arranged uniformly in all systems. Income and assets to be taken into account in relation to all rights that are bound in the current system only to checking income, so that these rights become entirely »means-tested«.

Proposed changes:

- With all rights that under currently valid legislation depend on means-testing (checking income or income and assets) a finding of entitlement will introduced in relation to income and in relation to assets (i.e. »means-tested« rights).
- Income and assets that are taken into account in ascertaining entitlement will be defined in a uniform manner for all rights. With assets, all immoveable assets will be taken into account and, of moveable assets, transport means, securities and ownership shares in legal entities above a certain amount. Housing that serves the claimant and members of her or his family as a residence, assets that provide income that is taken into account in ascertaining income and objects that under regulations on enforcement are exempted from enforcement, are not taken into account as assets.
- With all rights that depend on means-testing, to introduce a uniform definition of family and family members.
- Unifying elements that influence decisions will be regulated by a single law.

Anticipated impact:

Reducing benefits because of taking assets into account

Legislative changes required:

New Conditions and Procedures for Exercising Rights from Public Resources Act

Responsibility:

Ministry of Labour, Family and Social Affairs

Open questions:

Problem of more realistically covering income of the self-employed and farmers

Measure 56: Unifying valorisation mechanisms for transfers

Purpose:

To remove unjustified differences in the system of valorisation and thus to respect the basic purpose and nature of individual benefits.

Proposed changes:

- Depending on the type and purpose of the benefit, only two basic systems of valorisation should be retained, to wit, a system in which wages are the reference value (however defined, always in the same way) and a system in which the reference values are prices (with some, the reference value should be the index of the rise in the cost of living, with some only the index of rise in specific reference prices).
- Taking account of the above proposal, the current delineation, by which some benefits under the present arrangement are bound to the movement of wages, will be partially preserved but it will be transformed into an adjustment with prices. Benefits not based on contributions paid for insurance, will be adjusted to the rise in the cost-of-living index.
- With benefits that are adjusted with prices, annual adjustment will be carried out for payment from January onwards. Benefits will be adjusted to the rise in the cost-of-living index in the period of January-December of the previous year in comparison with the same period of the year before. Benefits that are adjusted to reference prices will be adjusted in relation to their growth.
- With benefits that are adjusted to wages, adjustment will take place annually for payment from February onwards. Benefits will be adjusted to the increase in the average basis for payment of contributions in the period of January to December of the past year in comparison with the same period of the year before. Until the setting up of the system of publication of data on movements in contribution bases, these benefits will be adjusted to a specified percentage of the index of growth of average wage per employee in the period January to December of the past year in comparison with the same period the year before (less than 100% but no less than the increase in prices).

Anticipated impact:

- Unifying valorisation mechanisms, saving of funds from public sources.

Legislative changes required:

1. a new Conditions and Procedures for Exercising Rights from Public Sources, or a special Method of Valorisation Act or amendments to each of the area laws specifying individual benefits,
1. Social Security Act,
2. Parental Protection and Family Benefits Act,
3. Housing Act,
4. Employment and Insurance against Unemployment Act,
5. Health Care and Health Insurance Act,
6. Pension and Disability Insurance Act,
7. Social Protection of Physically and Mentally Handicapped Persons Act,

8. War Disabled Act,
9. War Veterans Act,
10. Victims of War Violence Act,
11. Subsidised Student Meals Act,
12. Rules on subsidising school meals of pupils and apprentices in secondary schools,
13. Rules on subsidising school meals of pupils in primary schools,
14. Rules on parental payments for programmes in kindergartens,
15. Decree on the relief of payment for social security services,
16. Sports Act,
17. Act on National Recognition Grants.

Responsibility:

Ministry of Labour, Family and Social Affairs; Ministry of Health; Ministry of Education and Sport

Open questions:

Data on the increase of contribution bases

Measure 57: Determining and unifying the upper limit of wage compensation

Purpose:

There are differences in existing systems in relation to limitations to wage compensation paid as a right under social insurance. A suitable solution would be a uniform upper limit.

Proposed changes:

- Introduction of a uniform upper limit to the level of wage compensation in all systems of social insurance. It will be determined at the level of the amount of the highest pension basis.
- To study the possibility of simultaneously determining a level of income above which social security contributions will not be paid.
- The highest total level of pension and disability benefits should also be determined.

Anticipated impact:

Reducing benefits because of the introduction of an upper limit with wage compensation during absence because of sickness and maternity leave, in which wage compensation payments are not currently limited.

Legislative changes required:

1. Parental Protection and Family Benefits Act,
2. Employment and Unemployment Insurance Act,
3. Health Care and Health Insurance Act,
4. Pension and Disability Insurance Act.

Responsibility:

Ministry of Labour, Family and Social Affairs; Ministry of Health.

Open questions:

Reduction of part of contributions for social insurance.

Measure 58: Setting up a uniform system of long-term care**Purpose:**

Under existing systems, very different attendance allowances exist for people who are no longer capable of themselves performing their own daily tasks, and there are also differences in access to the necessary services of long-term care. These differences must be removed and a fairer system established enabling equality of access and of rights.

Proposed changes:

- To set up a uniform system of long-term care and, on this basis, remove disparities in the system of attendance allowances and other rights to long-term care.

Anticipated impact:

- More effective and fairer system,
- More possibilities for long-term care in the domestic environment and reducing the pressure on institutions,
- In the long term, also a more rational system from the professional aspect.

Legislative changes required:

New Long-term Care Act.

Responsibility:

Ministry of Labour, Family and Social Affairs; Ministry of Health.

Measure 59: Measures for increasing possibilities of active work and preventing the trap of unemployment and inactivity

Purpose:

In addition to incentive measures to ensure a higher level of social rights to those who are working active, in order to lessen the trap of unemployment and inactivity, it is also necessary to adopt measures to create additional possibilities for activity, and transfer the verifying of activity and willingness to work in entirety to institutions that are in our system for that purpose, i.e., to employment offices. Monetary social assistance must be devoted only to persons who are either incapable of work or cannot find any work and genuinely have no possibility of subsisting by their work or who work but their incomes are too low for subsistence.

Proposed changes:

- For encouraging activity of recipients of monetary social assistance for the unemployed to envisage new possibilities, to wit (see also Measures 50 to 54):
 - To encourage a greater extent of operation of temporary work agencies.
 - To provide employers with the possibility through employment offices to take on unemployed recipients of monetary social assistance for occasional or provisional paid work that does not have the nature of employment, without having to conclude an employment contract (civil law contract, system of referrals or other suitable system but with regulation of such work that will prevent abuse or avoiding employment).
 - Within the framework of active employment programmes, to create programmes of preparation for this form of work in accordance with specific demands of employers for workers for various types of work.
 - To set up more possibilities for performing voluntary socially beneficial work in non-profit activities (information, training).
 - To develop social entrepreneurship (for groups with reduced working capacities).
 - To develop the public-private partnership in the area of providing services of social protection and mediating work with the aim of pluralisation, efficiency and better provision of services.
 - Encouraging the employment and social integration of the disabled.
- In the system of monetary social assistance, to introduce changes for claimants to such assistance capable of work, to wit:
 - To abolish the present monetary assistance for the unemployed (in the current system it is lower than monetary social assistance, because of which beneficiaries claim two transfers), and to introduce a different procedure of decision-making on entitlement to monetary social assistance. The right should depend on confirmation of activity, the procedure of confirming the activity of the claimant to be carried out by employment offices. Awarding or ending the right will be compulsorily bound to the finding of the employment office.
 - For unemployed recipients of monetary social assistance, to envisage the obligation that after a certain time they accept offered paid work or are included in the non-profit sector in voluntary work, even in a case when

the work is less demanding than that considered appropriate or suitable employment. In the event of refusing employment or other form of activity, to envisage a gradual reduction of monetary social assistance (the reduction could be gradual or temporary) and payment in functional forms (e.g., payment for food, electricity), if the claimant supports a family.

Anticipated impact:

- Reducing the funds required for benefits because of a larger extent of working activity and thus higher own incomes.

Legislative changes required:

1. Social Security Act,
2. Employment and Insurance against Unemployment Act,
3. Equal Opportunities of the Disabled Act.

Responsibility:

Ministry of Labour, Family and Social Affairs.

Measure 60: Changes of criteria and conditions for entitlement to certain social rights with the aim of stimulating work

Purpose:

Because of the de-stimulating effect of some transfers on work, a certain proportion of recipients of transfers are uninterested in work and inactive. In particular when this concerns unemployed recipients of transfers for whom pay for work would be relatively low or/and they have a large number of family members, cases occur in which their own earnings and the reduction of social benefits do not improve their income position, and can even worsen it. We therefore propose changes of criteria and conditions for award that would enable greater receipts for employed persons or otherwise working active in comparison with non-active recipients of transfers and remove also some other de-stimulating elements of the system.

Proposed changes:

- In the criteria for entitlement and determining the level of certain social rights, to introduce differentiation in relation to whether it is a working active claimant or a non-active claimant capable of work. In relation to the various statuses, the censuses for obtaining rights should be determined in such a way that some social rights that depend on income and assets (i.e., “means-tested rights” are higher with working active than for working inactive.
- To review the types of benefits from social rights which are taken into account in establishing entitlement to certain other social rights.
- To abolish systems of connected rights in which obtaining one right is automatically bound to the obtaining of other rights.
- To remove the linkage to guaranteed pay, where this still exists.
- To attach the duration of entitlement to compensation of student meals to the duration of studies.
- Stimulation for the employment of parents after the expiry of absence from work because of childbirth and bringing up children.
- Three months after the introduction of tax changes, to adjust minimum income, which is the basis for the calculation of some social transfers, if because of the tax reform there is a rise in prices and these exceed a certain percentage.
- To adapt the scale for allotting rights that are bound to the existing level of gross wages of the new gross wages.

Anticipated impact:

Reducing benefits for non-active and increasing the benefits of active recipients

Legislative changes required:

- Social Security Act,
- Employment and Insurance against Unemployment Act,
- Parental Protection and Family Benefits Act,
- Subsidised Student Meals Act.

Responsibility:

Ministry of Labour, Family and Social Affairs.

Open questions:

- Whether to regulate the system of transfers only with the aid of the last in line, i.e., monetary social assistance, or also with changes of criteria with other transfers.
- Linkage with tax reform.

5.3. Proposed changes and supplements to the pension system

Measure 61: Increasing incentives for remaining longer in active work

Purpose:

To encourage the inclusion of those capable of working in the older age groups in forms of working activity in which contributions to pension insurance are paid. To encourage them to remain longer in activity and to de-stimulate early retirement.

Proposed changes:

- In the system of incentives to create a scale of bonuses progressively (some more each year) and gradually equalise them in terms of full age and not connect them to working period.
- To excuse payment (part) of contributions by employers in the employment of older employees and simultaneously check whether it is necessary and sensible to supplement the rules for calculating pensions for which such an institution would be used.
- In the pension system to introduce or give more support to the possibility of combining activity and retirement.
- To amend the provisions on partial retirement, which must no longer be connected with meeting all the conditions for retirement by age.

Anticipated impact:

- Increasing the activity and employment of older persons, raising the effective retirement age.

Responsibility:

Ministry of Labour, Family and Social Affairs

Open questions:

The sense and justification of creating progressive maluses for retiring before the full retirement age for persons who because of the conditions of work are already physically exhausted before the completion of the normal working period.

Measure 62: Extending compulsory insurance cover to those who are »little active« with low earnings**Purpose:**

To enable insurance and obtaining rights under the system of pension insurance also for persons who perform provisional or occasional work. Target groups are mainly the young, older persons and the unemployed. Young people, especially students, perform a great deal of paid work but during this time they do not pay pension insurance contributions on this basis; for various reasons the ever more numerous young people who work in a project manner, or who do not want to be employed in a dependent manner, are also not included. The measure will facilitate the unemployed gaining employment on the labour market for short working time, so it is necessary also suitably to arrange this in the system of pension insurance.

Proposed changes:

- Payment of contributions and ascertaining the density of employment also from a low number of working hours performed.
- Lowering or introducing actual working hours as the proportionate amount on which contributions are paid.
- To introduce the possibility of insurance only for a narrower extent of rights.
- Preparation for introduction of a system of notional defined contributions

Anticipated impact:

Increasing cover with compulsory insurance to groups in which atypical forms of activity are frequent (young, older persons, unemployed).

Responsibility:

Ministry of Labour, Family and Social Affairs

Open questions:

Payment of contributions from incomes that are not paid (work contract, author's honoraria etc.) and regulation of rights on this basis – i.e., attaching rights to contributions actually paid.

Measure 63: Suitable combination of social acceptability and economic sustainability of compulsory pension insurance**Purpose:**

Ensuring the social acceptability and economic sustainability of the pension system. Redistribution ensures social acceptability, but too much redistribution sets obstacles to economic efficiency and also raises the question of social acceptability. For pensions under pillar I, redistribution is already today performed both in terms of payment of contributions (there is no upper limit, some insurees pay low contributions) as well as in terms of benefits (minimum pension, minimum pension basis, ratios between the lowest and highest pension bases). It is also necessary to increase the role of the actuarial («insurance») component in calculating rights under pension insurance under pillar I.

Proposed changes:

- To lengthen the period relevant for determining the pension basis.
- To adjust the method of valorisation of pensions and pension bases with rules for the valorisation of other benefits paid on the basis of insurance (see Measure 56) and with financial possibilities.
- To study shortening the transitional period for women in such a way that full pension age (which is defined as 61 years) is enabled even before 2013 and to study the possibility of gradually equating conditions for men and women, in which judgements of the European Court also impose equalising.

Anticipated impact:

Long-term financial and social sustainability of the pension system.

Responsibility:

Ministry of Labour, Family and Social Affairs

Measure 64: Systemic separation of collective and individual insurance**Purpose:**

To create a genuinely professional pension insurance, in which the employer pays contributions as part of wages and is thus in its contents and forms a complementary system of compulsory pension insurance, because of which it must also be regulated in detail.

Proposed changes:

- To abolish the possibility of payment of individual premiums into a pension plan of collective insurance.
- To abolish the individual conclusion of contracts on accession to collective insurance but to specify that a contract on forming a pension plan of collective insurance applies for all employees of particular employer (example: Collective Contract on creating a pension plan for public employees).

Anticipated impact:

Increasing inclusion in collective supplementary pension insurance.

Responsibility:

Ministry of Labour, Family and Social Affairs, Ministry of Finance

Measure 65: Additional incentives for voluntary pension insurance

Purpose:

To encourage supplementary pension insurance, especially individual insurance, the extent of which is today negligible, by means of amendments to regulations and tax treatment. To adapt the arrangement in relation to minimum guaranteed yield, investment policies and payment of annuities. To consider the sense of tax benefits – with collective insurance, it has appeared that tax reliefs are an incentive only for successful companies that decide to finance premiums in addition to wages, which is economically impossible for companies in labour intensive branches. With individual insurance, the system of deferred payment of income tax is the only relief, which is modest and uncertain, since an annuity is taxed with income tax, in the event of withdrawing funds the member pays 25% income tax, and in the event of terminating before the expiry of 10 years, a further 6.5% tax on insurance transactions; at the same time the insuree can count the employer's premium in tax deductions.

Proposed changes:

- Together with the current arrangement of the system of tax deductions for collective insurance, to consider the introduction of a special tax deduction for individual payments, separate from the deduction for collective insurance (individual and collective premiums are not counted).
- To study the possibility in collective insurance that companies are allowed to redirect part of the contributions (employer's) for compulsory insurance into capital cover of pension insurance.
- To allow the possibility of the introduction of individual pension plans without minimum guaranteed yield, with restrictions according to the Investment Funds and Management Companies Act (ZISDU), and tax stimulated payments, which means that the manager of such a plan himself decides the investment strategy, and insurees decide themselves (with their own money) where or in what way they will save. This must, of course, be done without infringing on contracts already concluded.
- For individual insurance premiums for which the law should determine that an insuree may invest them in an individual pension insurance plan, in which the system of minimum guaranteed yield would not apply, to ensure security in such a way that pension plans would in any case have to be approved by the Minister of Labour.
- To abolish the possibility of free payment of saved funds in a single amount (under the heading employers' premiums) after fulfilling the conditions under the pension plan.

Anticipated impact:

Increasing inclusion in individual voluntary insurance.

Responsibility:

Ministry of Labour, Family and Social Affairs

5.4. Proposed measures for better quality and efficient health care

In order to remove the weaknesses in the system of health care and its further development, measures are proposed for greater responsibility, fairness and accessibility to the population to healthcare programmes, for adapting the healthcare system to European standards, ensuring economic sustainability, improving management of available resources and increasing the efficiency of the system.

The main aims are:

1. to ensure the maximum possible accessibility to healthcare programmes and thus to respect values such as solidarity, social justice and accessibility to the population of all ages and from all parts of the country.
2. to ensure the cost effectiveness of functioning of the healthcare system
3. to ensure the integral quality of healthcare services
4. to ensure the long term financial sustainability and stability of health care.

Changes in the healthcare system are directed mainly at more effective management of existing resources and incentives for rational behaviour by both providers and users of healthcare services, which will enable better satisfaction of actual needs with the given resources.

Measure 66: Adaptation of the system of compulsory health insurance

Purpose:

By adapting the system to ensure its economic sustainability, i.e., financing without raising the contribution levels and deficits.

Proposed changes:

- The general principle must be that the aims of health policy, public institutes and individual physicians must be planned on the basis of measurable indicators and that their work and efficiency is similarly judged on the basis of measurable indicators.
- In the area of public health insurance to include a European comparable extent and standard of rights, which will be long term and can be sustainably financed from public funds. To examine rights in relation to opportunity costs of entitlement to various services (the dilemma of all medicines for an individual or the level of rights for all); compulsory ex-ante cost-benefit analysis for new medicines and technologies; the same for new equipment, premises, programmes. To ensure the necessary dynamics in adjusting rights under compulsory health insurance to the health needs of the population and macro-economic capacities of the state.
- To ensure conditions for autonomous, transparent and supervised management of funds from public health insurance. To establish in public health insurance a model for determining prices of health programmes and services. To establish conditions for potential concluding of contracts on the extent of payment for health programmes and services.
- To set up a national system of health information and a permanent system for ensuring integral quality in healthcare.
- Harmonisation of social rights under health insurance with EU standards and measures in the area of social transfers.
- To introduce measures for the limitation of demand for health programmes. To limit the length of sick leave and to change the level and method of adjusting compensation with rules for other insurance based benefits (see Measure 56).
- Regular measurement of the quality and cost-effectiveness of health institutes.
- In cooperation between ministries and relevant research organisations, to ensure systematic and sustained development of knowledge in the sphere of health economics and healthcare management. Key tasks: (i) use of cost-benefit analysis in introducing new services and medicines and in creating employment and investment policies in basic and working resources; (ii) preparation of professional bases for introducing new programmes, medicines and equipment on professional principles and cost effectiveness on the level of the whole country; (iii) to produce national standards in all areas of operation of health care; (iv) on the basis of medical knowledge to propose priorities in health care that will bring the maximum benefit for citizens.
- To introduce systemic insurance for long-term care.
- For all other health needs, to establish and develop the provision of private health insurance. To create insurance with private health insurance that will be based on principles of individual risk and reciprocity.

Anticipated impact:

Long-term financial and social sustainability of the healthcare system.

Responsibility:

Ministry of Health; Ministry of Finance.

Open questions:

To study the factors for one or more insurance providers of public health insurance.

Measure 67: Improvements in the work of providers of public health services

Purpose:

To increase the efficiency, productivity and quality of public health service provision. To improve management of available resources and leadership of health service providers.

Proposed changes:

- The business of providers of public health services will be judged on the basis of standards and measurable indicators. The Ministry of Health must prescribe all the necessary standards of optimal exploitation of all factors or resources (exploitation of production factors); the minimum extent of work for retaining experience; decision-making and planning on the basis of data.
- Through appropriate development policies the state must ensure the necessary computer/information support for the operation and planning of the system of health care. It must coordinate work in this with all other sectors.
- The state must ensure through regulations the efficient management of healthcare providers. This means above all compulsory adequate management knowledge for occupying management positions. A condition for holding all leading posts in public institutions will be the prescribed education in management or proof of success in business, by which is meant economically successful business.
- Decentralisation of management of large systems, autonomy and responsibility of providers of public health services.
- To abolish wage levelling in wage policy, which hinders more effective employee motivation. Wage policy directly linked to productivity and quality of work done.
- To establish conditions for the functioning of effective professional supervision and protection of patients' rights.
- We propose that the composition and responsibilities of councils of institutes be arranged in accordance with regulations that apply for the supervisory boards of commercial companies. Similarly, MH should produce standards and key expected results of the functioning of institutes. Management should be responsible with their position for positive business, and the wage of senior management should depend on the results of business.
- Where possible, to centralise public procurement and strictly respect the principle »side by side« comparison in procurement.
- On the primary level, to encourage concession holding and linkage into group practices. On the secondary level, to set up a network of regional hospitals and to prepare a pilot project of private hospitals and to encourage concession holding. Tertiary institutes, as institutions of special national importance, must remain in state ownership.

Anticipated impact:

Improving the use of limited resources in health. Increasing the efficiency of the health system and a greater extent and quality of healthcare services.

Responsibility:

Ministry of Health

Open questions:

To prepare an analysis of the possibilities of privatisation, the entry of private capital or private work (outsourcing) in hospitals.

Committee for Reform

dr. Jože P. Damijan, Head of the Committee, EF,
dr. Janez Šušteršič, Deputy Head, UMAR,
mag. Katja Lautar, Secretary, KPV.

1. Promotion of competition and competitiveness, efficient use of knowledge and innovation

dr. Aleš Vahčić, coordinator, EF, **Igor Akrapovič**, Akrapovič d.o.o., **Jelka Arh**, MŠŠ, **mag. Daniel Blejce**, MBA, Modan-I d.o.o., **mag. Daša Bole Kosmač**, MVZT, **Ivo Boscarol**, Pipistrel, d.o.o., **dr. Mateja Drnovšek**, EF, **Matjaž Gantar**, KD GROUP, **dr. Simona Golič**, Kemijski inštitut, **Marko Hren**, MVZT, **Marjan Hribar**, MG, **Japec Jakopin**, Seaway, **dr. Peter Jambreč**, Svet za visoko šolstvo in Strateški svet za kulturo, izobraževanje in znanost, **mag. Mojca Jazbinšek Volk**, MG, **dr. Dejan Jelovac**, Gea College, **dr. Andrej Kitanovski**, MG, **Mitja Mavko**, MF, **dr. Primož Mihelič**, TPV, **mag. Rado Pezdir**, Inštitut za civilizacijo in kulturo, **dr. Tomaž Prosen**, **mag. Peter Puhan**, MG, **dr. Matija Rojec**, FDV / UMAR, **mag. Bojan Stanonik**, MŠŠ, **dr. Peter Stanovnik**, IER, **mag. Marko Starman**, MOP, **dr. Aleš Štrancar**, BIA Separations, **dr. Janez Šušteršič**, UMAR, **mag. Maja Tomanič-Vidovič**, Slovenski podjetniški sklad, **dr. Peter Verlič**, MP, **dr. Milan Vodopivec**, World Bank, **mag. Peter Wostner**, SVLR, **dr. Darja Piciga**, MVZT, **Matej Drev**, **Miloš Sterle**, **dr. Peter Grilec**, **Dušan Kričej**, MJU, **Robert Marolt**, MP, **Sibil Svilan**, SID, **dr. Peter Grilec**, Pravna fakulteta v Ljubljani, **Dušan Kričej**, MJU, **Robert Marolt**, MP, **Ana Špat**.

2. Efficient use of EU funds for a more rapid development

mag. Peter Ješovnik, coordinator, GZS, **Rolf Bergs**, PEPI Hessenmag, **Leon Devjak**, SVLR, **Andrea Di Anselma**, Meta Group, **Marko Eržen**, MG, **Mojca Grošelj**, MF, **dr. Andrej Horvat**, MK, **mag. Marta Hrustel Majcen**, MKGP, **dr. Anton Jurgetz**, **Jurij Kobal**, Oikos, **dr. Marko Koščak**, Heritage Trailmag, **Katja Lautar**, KPV, **Lili Mahne**, MBA, Nec Cerknica, **dr. Mojmir Mrak**, EF, **mag. Vida Perko**, Ekonomski inštitut Maribor, **dr. Marija Seljak**, MZ, **Manja Skernišak**, Nova KBM, **mag. Igor Strmšnik**, SVLR, **Iris Suban**, Open Door, **Rozana Ščančar**, Združenje za razvoj podeželja, **Anuška Štoka**, BAT, **mag. Luka Vesnaver**, NLB, **dr. Marjan Vežjak**, MOP, **mag. Peter Wostner**, SVLR, **Aleš Gnamuš**, MVZT, **Sibil Svilan**, SID, **mag. Bojan Suvorov**, Agencija RS ta regionalni razvoj.

3. Privatisation and development of the financial sector

dr. Marko Simoneti, coordinator, Ljubljanska borza d.d., **dr. France Arhar**, Ba-Ca, **mag. Katja Božič**, MF, **Matjaž Gantar**, KD GROUP, **dr. Peter Groznik**, EF, **Zvonko Ivanušič**, Pozavarovalnica Sava, **dr. Timotej Jagrič**, EPF Maribor, **dr. Božo Jašovič**, BS, **dr. Miha Juhart**, Pravna fakulteta, **mag. Andrej Kocič**, Zavarovalnica Triglav, **Matjaž Kovačič**, Nova KBM, **Boštjan Kramberger**, KPV, **mag. Žiga Lavrič**, MF, **dr. Žan Jan Oplotnik**, EIPF, **dr. Rajko Pirnat**, Pravna fakulteta, **mag. Marko Pogačnik**, SOD, **mag. Andrijana Starina Kosem**, MG, **Tomaž Toplak**, KAD, **dr. Jože Zagožen**, HSE, **Aleš Ahčan**, EF, **Aleš Berk**, EF.

4. Liberalisation and competitiveness of public utilities

dr. Miha Tomšič, coordinator, Inštitut Jožef Stefan, **Marko Agrež**, Elektrarna Trbovlje, **mag. Daša Bole Kosmač**, MVZT, **mag. Damir Cibic**, EF, **mag. Bojan Dremelj**, Telekom, **Irena Glavič**, Javna agencija RS za energijo, **Aleš Hauc**, Pošta Slovenije, **Marko Hren**, MVZT, **Marjan Hribar**, MG, **dr. Nevenka Hrovatin**, EF, **mag. Matjaž Janša**, MG, **dr. Andrej Kitanovski**, MG, **Bojan Kuzmič**, Javna agencija RS za energijo, **dr. Ivo Lavrač**, EF / UMAR, **Boštjan Napast**, Petrol, **dr. Žan Jan Oplotnik**, EIPF, **Majda Paripovič**, Javna agencija RS za energijo, **dr. Senko Pličanič**, Pravna fakulteta, **mag. Bernarda Podlipnik**, MOP, **mag. Miloš Pregl**, MP, **mag. Peter Puhan**, MG, **dr. Miro Rozman**, Iskra Emeco, **mag. Tomaž Simonič**, Agencija za pošto in elektronske telekomunikacije RS, **Damjan Stanek**, Borzen, **mag. Vitoslav Türk**, Elektro Ljubljana, **mag. Bojan Valančič**, MG, **dr. Peter Verlič**, MP, **dr.**

Jože Zagožen, HSE, **dr. Franc Žlahtič**, MG, **dr. Silvo Žlebir**, Agencija RS za okolje, **Tomaž Orešič**, Elektro Maribor d.d.

5. Restructuring of public finances

dr. Slaven Mičković, coordinator, MF, **Mateja Bizilj**, MF, **Alenka Bratušek**, MF, **dr. Igor Masten**, EF, **dr. Mojmir Mrak**, EF, **dr. Ana Murn**, UMAR, **Anka Oražem**, MF, **mag. Sašo Polanec**, EF, **dr. Aleš Vahčić**, EF, **mag. Vida Hočevnar Šeme**, Urad za preprečevanje pranja denarja, **mag. Karmen Škufca**, MF, **mag. Boštjan Vasle**, UMAR, **Stane Vencelj**, MF.

6. Tax reform

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7. Labour market reform

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8. Reform of the system of social transfers

Lidija Apohal Vučković, coordinator, UMAR, **Nataša Kokol-Car**, MF, **dr. Slaven Mičković**, MF, **mag. Sašo Polanec**, EF, **Bojan Pucelj**, MDDSZ – CSD Grosuplje, **Genovefa Ružič**, SORS, **mag. Sašo Stikovič**, MDDSZ, **dr. Nada Stropnik**, IER, **Stane Vencelj**, MF, **mag. Karmen Vezjak**, SVZ, **Darja Korva**, Skupnost CSD.

9. Health reform

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10. Changes and amendments of the pension system

Dušan Kidrič, UMAR, **mag. Aleš Ahčan**, EF, **dr. Aleš Berk**, EF, **Maja Kališek-Hostnik**, MF, **Boštjan Kramberger**, KPV, **Jože Kuhelj**, ZPIZ, **dr. Boris Majcen**, IER, **dr. Igor Masten**, EF, **Jernej Merhar**, Agencija za zavarovalni nadzor, **dr. Slaven Mičković**, MF, **Marjan Papež**, ZPIZ, **Roman Pečkaj**, MDDSZ, **Peter Pogačar**, KAD, **mag. Jože Sambt**, EF, **Marko Štrovs**, MDDSZ, **dr. Tine Stanovnik**, EF, **Vencelj Stane**, MF.

11. Technical support group

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