

PARTNERSHIP FOR TRANSITION



USAID IN THE REPUBLIC OF SLOVENIA



Introduction

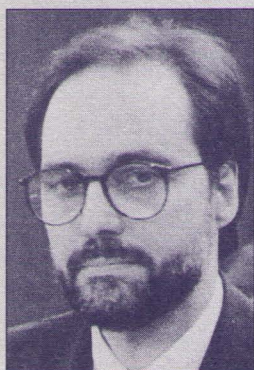
The United States Agency for International Development (USAID) has worked in partnership with the Slovenian people to promote economic reform and democratic institutions. This report summarizes the \$12.4 million USAID assistance program implemented during 1993-1997, in response to a 1993 request for assistance on behalf of the Government of Slovenia (GOS) from the Minister of Finance, Mr. Mitja Gaspari. The USAID program focused on financial sector reform, private enterprise development, and the strengthening of democratic institutions.

In 1993, two years after independence, Slovenia was making the difficult economic and democratic transition from a centrally planned economy to a free market economy with democratic institutions, enabling Slovenia to pursue full and equal membership in Europe. The GOS, however, recognized several key constraints to this transition, such as the need for financial sector reform, including basic legal and regulatory changes; the need for privatization; and shortages of domestic and foreign investment capital. The specific GOS request in 1993 enabled USAID to design and implement discrete, targeted, and cost-effective programs to begin to address these well-defined constraints.

The Slovenian people have demonstrated a strong, enduring commitment to both economic and democratic reforms and the United States is pleased to have been asked to participate in this historic effort. The results to date are encouraging and augur well for Slovenia's future. In the economic sphere, the record is enviable: Slovenia has the highest per capita income among transition economies (U.S.\$9,160 in 1996); the Government of Slovenia has maintained strict fiscal and monetary discipline, resulting in balanced or surplus budgets over the past four years through 1996; and Slovenia is moving to integrate more fully with the world economy through executed agreements with GATT/World Trade Organization (WTO), the European Free Trade Association (EFTA), the Central European Free Trade Association (CEFTA), and bilateral agreements with several neighboring countries, as well as a ratified Pre-accession Agreement with the European Union.

Slovenia's democratic reforms are equally impressive: following independence in 1991, a Parliamentary form of government was reinstalled early in 1992; peaceful and democratic transfers of power have subsequently occurred; a free press has been established, along with an independent judiciary; and human rights and civil liberties are protected under the constitution.

Minister of Finance Gaspari recently offered the following observation on USAID's assistance to his country:



The USAID program has played a very important role in supporting Slovenia during the first years of its independence. Projects it has sponsored have enabled our institutions and individuals to acquire technical skills and confidence they needed to build a new independent country and to rebuild the business environment. As the financial sector plays an important role in facilitating efficient allocation of scarce domestic and foreign resources, USAID's support was particularly appreciated in the fields of banking reform, pension reform, insurance supervision and capital market development. I therefore want to use this opportunity to thank all the USAID advisors for the help they have provided and their commitment to Slovenia's economic progress.

Financial Sector Reform

USAID financed an array of programs contributing significantly to the development of Slovenia's financial markets. A particularly versatile and effective **financial sector program** involved the use of the Financial Services Volunteer Corps (FSVC), a non-profit organization which provided short-term U.S. experts who were instrumental in (1) establishing in one of the country's major banks an active, viable investment banking division to service the emerging private sector companies; (2) advising the Slovenian Stock Exchange on procedures for managing Initial Public Offerings, critical to the development of a primary capital market; (3) establishing an insurance supervisory agency and the underlying regulatory framework to promote appropriate controls and structures, thereby strengthening the entire insurance industry and readying it for privatization; (4) providing a blueprint for establishing the Slovenian Clearance and Settlement System, which commenced operations in January 1996 and is deemed essential to ensuring investor confidence in the securities markets; and (5) helping the GOS to gain an international insight and understanding of pension systems and the infrastructure needed to design, manage, and implement pension reform.

Perhaps the State Under-secretary of the Ministry of Finance, Ms. Alenka Selak, said it best:

FSVC provides a very technical, targeted service, delivered in a professional and timely manner. In plain language: FSVC gives us what we ask for, soon after we asked for it, and in a format we can absorb.

USAID, under an agreement with the U.S. Department of the Treasury, also rendered effective assistance to the Ministry of Finance in developing the **government securities market**. Sound technical assistance resulted in the successful completion of three bond offerings: a \$325 million eurobond offering, a DEM 400 million issuance, and a domestic bond issuance of \$31 million in the Slovenian currency, thereby gaining Slovenia access to expanded sources of foreign and domestic capital on favorable terms.

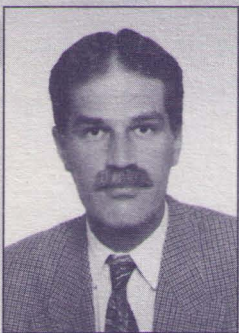
In connection with this assistance, the Head of the Public Debt Management Department in the Ministry of Finance, Mr. Branko Greganovič, stated,



We have enjoyed the support of the USAID-sponsored advisors from the U.S. Treasury's Office of Technical Assistance since April 1994. Their advice and guidance has been invaluable during our first steps in international financial markets.

At the request of the Slovenian Government, USAID also provided **bank supervision assistance** to the Bank of Slovenia (BOS). The U.S. bank regulatory advisors trained BOS officials in the policies, procedures, and techniques to conduct on-site bank examinations and strengthen off-site reporting and surveillance in order to promote a sound market-oriented banking system. This assistance has been helpful in framing the issues as Slovenian authorities debate a new Bank Law.

The Deputy Governor of the BOS, Mr. Samo Nučič, expressed his satisfaction with this assistance:



The experienced staff coming from (the U.S.) Federal Reserve and the Office of the Comptroller of the Currency was able to convey to our staff theoretical and practical knowledge, basic and very advanced expertise, and to advise and give recommendations. This was in practical terms the basis for further elaboration by our staff and actual implementation of such recommendations....

Another USAID-sponsored **bank rehabilitation assistance** supported the Slovenian Bank Rehabilitation Agency (BRA), which was charged with rehabilitating the troubled banking sector and resolving the problem of nearly \$1 billion in bad

loans made to near-bankrupt enterprises by Slovenian banks. USAID advisors provided valuable know-how to the BRA by helping set up a functioning institution with management procedures and systems in place and by training staff members in the basics of loan work-out management.

In commenting on the bank rehabilitation assistance, the Managing Director of the BRA, Mr. Slavko Jamnik, said:

Transition to a market economy calls for extraordinary measures and the banking industry is no exception. The assistance of the USAID experts was crucial, especially while we were striving to manage bad assets. The lack of experience in dealing with such problems in Slovenia was compensated by a wide range of cases which the USAID consultants shared with our professionals. Thus, USAID played a very important role in achieving a high level of asset recovery. Furthermore, a USAID consultant participated in defining solutions to improve the bank supervision that eventually led to the restitution of the banks in the bank sector.

With USAID financing, the U.S. Federal Trade Commission and Department of Justice provided advisory services and training on competition and consumer protection to GOS officials assigned to Slovenia's Trade Inspectorate and Competition Protection Bureau. The assistance succeeded in helping GOS officials to clarify needed legal, policy and regulatory changes for effectively promoting **competition and consumer protection**, as well as improve their ability to carry out competition analyses of regulated industries.

The Director of the Competition Protection Bureau, Mr. Andrej Plahutnik, reflected :

On one hand, we received a lot of useful information on investigative techniques, on problem solving, etc. that we could hardly get elsewhere; on the other hand, we have established relationships which exceeded pure business or better intergovernmental relations — we made new friends.



Private Enterprise Development

A principal objective of the USAID **enterprise restructuring program** was to assist small and medium enterprises to become more competitive in a free market. An additional and related objective was to enhance the capacity of Slovenian-based consulting firms to render assistance to local firms. Both objectives were largely achieved. By project end in October 1996, 40 of the 800 privatized enterprises had received USAID help in restructuring their operations under the Slovenian Enterprise Restructuring Project (SERP). These firms, with 50 to 1000 employees each and a total of 15,000 employees, had combined revenues of \$1.2 billion, an impressive 14% of privatized GDP. The targeted firms typically evidenced a high level of capability and entrepreneurial skill, with the potential for growth and competitiveness in export markets.

A recent survey of these firms indicated a high level of satisfaction with the advice they had received. Typical of the survey's findings was a statement from Ms. Zofija Kukovič, General Director of ESO TECH, a company which designs and installs gas, hydro, and fossil fuel energy systems:

The SERP project was very beneficial to us. It was the first time we received consulting assistance of this sort. And the timing was also right. ...The SERP presentation and their workshops helped us in achieving a major change in our work philosophy.

At a second company, LIKO, a manufacturer of wooden doors, furniture and stairs, the program focused on strategic planning with a clearer definition of core business; company restructuring; and reduction of production costs, which

entailed selling off “non-core” businesses. The analysis included benchmark comparisons with a German producer.

As a result, said the General Manager of LIKO, Mr. Olomir Pungerčič:

We lowered overhead our costs from 38% of total costs to 30% in 1996. We showed a profit in the first half of 1997 after loses in 1995 and 1996, and found a new American buyer with a great growth potential.

In addition to direct, hands-on company restructuring, over 450 senior managers received training in a broad range of subjects, including strategic sourcing, benchmarking, business process re-engineering, logistics, marketing, and cost accounting. This training, conducted locally, was complemented by longer-term, off-shore training in enterprise management, marketing and MBA programs.

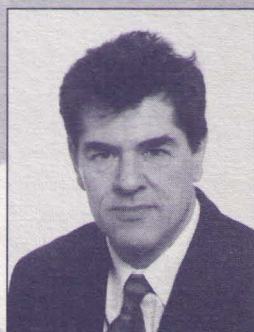
An independent assessment of USAID’s support to private enterprises concluded that these resources:

...provided a creative and pioneering form of enterprise restructuring assistance to expand the capability and future capacity for self-help, both within the client enterprises themselves and their managers, as well as within the Slovenian corporate consulting community.

Complementing the provision of technical assistance and training, USAID also made **equity investment capital** available to eligible small and medium enterprises in Slovenia through an arrangement with the European Bank for Reconstruction and Development to manage the disbursement of \$2,000,000 in equity capital. This assistance, channeled through two Slovenian equity investment funds, is providing needed investment capital, as well as demonstrating to potential investors the profitability of equity and debt investments in smaller Slovenian companies.

Commenting on this assistance, Horizonte Fund manager, Mr. Matej Penca, noted:

The most essential sector contributing to the restructuring of the Slovene economy is the sector of young, private and dynamic companies, most of which were founded after independence. These companies have great difficulties in obtaining any financing, let alone equity, as banks demand excessive collateral.



Furthermore, these entrepreneurs need substantial management support to make up for the lack of experience....The investment of USAID is very important to allow the Horizonte Slovene Enterprise Fund to build a broader and more diversified portfolio and thus contribute more to the restructuring of the Slovene economy..

Slovenian counterparts indicated that both the enterprise restructuring and the investment fund assistance provided by USAID were important in achieving tangible economic transformation in a "make-it-or-break-it" period. These officials noted that Slovenia, while more advanced in some ways, needed to assist newly privatized companies to ensure that some success models were created within the country to demonstrate how former socially owned companies undergoing privatization could compete in the world economy. Such examples provide hope for the many other companies further behind in this process, and allow younger Slovenian citizens to understand new concepts and gain experience which can be transferred to their own companies.

Slovenian officials familiar with USAID's programs also confirmed that Slovenia was a good proving ground for future efforts in Bosnia, Croatia and other parts of the former Yugoslavia. In Slovenia itself, the program provided useful experience and methodology for the larger EU PHARE-funded enterprise restructuring program. Moreover, this type of assistance does much to stabilize and strengthen the individual enterprises and in turn makes it easier to develop the parallel support structures in the financial sector that are necessary to accomplish the full economic transformation process.

In addition to the training carried out through the above-mentioned programs, USAID-financed **training programs** directly supported Slovenia's economic transition in both the financial sector and in private enterprise development:

- Slovenia participated in USAID's Central and Eastern European (CEE) regional bankruptcy project, a series of workshops which compared and contrasted bankruptcy procedures, supervision of trustees, asset sales, and claims adjudication processes in the region as a whole. American legal experts conducted seminars for an audience of Slovenian judges and trustees. The introduction to and comparison of American bankruptcy laws with the Slovenian and other CEE regional bankruptcy reforms enabled

Slovenian participants to get a wider view on the challenges that lie ahead in their transition to a market-oriented legal framework.

- Through the U.S. Information Agency, USAID also funded management training and market economics education through a business management development partnership program with the University of Indiana which sent professors and interns to Slovenia; the Hamilton Fellowship Program, which sent 13 Slovenians to U.S. business programs and brought American management professors to teach in Slovenia; and a speakers and professionals-in-residence program which conducted seminars and workshops on business development and entrepreneurship at the universities of Ljubljana and Maribor.
- The U.S. Securities and Exchange Commission provided short-term advisory services to officials of the Ljubljana stock exchange and the Securities Market Agency to help their Slovenian colleagues define new policies related to financial institution regulation, taxes, and securities issues. Ten Slovenian officials participated in SEC-sponsored training in the U.S.
- USAID assistance to the telecommunications sector in Slovenia sought to create a policy environment for privatization and telecommunications reform, including the creation of a functioning and transparent legal infrastructure and enforceable regulatory processes as well as the development of more efficient systems within a competitive market in order to attract private investment. The program, implemented by U.S. Department of State advisors through visits, seminars, and training, helped prepare one of the trainees to become the quality manager for Telekom Slovenia and a second trainee to become the current State Secretary for Telecommunications.

Democratic Reforms

USAID's assistance to Slovenia's democratic reforms focused on **institution building and training**, primarily through cooperation with the U.S. Information Agency and through the USAID participant training program. These programs supported the growth of independent media, promoted the involvement of non-governmental organizations (NGOs) in the formulation of government policy, facilitated the distribution of American literature and textbooks to Slovenian educational institutions, and strengthened English language capabilities among teachers and other professionals, both in the public and private sectors. Training opportunities, both in-country and off-shore, constituted a major mechanism for transferring democratic concepts, principles and practices.

In the words of Ms. Vida Ogorelec Wagner, Managing Director of one grant recipient, the Slovenian Foundation for Sustainable Development:

The U.S. Democracy Commission grant for Slovenia was not only significant for the development of our foundation in its early state, but also for the Slovene NGO community as a whole. The funds supported a cooperative project of 19 NGOs which prepared a framework strategy for sustainable development in Slovenia. Unfortunately, local sources for such projects are still extremely limited.

Mr. Stanislav Vlaj, Deputy Director of the Office for Local Self-Government, commented on his training program with the following words:

The program included a wide range of issues, from human resources to public management and local self-government.... The program included lectures, case studies, site visits, internships and special projects, as well as materials and information, all useful for our needs related to local self-government in Slovenia.



These programs have helped strengthen democratic institutions and increase the professionalism of their staffs, thereby contributing to a more transparent and accountable government and empowering Slovenians citizens to better understand and access democratic political processes.

Conclusion

An aerial, slightly faded photograph of a city, likely Ljubljana, Slovenia. The image shows a dense urban area with various buildings, including a prominent white, multi-story building with many windows in the lower foreground. The overall tone is muted and historical.

The high level of Slovenian-American cooperation and commitment, combined with USAID's ability to respond to the well-defined GOS requests with highly focused, cost effective programs, accounts in large measure for the success of U.S. assistance in Slovenia's economic and democratic transition.

Slovenia's reform efforts, while well advanced, are still in process and will continue to require sustained attention. Several areas of reform are still fragile: competitiveness, pension reform, privatization, and deepening of the capital markets. The institutional underpinnings for maintaining these reforms have also been strengthened in several critical areas with USAID assistance, but as with the economic reforms, these institutional efforts must take root.

Slovenia's future holds great promise, and we hope that the GOS will continue on the path to the completion of these critical reforms. The American people are pleased to have made a contribution to Slovenia's economic and democratic transition. The conclusion of the USAID assistance program is not an ending, but rather the beginning of a new phase of the U.S.-Slovenian partnership, marked by increasingly close and mutually beneficial bilateral relations through the American Embassy in Ljubljana and through growing commercial ties.

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