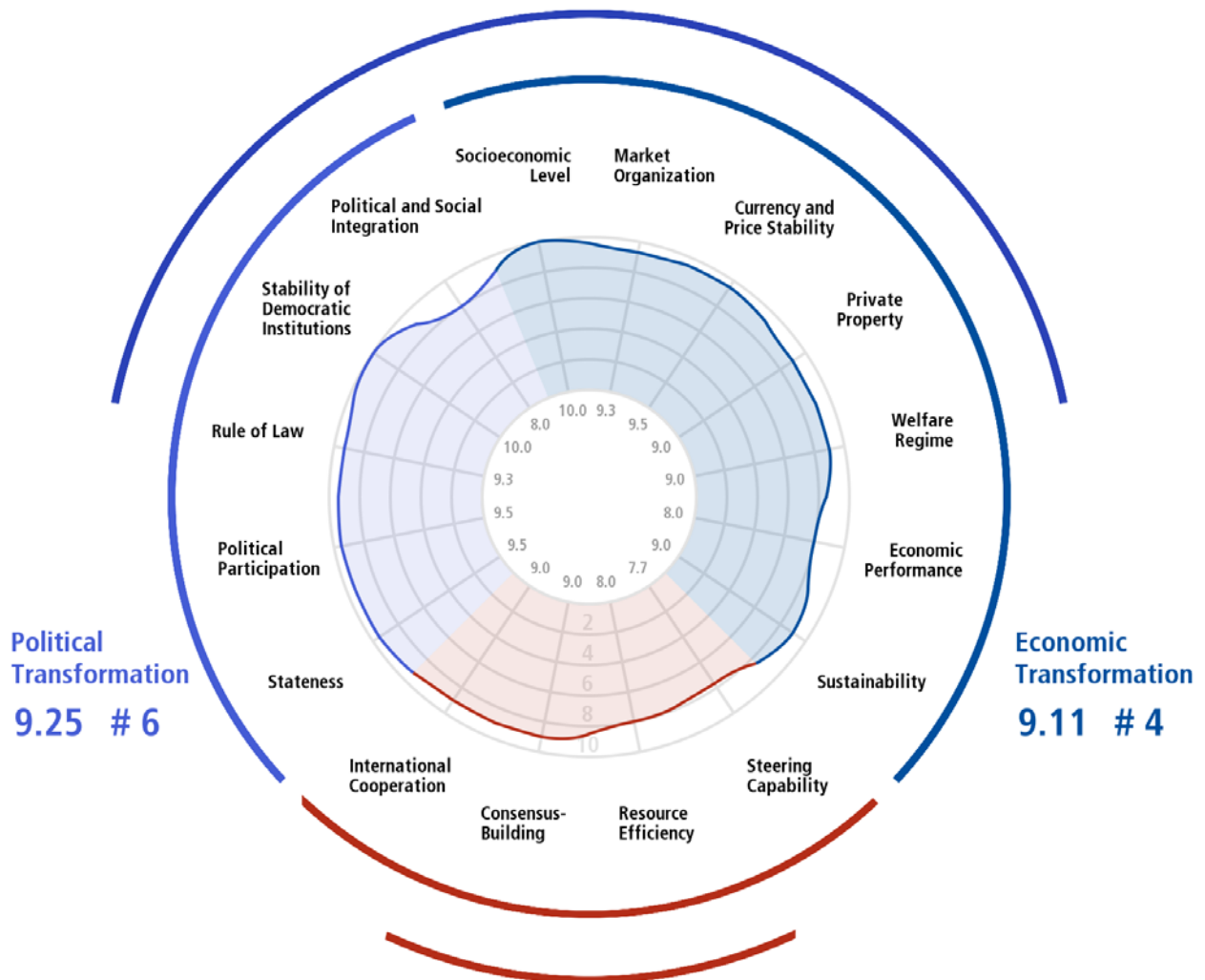


Slovenia

Status Index

9.18 # 6

on 1-10 scale out of 129



Political Transformation
9.25 # 6

Economic Transformation
9.11 # 4

Governance Index

6.78 # 10

on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	2.1	HDI	0.890	GDP p.c., PPP \$	32885
Pop. growth ¹	% p.a.	0.1	HDI rank of 188	25	Gini Index	25.7
Life expectancy	years	81.1	UN Education Index	0.915	Poverty ³	% 0.0
Urban population	%	49.6	Gender inequality ²	0.053	Aid per capita \$	-

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

From January 2015 to January 2017, the political situation in Slovenia began to stabilize, although heated debates occurred and several ministers resigned or were replaced. During this time, some positive economic trends were recorded.

Electoral, this period was characterized by a single nationwide referendum. The referendum topic (Law on Changes and Amendments to the Law on Marriage and Family Relations) attracted attention throughout 2015 and caused large-scale polarization in both social and political arenas. A similar response was observed with the refugee/migrant crisis, when the country's center-right political forces organized protests after several hundred thousand refugees had crossed the Slovenian border via the Balkan route in autumn of 2015. Amendments passed in the National Assembly in March 2015 redefined marriage (i.e., marriage was no longer defined as a union between a man and a woman but as a union between two consenting adults), allowing same-sex marriages and granted same-sex couples the right to adopt children. In a subsequently held referendum, the "anti" camp succeeded in preventing the law's enforcement; 63.5% of voters opposed the amendments, and at least one-fifth of all eligible voters voted against it (23%). Though, turnout was only 36.4%. Both, the referendum and the refugee/migrant crisis relate to the well-known libertarian-authoritarian cleavage in Slovenia; as such, their resultant large-scale polarization in society and in politics comes as no surprise.

Some other developments have also triggered sharp debates in Slovenian society and politics, including the third wave of privatization. Additionally, debates linked to personnel policy attracted attention. These primarily related to Slovenian Sovereign Holding, which occupies the most prominent role in managing the sale of state-owned assets from the 2013 list of 15 companies for privatization, and the Bank Assets Management Company, the "Bad Bank," a government-owned company tasked with restructuring systemically important banks facing serious solvency and liquidity problems in 2013. Particularly in this regard, the biggest governmental party, the Modern Center Party (SMC, originally the party of Miro Cerar), faced problems assuring the high ethical

standards that promised during the 2014 election campaign. Public sensitivity to political ethics has developed substantially in recent years, most significantly toward politicians' misdeeds (in legal or ethical risk terms). Sharp debates were also held on Croatia's withdrawal from the arbitration agreement on the border dispute, and reforms of large social subsystems (most notably the health care system). Despite all these, satisfaction with and trust in democracy and Slovenia's chief political institutions have improved somewhat when compared to 2013.

In winter 2012/2013, Slovenia was hit by a wave of protests (some of which turned violent) against the perceived lack of responsiveness from politicians, their corruption and the unethical nature of politics in general. In response to these events, in 2016 the National Assembly passed a law to enable citizens to replace or recall mayors during their terms. However, the decision was highly controversial, and the National Council decided to place a suspensive veto on the law. Under the constitution, a majority of members of parliament can override this veto, but no such majority was guaranteed at the time of the second assembly vote in January 2017. The period under investigation was marked also by events related to a verdict for former Prime Minister Janša of the Slovenian Democratic Party (SDS) during the so-called Patria affair. In 2013, the Ljubljana District Court sentenced Janša to two years in prison for soliciting commissions from a Finnish firm during his first term (2004-2008), but the Constitutional Court repealed the case in April 2015 and ordered a retrial. In September 2015, a new judge declared a "lapse of time," meaning the case will never be retried. Some important developments also affected media structure during this time. First, in 2015, a new media house, Nova 24TV, was established with the support of the SDS. Second, financial management company FMR, owner of the Slovenian transnational industrial company Kolektor, bought the largest daily newspaper, the Delo.

History and Characteristics of Transformation

The first multiparty elections in Slovenia in half a century took place in April 1990, with approximately 20 political parties in contention. These elections signaled major change within the country – namely the establishment of Slovenia as an independent country for the first time in its history – and the beginning of political and economic transformation. Before the 1990 elections, seven non-communist parties united to form the Demos coalition, which controlled the majority of the 240 seats in the three-chamber parliament. In 1991, Slovenia formally declared independence from Yugoslavia and adopted a new constitution, which introduced a parliamentary political system with a formally weak president position. The new Slovenian parliament became formally bicameral, consisting of the National Assembly (the lower house) and the National Council (the upper house, with representatives of local and functional interests). The latter, however, was given relatively limited powers, the most important being suspensive veto.

Milan Kučan, the erstwhile head of the League of Communists of Slovenia was elected president during the first presidential elections and remained until 2002. Another major politician of the time was Janez Drnovšek, former member of the Presidency of Socialist Yugoslavia and its president for a year, who later became leader of the Liberal Democracy of Slovenia (LDS), the largest

political party from 1992 to 2004. Drnovšek served as prime minister for 10 years (1992-2002) and formed ideologically heterogeneous coalitions, and from 2002 to 2007 was president of Slovenia. Lojze Peterle, leader of the Christian Democratic Party (a party in the Demos coalition), served as prime minister from 1990 to 1992.

Since the 2004 elections, Slovenia's governments have alternated between the center-right and center-left. Two politicians bear mentions here: Janez Janša (leader of the SDS since 1993 and prime minister in 2004-2008 and 2012-2013) and Borut Pahor (leader of the Social Democrats in 1997-2012, prime minister in 2008-2011 and president of Slovenia since 2012). In recent years, Karel Erjavec, a leader of the single-issue Democratic Party of Retired Persons of Slovenia (DeSUS), has grown in political importance. Unlike those in other countries, Slovenia's single-issue party, which competed on its own for the first time in the 1996 elections, has continually participated in the country's governments. Over time, the party's position has shifted from a supplementary role to a more decisive one in forming both center-left and center-right coalitions.

The Slovenian party system has experienced increasing electoral volatility in recent years, despite being described as one of the most stable systems in central and eastern Europe since its transition. With the 2011 elections, a new subsystem – or perhaps even a new system entirely – emerged, in which not only do established parties lose electoral support with the appearance of new parties, but newcomers also lose out to even newer parties. In 2011, two new parties, Positive Slovenia (PS) with Zoran Janković and the Civic List (DL) with Gregor Virant cumulatively won 37% of the vote. This pattern was seen again in 2014 when the newly formed SMC won 35% of the votes. Two other newcomers received cumulatively more than 10% (the United Left coalition 6% and Alliance of Alenka Bratušek 4.4%).

The Green-Alternative-Libertarian/Traditional-Authoritarian-Nationalist (GAL/TAN) dimension of political cleavage has been the most important in Slovenia and has led to structured, inter-party competition as well as sharp divisions within society. This kind of cleavage has some roots in the Second World War (e.g., Partisans versus the Home Guard or opponents of the occupation forces versus collaborators) and can be seen also in attitudes toward the country's socialist past. Socio-economics have entered the cleavage system lately due to gradual economic transition and changes in the previously clear demand of the population to preserve the welfare state, for which all parliamentary parties had until 2004 advocated similar social-democratic and socioeconomic policies. This situation changed as a result of the 2004 elections. Compounded by Slovenia's financial crisis in 2009, the cleavage between socio-democratic and neo-liberal economic policies has become more prominent. Most Slovene parties have moved toward the economic right to at least a slight degree, with the parliamentary United Left coalition as the most visible opponent of neo-liberal economic policies.

To commence its economic transition, Slovenia took its first step toward privatization in 1992. Deviating from the general pattern exhibited by Central Eastern European countries, Slovenia introduced a system of privatization that strongly supported internal buy-outs. In this system, all key players – the state, workers and managers – were included in the redistribution of formerly social property. Later, when workers sold most of their shares, it became evident that the managers and state benefited the most from the privatization process, which led to the economic

empowerment of the existing elites. Between 2004 and 2008, Janša's government responded to this by announcing radical privatization, which was also in line with the more conservative economic position of the SDS. In this situation, many managers felt that their best option was to become owners of the companies they managed. A massive wave of managerial company buy-outs ensued. However, these buy-outs were financed by loans. This second wave of privatization also had harmful consequences for the Slovenian banking system, which ultimately had to be saved by the taxpayers in 2013. Many such privatization attempts have come under police and judicial investigation for suspicious practices, and several tycoons recently were found guilty and sent to prison. The third wave of privatization began with the 2009 economic crisis and under economic and political pressures from the European Union (EU), which in 2013 led the government under Alenka Bratušek (PS) to prepare a list of 15 companies for privatization. Many companies have since been added to the third privatization wave via the Bank Assets Management Company, a government-owned company tasked with restructuring systemically important banks facing serious solvency and liquidity problems mainly due to generous loans granted to the managers involved in the 2004 to 2008 privatization wave.

Many of these developments, along with the government's inability to fight the economic crisis and increasing perceptions of systemic corruption, have caused trust in political institutions and Slovenia's democratic arrangement to collapse. These circumstances not only contributed to high levels of support for new parties in parliamentary elections and non-partisan candidates in local elections, but also to record-low voter turnout in the 2014 parliamentary elections (51%) and European Parliament (EP) elections (24%).

Slovenia became an EU and NATO member in 2004, entered the European Monetary Union (EMU) and the Schengen Zone in 2007 and became a full member of the Organization for Economic Cooperation and Development (OECD) in 2010.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

In Slovenia, there is no competition with the state's monopoly on the use of force relating to guerrillas, mafia and territorial enclaves. Following independence, a small part of Slovenia's border with the Republic of Croatia remained in dispute, which occasionally led to incidents between the countries' police forces.

Question
Score

Monopoly on the
use of force
10



All major groups in Slovenian society accept and support the nation-state as legitimate. Two autochthonous national minorities, Hungarian and Italian, enjoy special protection, including in terms of political representation. The constitution guarantees representation of these two minorities in the National Assembly (each group has one reserved seat) and in several municipal councils (in three of 212 municipalities). The law on self-governance since 2002 has stipulated that, in municipalities where the Roma population is autochthonous (20 of 212 municipalities), it has reserved seats in local councils.

State identity
10



In contrast, citizens from former Yugoslavian nations in Slovenia (approximately 200,000) are treated as non-autochthonous minorities and, therefore, are not granted any special status. Although the National Assembly in 2010 passed the Declaration on the Situation of National Communities from the Former Yugoslavia, which formally expressed the Slovenian state's willingness to formally regulate the collective rights of these groups, no progress in this regard has been made.

Slovenia is constitutionally defined as a secular state, but with constitutionally guaranteed freedom of conscience, including religious beliefs. 48 churches and religious communities were formally registered as of January 2017. In the period between 2015 and 2017, one community was deleted from the register.

The constitution assures the equality of all religious communities. Due to historical and cultural reasons, the majority of Slovenians identify as Roman Catholics. The 2002 census was the last time religious affiliation was included in official statistical data, at which time 58% declared themselves members of the Catholic Church; the latest available data from the Church itself reported that 74% identified as Catholic as of the end of 2014. With such widespread influence, the Roman Catholic Church's indirect role and presence in social subsystems, such as education, health care and welfare organizations, has been growing steadily since 1990 and was observable in political activities in the 2015 to 2017 period. Notably, the Slovenian Catholic Church was very active in supporting the No camp (against the introduction of the Law on Changes and Amendments to the Law on Marriage and Family Relations) during the 2015 referendum. Its leader spoke against the law saying its attempt to redefine family would undermine the foundations on which the church and society stood.

Still, the state does not finance religious communities; it may only financially support the activities of religious communities which are beneficial for society in general. However, a law on denationalization in the early 1990s entitled the Catholic Church to restitution for expropriated property (including feudal property). This demonstrates how the church has become an important economic actor and established its own financial structures. However, the 2010 collapse of the Archdiocese of Maribor's financial empire and its investments occurred as the consequence of the Catholic Church's active involvement in the second step of privatization and all its outcomes. At the time, two church financial management companies were responsible for nearly one-third of bad debts in Slovenia.

The Slovenian state has a differentiated administrative structure, which provides all basic public services throughout the country. Slovenia has 212 municipalities, with no second levels (e.g., regions, provinces) between local self-government and national level. Some functions of basic administration, such as water supply and waste management centers, have been decentralized from the state to municipalities. This appears to be an effective system, as 99% of the population has access to adequate sanitation facilities (any remaining problems in this regard are within the Roma settlements), and 100% of the population has access to improved water sources. To further decentralize the state, Slovenia also has 58 administration units responsible for fulfilling all the administration tasks of the state, except for those within the jurisdiction of the municipalities. The state has no difficulty in ensuring law, order and jurisdiction throughout its territory.

No interference of religious dogmas

8



1

Basic administration

10



1

2 | Political Participation

In Slovenia, elections are regularly conducted on national (parliamentary with four-year term and presidential with five-year term elections), local (elections of mayors and local representative bodies with four-year terms) and European (European Parliament) levels. Elections in Slovenia are held on Sundays or another day free of work. Voter registration in Slovenia is automatic; there is no need for voters to undergo a special registration procedure. When citizens turn 18 years old, they receive both passive and active voting rights. There are many polling stations throughout the country, and voting is also routinely organized in hospitals, prisons, homes for the elderly and within the armed forces. Voters may also ask a commission in advance to cast a vote at home (mobile polling stations). In addition, voting abroad is possible via either the post or Slovenia's diplomatic consular missions. Voting a few days before election day is also permitted. The State Election Commission and its office perform professional, administrative and technical tasks related to elections, serving as the electoral management body in Slovenia.

Polling procedures and vote counting, as well as results verification and complaint resolution, are conducted in a transparent, impartial and appropriate manner. The only significant public complaint regarding Slovenia's free and fair elections since independence was made by the SDS in 2014. The party's poor electoral result of 21% in the parliamentary elections that year, along with its leader's imprisonment and conviction for taking payment from a Finnish defense contractor in the Patria affair only a few weeks before the elections, prompted the party to claim that the elections were not legitimate. No other party (17 candidate lists competed) expressed any doubts about the voting results. It is more common for non-parliamentary parties to voice dissatisfaction with their access to media, especially television. Public television is constrained by laws obliging it to give all competing candidate lists the possibility to participate in debates. Parliamentary parties, however, receive positive discrimination in the form of more airtime. Commercial television is free to choose which parties to invite to debates, as well as how to allocate time among them. Commercial television, therefore, is more influenced by public opinion polls in deciding which parties to invite to pre-election debates.

In independent Slovenia, a proportional representation (PR) system with a 4% threshold (since 2000) and eight constituencies, each further divided into 11 sub-constituencies, has been used for parliamentary elections. This system assures high proportionality between received support and the percentage of seats in the National Assembly. Although reforming the electoral system has been on the agenda for two decades, only small changes have been made. It seems that the proposal with the greatest party support – though not enough for a two-thirds majority needed to introduce changes – is to retain the PR system and introduce preferential voting (it is possible to cast a preferential vote during elections to local representative bodies and

Free and fair elections

10



1

European levels) and eliminate second-layer-constituencies (sub-constituencies). However, there have also been proposals to more radically change the electoral system; the SDS has called several times to introduce a two-round electoral system.

Democratically elected political representatives have the effective power to govern. Slovenia has no military, clergy or political groups that would act as veto powers undermining democratic procedures without questioning the system.

Effective power to govern

10



The Slovenian constitution ensures the right to freely associate and assemble, including in political and other groups. The government uses transparent, non-discriminatory criteria to evaluate requests for permits to associate and assemble.

Association / assembly rights

10



Contrary to the protest movement in the winter of 2012/2013, and regular protests held in 2013 and 2014 against the courts that found SDS leader Janša guilty of corruption in the Patria affair, only small protests and gatherings were recorded for most of 2015 to 2017. These included protests against the Comprehensive Trade Agreement (CETA) and the Transatlantic Trade and Investment Partnership (TTIP) and demonstrations by several trade unions. Two larger events were notable exceptions, however. First, especially in the winter of 2016, there were several protests against the proposed opening of refugee/migrant centers (even though most refugees/migrants during the large wave of autumn of 2015 merely passed through Slovenia). Several parties were involved in these protests, namely the center-right parties (SDS, New Slovenia and the non-parliamentary Slovenian People's Party). They used the rising refugee/migrant crisis to mobilize the population on the grounds of patriotism and protection of the Slovenian way of life. In contrast, the United Left and some NGOs showed clear support for a more liberal attitude toward the issue. The second event took place in the summer of 2016, when a multiple-day gathering of workers and inhabitants of the Primorska region blocked the entrance of Port of Koper to protest the government over the new supervisors in the company and against what many believed to be plans to privatize Slovenia's only port.

The constitution guarantees the freedom of expression and freedom of the press. The media operates mostly without direct political interference. However, journalist associations have exposed that media freedoms have regressed in the past 20 years, especially after economic pressures intensified during and after the global crisis. During this time, journalists' existing poor working conditions (low salaries, availability of only part-time or temporary work to the extent that one-third of journalists were denied job security) worsened, making them more vulnerable to pressure and self-censorship.

Freedom of expression

8



Three events in the 2015 to 2017 period illustrate additional pressures on journalists in Slovenia. In 2015, a Delo newspaper journalist was put on trial on accusations of publishing classified information. In 2011, she had written several stories linking men associated with the neo-Nazi group Blood and Honor to the SDS; she was later accused of having illegally acquired her information about the extreme group from files gathered by the Slovenian Intelligence and Security Agency. During trial, the state prosecutor dropped all charges against the journalist. The case led to some regulatory changes, including modifications to the criminal code to ensure exemption from prosecution for the collection, possession and publication of classified information if, according to the circumstances of the case, the public interest served in revealing the information overrides the interest in keeping it secret. The exemption does not apply in cases in which such publication endangers the life of one or more persons.

The second event occurred in 2015 when a public television journalist was interrogated over the alleged publication of classified intelligence information in his 2014 broadcast, “Coalition of Hate,” on extreme groups in Slovenia. No judicial procedure followed this accusation. However, the journalist was verbally attacked by SDS leader Janša, who described the journalist as a “potential terrorist” in a tweet addressed to the CIA. Ultimately, the journalist left public television, citing disappointment in a lack of management support in these events.

In the third event, SDS leader Janša posted sexist insults on Twitter about a female reporter and female program director for public television in 2016. The former prime minister tweeted that the two women were prostituting themselves on Facebook for 30 and 35 euros, respectively. The media supported both women, who decided to sue Janša. The court found him guilty of offense and he was made to pay compensation.

The period between 2015 and 2017 witnessed some important criticism of media structures, primarily the concentration of ownership (e.g., radio stations) and the complaint that media activity was not the primary activity of media owners. In 2015, ownership structure changed at Delo, the country’s biggest daily newspaper. As in the case of the third-largest daily newspaper Večer, which was bought in 2014 for €1 million by a company established only few weeks earlier, Delo was bought by Slovenian transnational industrial company with no prior activity in media for only €7 million (Delo had been bought for €5 million 10 years prior). Critical views of media pluralism have been constant, though they arise most extensively from the center-right. In May 2015, SDS leader declared the need for a “normal” media structure in Slovenia and announced the establishment of a new media house, Nova 24TV, with the support of the SDS. The first director of the new media house was the former secretary of the SDS’s parliamentary party group, and some politicians close to the SDS (and a prominent clergyman in the hierarchy of the Slovene Catholic church) were included in its managing body. One political analyst announced that

although Nova 24TV was politically profiled, it would not be the media house of the party.

Given the adverse developments in Slovenian media and its structures, the deterioration of the country's ranking on the World Press Freedom Index comes as no surprise. In 2014, Slovenia ranked 24 on the index with 20.38, while in 2016 it fell to 40 with an index of 22.26.

3 | Rule of Law

In the Slovenian parliamentary system, power is divided among the legislative, executive and judicial branches so as to constitutionally ensure a set of checks and balances. This system has, in general, worked well. The executive has increased its power vis-à-vis the legislature, among others, because the EU policy process provides the executive with informational advantages and because the governing coalition has been largely able to rely on a stable majority in parliament. The National Council, the second chamber of parliament, has acted as a check on lawmaking by using its suspensive veto right three times in 2015. Independent courts and the Constitutional Court provide a judicial review of legislation and administrative actions.

The judiciary is generally free from unconstitutional intervention from other institutions and private interests. There is a system of courts established throughout the country. Judges are independent, hold a permanent mandate and are elected by the National Assembly after being nominated by the Judicial Council, an independent and autonomous body. There are mechanisms for the judicial review of legislative and executive acts which culminate with the Constitutional Court.

Many of the privatization attempts that have taken place since 2004 were under police and judicial investigation due to suspicious practices. In public, these attempts were exposed and labeled as a problem of misbehavior among different state structures, politicians, wealthy individuals and individuals connected with politicians – some of whom had been involved in corruption or corruption-risking behaviors – together with the Catholic Church, which tried to privatize several companies with the help of generous bank loans, but incurred enormous debts. In many cases, wrongdoings or illegal practices were not proven in court. This fostered the feeling that the Slovenian judiciary was not able to meet the public's expectations when some of the major cases were finally brought to trial. What resulted was a feeling of two rules of law – one for ordinary people and one for influential people and politicians. As indicated by public opinion poll, in 2013 and 2015 more than 50% of respondents did not trust the courts and perception of justice was the most important determinant of (dis)trust.

Given these results, the Supreme Court and the government obliged themselves to prepare reforms to the justice administration. The Minister of Justice has prepared some reforms in the last two years, among them being an idea to establish greater

Separation of powers

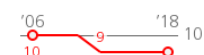
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1

Independent judiciary

9



1

independence the Judicial Council. In the proposed system, it would be empowered to not only nominate, but elect judges. Some other changes to be introduced include activities to increase the responsibility of judges, a move to make proceedings public and measures to even out the load placed on judges across the country.

The judicial branch came under considerable criticism in 2013 and 2014, mainly by supporters of the SDS and its leader, due to Janša's conviction in the Patria affair. After the affair was closed due to "lapse of time," the fierce criticism died away but did not disappear completely.

Several of the judiciary's highest posts will need to be filled in 2017. These include the president of the Supreme Court and the state prosecutor general, who are elected by the National Assembly. Procedures for selection began in 2016. Due to public and political criticism of the judiciary upon first tender for the president of the Supreme Court, no single candidate arose for the post. Over the next two rounds, two candidates surfaced. The terms of two judges of the Constitutional Court (comprised of nine judges in total) ended in 2016, and in 2017 four new judges have to be appointed to the court. These processes have attracted much public and political attention. Some political parties were critical of the selection procedure of the two new judges of the Constitutional Court in 2016, claiming their nomination and election in the parliament was part of the political trade between the biggest governmental and opposition parties.

Office holders who break the law or engage in corruption are investigated or are placed under police suspicion for abuse of power. Some are then prosecuted under the established law or investigated by the Commission for the Prevention of Corruption. Several office holders have been involved in such procedures. In 2015, these included two former prime ministers (Janša and Bratušek) and municipal mayors (e.g., of Ljubljana, Žužemberk). In the National Assembly, abuses by office holders are regularly investigated via a parliamentary commission of inquiry. In 2016, three such commissions were put to work: the commission of inquiry to identify abuses in the Slovenian banking system and determine the causes and responsibilities of the now second rehabilitation of the banking system since independence; the commission of inquiry to identify abuses in the Slovenian health care system concerning the sale and purchase of stents; and the commission of inquiry to determine the political responsibility of holders of public office with regard to investment in unit six of the Šoštanj Thermal Power Plan. All of these cases attracted a great deal of publicity and wide media coverage.

Civil rights are guaranteed by the constitution and respected by state institutions. However, human rights are sometimes violated, and certain institutions are responsible for prosecuting such violations. In 2015 to 2017, the allowance to issue long delays in trials was reduced significantly. The importance of this issue is evident in a report from the European Court of Human Rights stating that until 2014, most of

Prosecution of
office abuse

9



1

Civil rights

9

the 304 human rights violations against Slovenia concerned the right to trial within a reasonable time and the right to effective legal remedy.

At the end of 2016 and the start of 2017, there was a heated discussion in the National Assembly and among the public on amendments to the law on aliens that would allow Slovenia to shut its borders to refugees in the event of extraordinary circumstances. The triggering of the special system would require the Ministry of Internal Affairs to confirm that migrants had become a threat to law and order or internal security. The ministry would then ask the government to petition the assembly to adopt special measures, and it would decide on such a motion with a majority of all parliamentarians (the government originally proposed a two-thirds majority, but absolute majority of MPs was introduced due to the center-right opposition's demands). According to the changes passed in the assembly, Slovenia could refuse to admit aliens who did not meet entry criteria and expel those who had already entered the country unlawfully. If such aliens expressed an intent to request asylum, police would identify them. This requirement was supposed to address concerns about the lack of individual treatment of asylum requests expressed by many human rights groups, including international organizations such as UNHCR and the Council of Europe. The latter in particular objected to the idea of denying asylum seekers any kind of individual processing of their claims. The law sharply divided the biggest governmental party (SMC) that has positioned itself as a liberal party committed to civil rights. The prime minister even demanded the Speaker of the Assembly (SMC) resign from the deputy leader position in the party because of his objection to the law.



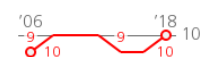
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4 | Stability of Democratic Institutions

In Slovenia, democratic institutions are established by the constitution. From 2015 to 2017, these institutions performed efficiently and effectively on the national level. For two decades, Slovenia pursued a rather liberal approach to the regulation of referendum initiatives and referendums in general in which 40,000 voters or, alternatively, one-third of all members of parliament or the National Council could demand that a referendum be called. There were no restrictions on what issues could be put to a referendum and no regulation on voter turnout. A referendum would be valid with any level of turnout, and only those who cast votes would decide the issue. Politicians and commentators have issued several public warnings to say that such generous referendum regulation, compounded by the existence of more than 20 nationwide referendums since 1994, is in essence a veto structure with the power to inhibit democratically elected politicians' ability to govern effectively.

Performance of democratic institutions

10



1

Since 2013, provisions on referendums have become more rigorous; a referendum may now be demanded only by 40,000 voters. A referendum may reverse legislation if voted against by the majority of valid ballots, but only if at least one-fifth of all eligible voters voted against it. The amendments also restrict the range of issues for

which a referendum may be held. In the period under investigation, only one referendum was held. However, there were repeated attempts in 2016 to abuse the referendum system. For example, the Slovenian migrant worker trade union expressed its dissatisfaction with the taxation of daily cross-border commuters. After being unsuccessful in negotiations with the government, the union lodged a number of referendum requests. These requests did not touch on the problems of daily migrants, but rather used the referendum process itself to limit the ability of parliament and the government to lead. The Speaker of the National Assembly did not set a deadline for the collection of signatures in support of the referendums proposed, and the Constitutional Court threw out the referendum complaints to support the decision taken by the speaker.

The National Council, as the upper house of the parliament, generally has limited powers but can issue a suspensive veto on legislation passed by the National Assembly. Such vetoes can be overridden by an absolute majority of all parliamentarians. This is indeed a regular practice. In 2015, the Council issued three suspensive vetoes, but all were overridden.

At the local level, some problems in ensuring effective and efficient municipal performance were linked to inadequate financing from the state budget (as claimed by mayors). Such claims illuminated discrepancies between municipalities' and the Ministry of Finance's calculations regarding systemic salary raises for public employees to be paid by municipalities in 2016 and 2017.

All relevant political and social actors in Slovenia accept its democratic institutions as legitimate. However, just as was done several years ago, in 2015 the leader of the SDS again voiced the need to introduce a second republic. This would involve introducing some institutional changes within the democratic system. According to the SDS leader, a broader alliance similar to that seen in Demos at the beginning of the democratic transition should be formed. He proposed that both the center-right parliamentary parties (SDS and NSi) and the non-parliamentary SLS could participate in the formation of Demos 2.0. Another part of the plan to establish the second republic was the leader's call to establish a "normal" media structure in Slovenia through the establishment of a new media house, Nova 24TV, with the support of the SDS.

5 | Political and Social Integration

The Slovenian party system consists of several parliamentary parties, the exact number of which has varied from seven to eight since 1992. From 1990 to 2011, the party system achieved a relatively high level of stability without any major electoral engineering; since then, changes have appeared under the same rules. With the 2011 elections, a new system emerged in which it was not only established parties who lose electoral support to new parties; newcomers also incurred significant losses to

Commitment to democratic institutions

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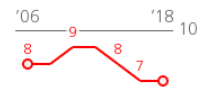


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Party system

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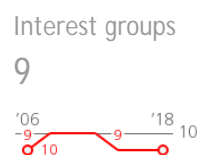
even newer parties. The 2004 elections represented the lowest point in terms of electoral volatility, but also represented a critical juncture; volatility began increasing again in 2008 and 2011 (34.4% and 40.0%, respectively), reaching its highest value at 56.7% in the 2014 elections.



These trends can be explained by certain recent developments, including corruption scandals, dissatisfaction with the governments' ineffectiveness at dealing with crises, low levels of trust in the main political institutions, perceived lack of accountability and historical distrust toward parties and the weak roots of political parties in society. Though comparatively, Slovenian political parties do not have low membership; the latest data on membership density was 4.5% in 2013 according to public opinion polls. In local elections across 212 municipalities in 2014, 115 nonpartisan mayors were elected and nonpartisan lists won nearly 30% of the votes in municipal councils, evidence that the parties were not socially well-rooted. It is easy to form a party in Slovenia, as the process requires only a program, statutes and the signatures of 200 citizens. In January 2017, 85 parties were registered in the country (six fewer than in January 2015).

The structure of cleavages in Slovenia has followed widely known patterns, although economic cleavage has been introduced to a larger extent since the 2004 elections. The libertarian-authoritarian cleavage has consistently been the most important in Slovenia, as it has been interwoven with other cleavages (communism-anticommunism, state-church, modernism-traditionalism, center-periphery and urban-rural). Given the importance of the libertarian-authoritarian cleavage in Slovenia, the re-traditionalization of society and the cleavages overlap in 2015, the refugee/migrant crisis was an important point of contention between Slovenian parties, and coupled with the absence of politicians to link the different party poles (as Drnovšek did in the 1990s), resulted in more extreme polarization. The discussion and events surrounding the amendments to the law on aliens at the end of 2016 and in early 2017 in some part indicate a wish by the government to adapt to center-right intensification of voter mobilization on the grounds of patriotism and protection of the Slovenian way of life.

A broad range of interest groups operate at the national and local levels and, despite differences, are able to cooperate quite frequently. The most active and powerful are economic interest groups (employer and employee organizations) and an interest group of retired people. Fides, a trade union of doctors and dentists of Slovenia, can be included among groups with strong influence.



Available resources (full-time employees, budget, participation by former politicians in their leadership) are important determinants of interest groups' power, and many of the groups struggle financially. Still, resources are not the only determinant of power, as was proven in 2015 when the small environmental interest group Eko Krog (Eco Circle) joined with local residents around Trbovlje, a region that had been fighting the Lafarge plant's burning of hazardous waste and campaigning on the issue

of clean air for over 10 years, won against the local and national administration and the transnational company. The Lafarge-owned cement plant was ordered to stop operations after the discovery that the plant lacked the necessary environmental permits. In 2016, several individuals, including the leader of Eko Krog, won a legal suit against a group of major industrial companies, resulting in the companies' having to pay compensation for decades-long pollution. Similarly, after many activities of organized local initiative in July 2015 the European Court of Justice upheld the European Commission in a lawsuit against Slovenia, saying that Slovenia is in breach of European legislation on waste. It found that Slovenia has not in a timely manner removed illegal waste in Bukovžlak near Celje and excavation of hazardous substances in the area of the old zinc factory. Economic interest groups have enjoyed privileged access to policy-making processes via the Economic and Social Council, which includes representatives of employers, employees and the government. After a several-year break (the last pact expired in 2009), a new social pact was signed in 2015. Trade unions, particularly those in the public sector, proved to be very influential actors in mobilizing masses to organize broader public protests. In addition, an umbrella organization representing young people's interests, the Youth Council of Slovenia, has held special status with policymakers at national and local levels. When dealing with policies that affect young people, legislators must consult the Youth Council.

While only slightly more than 10% of Slovenes in 2011 were satisfied with the performance of democracy, over 75% rated democracy itself as good or very good. An equal number also stated (according to the last available measurement) it is a good or very good idea to have experts govern. Belief in the technocracy was a strong critique of politicians, governments and political parties, though on the other hand "only" approximately 20% of Slovenes desired stronger leadership.

According to Slovenian Public Opinion Poll, in 2013 only 6% of respondents expressed satisfaction with democracy, and even 57% of them were greatly dissatisfied. In 2016, this percentage was 10% and 45% respectively. Parties were also in 2015 the least trusted political institution since 70% of respondents did not trust them at all, while two years earlier this share was even higher (74%). Also trust in the National Assembly showed some improvements in 2015 (60% of respondents did not trust it at all) in comparison with 2013 (67%). The situation was similar with trust in the government – in 2013 60% of respondents did not trust it at all, while in 2015 this share was 50%.

The number of active NGOs in Slovenia has continually increased; the nearly 26,000 NGOs in 2015 rose to 27,401 in January 2017. Among them, the biggest share represented associations (88%). Of the NGOs active in 2014, approximately 4,000 were involved in culture, 2,500 were environmental and more than 2,000 were in the field of social affairs.

Approval of
democracy

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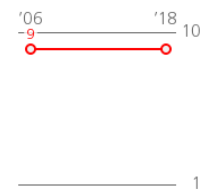
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Social capital

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In 2015, 1,037 volunteer organizations formally enrolled 96,822 volunteers. The most voluntary working hours were performed in social activity with 66% of all volunteer hours, followed by education (8%) and human rights and freedoms (6%). Most of these hours were performed by volunteers older than 60 years (68%).

According to 2013 Slovenian Public Opinion Poll data, 20% respondents thought that people can always be trusted, and in 2016 this share increased to 24%.



II. Economic Transformation

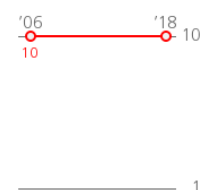
6 | Level of Socioeconomic Development

The economic and financial crisis hit Slovenia badly, as has been confirmed by statistical data. However, in the last two years some improvements were recorded; 14.5% of the Slovene population was at risk of poverty in 2013, but in 2015 the rate was 14.3% (13% among men and 15.6% among women). The highest rates were recorded among people older than 75 (21.1%) and 16-29-year-olds (14.4%). As it did in the past, the risk of poverty among the different statistical regions varied in 2015 from 10.6% in the west and south to 16.8% in the east and north of Slovenia. The risk of social exclusion decreased from 20.4% in 2013 to 19.2% in 2015. Slovenia still is among the countries with the lowest income inequality according to the Gini coefficient (23.8% in 2010 and 24.4% in 2013; 25% in 2014 and 24.5% in 2015). In Slovenia, the level of exclusion is not based on religion, gender or ethnicity. Several other data sources confirm Slovenia's relatively low socioeconomic barriers; namely, the Human Development Index (0.880 in 2014, consistent with previous years) and the Gender Inequality Index (0.016 in 2014).

Question
Score

Socioeconomic
barriers

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Economic indicators		2013	2014	2015	2016
GDP	\$ M	47688.6	49530.1	42776.7	43990.6
GDP growth	%	-1.1	3.1	2.3	2.5
Inflation (CPI)	%	1.8	0.2	-0.5	-0.1
Unemployment	%	10.1	9.7	9.0	8.7

Economic indicators		2013	2014	2015	2016
Foreign direct investment	% of GDP	0.2	2.1	3.9	2.5
Export growth	%	3.1	5.7	5.6	5.9
Import growth	%	2.1	4.2	4.6	6.2
Current account balance	\$ M	2295.2	3086.1	2216.0	2991.2
Public debt	% of GDP	70.4	80.3	82.6	78.4
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Net lending/borrowing	% of GDP	-14.9	-4.9	-3.0	-
Tax revenue	% of GDP	18.2	18.3	18.6	-
Government consumption	% of GDP	19.7	18.7	18.7	18.9
Public education spending	% of GDP	5.5	-	-	-
Public health spending	% of GDP	6.7	6.6	-	-
R&D expenditure	% of GDP	2.6	2.4	2.2	-
Military expenditure	% of GDP	1.1	1.0	0.9	0.9

Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

The Slovene state in general complies with EU regulations governing the distribution of state subsidies to ensure market-based competition. In the country, the freedom to launch and withdraw investments is ensured, and there is no discrimination based on ownership and size. Contrary to the first two waves of privatization, during the third wave, many companies were privatized by foreign owners.

The government's financial administration launched several actions in recent years to fight the gray economy, the scope of which has been estimated in varying degrees. While the Slovenian Statistical Office estimated it to be between 8-12%, some international researchers estimated it at approximately 24% of the country's GDP. Prices are fully liberalized and the currency (euro) is fully convertible. Slovenia is fully integrated into the EU single market.

Market-based competition

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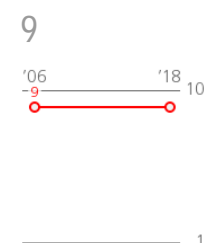
Slovenia has in place adequate laws and institutions to deal with monopolization and concentration and to establish principles of non-discrimination. The institution dealing with these issues is the state Competition Protection Agency. Several years ago, the publicity of its work was high due to several publicly exposed cases, while in 2015 the agency continued its work with lower public intensity. Still, the agency dealt with 31 cases of concentration (among them were questions of concentration in banks, telecommunications and the brewery industry) and 16 cases of competition and monopoly. In 2014, the number of cases was very similar. Also in 2015 and 2016, some enterprises in financial problems were under investigation due to receiving state aid, which is not allowed (especially from the perspective of membership in the EU and possible violation of the EU internal market).

Slovenia is a member of the EU and follows its trade policy. Since 1995, Slovenia has also been a member of the WTO and abided by its principles. Consequently, Slovenia has a relatively liberal trade system, and on the formal level, there is no state intervention in the liberalized market. In 2015, Slovenia's applied average tariff rate was 2.1% (World Bank data). According to World Bank data, foreign trade accounted for an equivalent of 148% of GDP in 2016, indicating a relatively high level of trade integration.

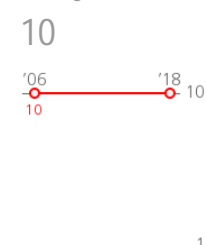
Slovenia's banking system was also an area of heated debate in 2015 to 2017. The sector underwent major changes during this period; at the end of 2016 it consisted of 13 banks (four fewer than in 2013) and three savings banks. From 2013 to 2015, state steps to save the banks created significant changes to the ownership structure of the banking system, resulting in increased state ownership. By 2016, however, some privatization processes had already been conducted. In terms of equity, the ownership structure of the banking sector in 2014 was as follows: non-residents with more than 50% control at 30% (33.3% in 2012); non-residents with less than 50% control at 0.3% (8.7% in 2012); central government at 63% (22.8% in 2012); and other domestic entities at 6.7% (35.2% in 2012). Large banks possessed 56.4% of the market share, foreign banks 35.2% and small banks 8.4%; this is similar to 2012. The net profit of the banks as a percentage of gross income was 10% in 2015; in 2013 it had been -328%. The average return on equity in 2015 was 3.62; in 2014 it was -2.69 and an astonishing -97.3 in 2013. In 2016, non-performing bank loans accounted for 5% of the total sum of loans in the Slovenian banking system, as opposed to 13.3% in 2013. Banks were well capitalized (tier one ratio: 18.4% in 2016). There are effective banking supervision and disclosure rules correspond to international standards.

At present, the largest and most challenging privatization move planned for 2017 is the sale of the 100% state-owned Nova Ljubljanska Banka (NLB), the largest and once one of the best known and respected brands in the country and abroad. The bank's image shrank markedly for Slovenian citizens due to the necessary huge

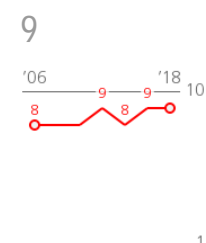
Anti-monopoly policy



Liberalization of foreign trade



Banking system



recapitalization in 2013 from the state budget, as well as abroad (especially in the territory of former Yugoslavia) due to the debt to savers of (old) Ljubljanska Banka. Messages from Slovenian authorities about its privatization have been contradictory, which is unsurprising as privatization plans frequently lead to disputes and pose challenges to the government. Slovenia assured the European Commission that the privatization of NLB would be launched in 2016, but conditions at the time were unfavorable and the country's government wished to extend the deadline. Although, the Ministry of Finance has denied that Slovenia asked the EU for a five-year extension of the sale deadline. There have been calls for smaller Abanka, the third-largest bank, to also be privatized. This bank was established after the restructuring of Slovenia's banking system when Abanka Vipava and Banka Celje merged in 2015.

In April 2016, the sale of Nova Kreditna Banka Maribor (the second largest Slovenian bank) was completed, which was bought by Apollo Global Management. There are some speculations that the same fund also intends to buy Abanka.

8 | Currency and Price Stability

Slovenia is a member of the EMU, so its exchange rate policy is determined by the European Central Bank. The inflation rate was 1.8% in 2013 and 0.2% in 2014, while in 2015 it was -0.5% and 0.1% in 2016.

In 2015 and 2016, Cerar's government followed the mainstream macrostability policy established several years prior. Beginning in 2016, however, significant economic improvements and pressure from trade unions led to the abolition of some of the austerity measures targeting the public sector and its subsystems, as well as welfare state regime. The problem of public debt has continued to increase over the last several years; it was 46.6% of the GDP in 2011, the debt spiked to 80.9% of the GDP in 2014 and continued to climb to 83.1% in 2015. The budget deficit was 1.9% in 2008, 6.3% in 2009 and 5.0% in 2014; the implementation of austerity measures lowered the deficit to 2.7% in 2015. Slovenia was obliged to tackle the problem to comply with European Council recommendations as a member of the Eurozone.

The Cerar government has faced some problems in pursuing the goals of macrostability due to pressures from some public sector trade unions demanding the end of austerity measures and an increase of salaries and other benefits of public officials.

Anti-inflation /
forex policy

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Macrostability

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9 | Private Property

Property rights and the acquisition of property are adequately defined. Property rights are limited solely and rarely by the overriding right of constitutionally defined public interest. According to World Bank data, the number of days needed to register property in Slovenia was stable and high for a long time; for years until 2009 it remained 391 days. Since then it has dropped significantly; registering property required only 112 days in 2010 and was lowered to 50 days in 2016, indicating an efficient lowering of bureaucratic obstacles in this regard.

Private companies are seen as the primary engines of economic production and are given appropriate legal safeguards. It is possible to speak about the three waves of privatization since the start of the transition. The first wave of privatization in the early 1990s let the state retain significant ownership in privatized companies through state-controlled funds. The second wave of privatization in 2004 to 2008 resulted in a fiasco when many managers, with the help of generous loans from banks, tried to privatize companies. In late 2012, the government established Slovenian State Holding to manage state property and decide which companies' shares to sell. In large part because of EU economic and political pressures, in 2013 the government quickly prepared a list of 15 companies to be privatized. At the end of 2014, the state had majority or partial ownership in 107 active companies and in 23 companies which were in liquidation or insolvency. Privatization has been a hot political issue in Slovenia and was an important issue in the most recent parliamentary elections in 2014. Still, only one parliamentary party group (the United Left coalition) strongly opposed privatization, while others remained strongly in favor of it (e.g., the SDS, NSi and also SMC). The SD and DeSUS supported privatization with occasional warnings for caution.

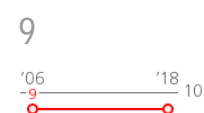
10 | Welfare Regime

Austerity measures adopted to handle the poor fiscal conditions that followed the global economic crisis in 2009 affected the welfare state regime, including social transfers. Though, some major neo-liberal reforms to the welfare state had already been passed during a very favorable economic period in 2004 to 2008 under the center-right government. The center-left 2008 to 2011 government mainly followed the line set by its predecessor. Further deterioration of the economic and fiscal situation led governments to make further reforms. Still, Slovenian Public Opinion Poll clearly indicated consistent support of the welfare state's core values and overwhelming support for state involvement in health care, pensions and unemployment benefits.

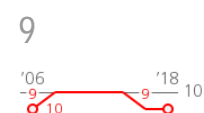
Property rights



Private enterprise



Social safety nets



Expenditure for social protection reached 24.4% of the GDP in 2013, including transfers for retirement benefits, which at 10.3% represented the highest share within the expenditure, followed by a share devoted to illness and health protection (7.5%). The share for unemployment benefits was 0.8%. In mid-2013, 51,000 people were entitled to some form of social assistance, and in mid-2014, this number was almost 56,000. In 2015, on average 53,964 people were entitled to such assistance; 55,937 in January 2016, and 52,087 in August of the same year.

Due to more favorable economic and fiscal conditions in 2016, the most controversial measure taken years ago was changed. The original stipulation that any social assistance received as cash be returned to the state following the death of a recipient or the heir(s) would lose entitlement to the whole heritage had led many recipients to renounce social assistance as they did not want to burden their children.

Despite many changes, the welfare regime still depends heavily on public organizations. In 2014, the share of state contributions toward social protection was 34%. However, the circumstances of recent years have forced NGOs to be more active than in the past and to undertake many different actions to serve as sources of assistance. NGOs became more important in ensuring social safety nets than ever before.

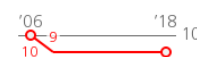
One of the most debated institutions of the welfare state during the 2015 to 2017 period was the health care system. For years, different governments promised to introduce major reforms to the public health care system to prevent its collapse. Although Cerar's government made health care reform one of the highest priorities on its agenda, the first draft of the reform, primarily aimed at reducing wait times for procedures as well as a bill on health care and insurance, was introduced only at the end of 2016. It has sparked many disputes and discussions. Solutions should seek to stabilize the financing system, find sufficient funding for quality services and comprehensive care, and increase solidarity among contribution payers, as additional contributions will depend on the payer's income as opposed to the current flat rate.

Equality of opportunity has been achieved to a large extent. Women and ethnic, religious and other minorities have equal access to education, public office and employment. In 2015, the gross enrollment ratio was 99.3% for primary school, 110.7% for secondary school and 82.9% for tertiary school.

In Slovenia, formal gender equality is not problematic, but some gaps between formal principles and actual practices can be observed. The economic crisis obviously had an impact on the discrepancy between unemployed women and men; in 2013 only 1.3% more women were unemployed than men, but in 2015 the number rose to 2.6%. Still, in 2015 Slovenia boasted the lowest wage gap between genders in the EU; Slovene women are on average paid 3.2% less than men.

Equal opportunity

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In political representative bodies, the inequality of women is still visible, particularly at the local level. After the long-standing limited presence of women in national parliament (with approximately 13% female MPs), the situation changed with the 2011 elections, after a several-year gender quota on candidate lists was introduced. Now, one-third of members of parliament are women.

11 | Economic Performance

From 2015 to 2017, economic data showed improvement after several years of deep crisis. A huge drop in GDP was recorded in 2009 (-7.9%) and only minimal growth in 2010 and 2011, followed by smaller drops again in 2012 and 2013. GDP growth began to register again in 2014 (3.1% in 2014, 2.3% in 2015 and 2016). Slovenia also managed to return to the limits of the Maastricht criteria in terms of budget deficit. 2015 was marked by small deflation (-0.5%), and in 2016 minimal inflation appeared (0.1%). As many companies closed during the economic downturn, unemployment rose from 6.7% in 2008 to 13.5% in 2013; for some time in 2014 it exceeded 14% but fell back to 11.2% in 2016.

After a process of downgrading credit rankings in Slovenia that began in 2011, three rating institutions evaluated the country's credit rankings as much better in 2016. Moody's assigned a Baa3 rank with a positive outlook; Standard and Poor's assigned an A rank with a positive outlook; and Fitch approved an A- with a stable outlook.

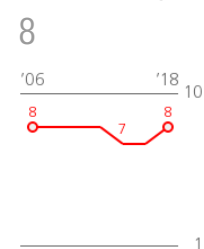
Also in 2016, the export sector was the main engine of economic growth in Slovenia, as it had been in the past. During its first two decades of transition, Slovenia was not very open to foreign direct investment (FDI); this changed in 2015 and 2016. In 2012, FDI represented only 0.1% of GDP, while in 2015 this percentage was 3.9%.

12 | Sustainability

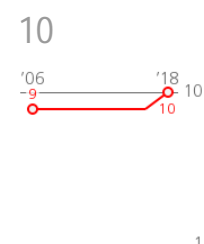
In Slovenia, environmental concerns are considered and appropriate legislation adopted. The Environment Performance Index (EPI) has also improved. In 2014, Slovenia's EPI score was 76.4 and its rank 15, while in 2016 its score was 89 and it was ranked fifth. In 2016, the country had an air quality score of 78.2, water and sanitation score of 97.8, and a biodiversity and habitat score of 100. Slovenia's capital Ljubljana was the European Green Capital in 2016. The advisory company SolAbility, with its Global Index of Sustainability Development, ranked Slovenia sixth in 2016. Slovenia continues to promote renewable energy, and its share in energy consumption in 2015 represented 22%, which was 6% higher than in 2004.

Eco Fund, the Slovenian Environmental Public Fund, was established in 1993 to manage the assets earmarked by Slovenia for the preservation of public interests in environmental protection and to promote development in this field. In 2008, the fund was granted the use of financial mechanisms in addition to soft loans and guarantees, such as grants (non-repayable subsidies) to support environmental investment. It is the only specialized institution in Slovenia that provides financial support for

Output strength



Environmental policy



environmental projects at lower interest rates than prevailing commercial market rates, and it is able to lend for significantly longer periods than commercial banks. The following loan or grant financing programs are available: loans to legal entities (municipalities and/or providers of public utility services, enterprises and other legal entities) and sole traders for investments in environmental infrastructure, environmentally sound technologies and products, energy efficiency, energy saving investments and the use of renewable energy sources; loans to individuals (households) for conversion from fossil fuels to renewable energy sources, energy saving investments, investments in water consumption reduction, connections to sewage systems, small wastewater treatment plants and the replacement of asbestos roofs; grants to individuals (households) for investments in electric cars and for investments in residential buildings (energy efficiency and use of renewable energy sources); grants to legal entities (municipalities and/or providers of public utility services, enterprises and other legal entities) for investments in electric cars and buses for public transport on compressed natural gas or biogas; and grants to municipalities for investments in buildings where public education takes place (e.g., schools, kindergartens and libraries) and are newly constructed as low energy and passive buildings or renovated according to the passive standard. Environmental awareness has increased among citizens.

Slovenia's education policy ensures a nationwide system of education and training, which has resulted in a high level of literacy (99.7%). Slovenia's 2014 United Nations Educational Index score was 0.863, the same as in 2013 and 2012.

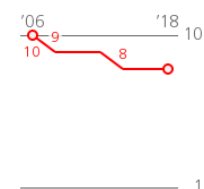
Public expenditure on education from primary through tertiary education as a share of total public expenditure (7.5%) was below the OECD average (11.2%) in 2013, while public expenditure as a share of GDP was 4.5% (close to the OECD average). Slovenia's spending is higher than the OECD average per pupil at the primary level, lower than average at the secondary level and even lower at the tertiary level. The education system is primarily organized as a public service. In 2015, 30% of adults aged 25-65 in Slovenia had achieved tertiary education, but among younger cohorts (ages 25-34) this share was 41%.

With high ranks in international educational achievement tests, the education system fares relatively well by international comparison.

In 2010, Slovenia dedicated 2.06% of its GDP to R&D, rising to 2.4% in 2014. Major cuts to the state research budget prompted important changes to the R&D funding structure. The state contributed 35.3%, and companies 58.4%, of all R&D funds in 2010, but in 2013, the state contributed 26.9%, and companies 63.8%. The share of companies to R&D funds reached 70% in 2015, while state only contributed 20%. The Cerar government has promised several times to prioritize research and innovation, but in reality placed little emphasis on it. It has failed to increase national funds and to raise the share of EU funds devoted to the support of research and development.

Education policy /
R&D

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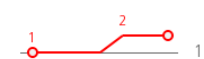
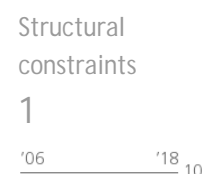
Governance

I. Level of Difficulty

The topic of high structural constraints on governance is not applicable in the context of Slovenia because of the country's low rates of extreme poverty or lack of an educated labor force. In addition, during the period of 2015 to 2017, natural disasters such as floods were not as prevalent as in past years. An aging population jeopardizes the long-term sustainability of public finances.

Civil society enjoys a relatively strong tradition in Slovenia. Most statistics show that Slovenia has among the highest number of civil society organizations per capita in the world, with more than 27,000 NGOs in 2017. Despite this high number, in 2015 there were only 7,300 people employed by these organizations; 92% of the country's NGOs had no formal employees. There is a vibrant civic culture. According to a survey conducted on behalf of the European Bank for Reconstruction and Development (EBRD) in 2016, 26% of citizens were members of one or several civil society organizations. This share was the second highest in East-Central and Southeast Europe. The share of persons who declared that most people can be trusted was at an intermediate level within this region (26% in the EBRD survey).

In 2015 to 2017, there were no violent incidents motivated by social, ethnic or religious differences in Slovenia. Slovene society is highly homogeneous; more than 80% of the population is Slovenian. Slovenia has in recent years faced greater political and social polarization. As mentioned, the libertarian-authoritarian cleavage, which is interwoven with other cleavages, has been the most significant in Slovenia. It sometimes leads to extreme polarization, such as the "division of spirits" during the all-encompassing conflict in Slovenia's pre-WWII era. A referendum on the Law on Changes and Amendments to the Law on Marriage and Family Relations attracted attention throughout 2015 and caused large-scale polarization in both society and politics because of its redefinition of marriage (marriage was no longer defined as a union between a man and a woman, but as a union between two consenting adults; this allowed same-sex marriages and for such couples to adopt children). At the referendum, traditional values prevailed and the law was repealed. Different views regarding the acceptance of refugees/migrants in Slovenia have manifested themselves, among others, in local protests for and against the hosting of refugees/migrants.



II. Governance Performance

14 | Steering Capability

Since the economic and fiscal crisis of 2009, governments have attempted to set and meet economic and fiscal priorities. The most recent two governments of Slovenia tried to respond to the short-term needs of the people as well as their long-term ones, which indicated a level of responsiveness in addition to governmental responsibility. In addition to its clear economic priorities, the government has made more accommodations to avoid potential conflicts (e.g., with trade unions in the public sector, or pensioners' organizations).

The government prepared and presented a new development strategy for Slovenia, "Slovenia 2050" (<http://slovenija2050.si>). Slovenia has reached some targets within the Europe 2020 Strategy, such as reducing early school leaving and increasing tertiary educational attainment. Whereas the targets for renewable energy use and greenhouse gas emission will probably be reached, larger gaps exist with regards to increasing the employment rate, R&D intensity and reducing social exclusion/poverty.

The institutional capacity for strategic planning in Slovenia is rather weak. The Government Office and the ministries have various advisory bodies that include academic experts. Slovenia has a strong tradition of departmentalism and collegial cabinets, while the Government Office lacks the capacity and sectoral expertise to evaluate the policies proposed by line ministries. The quality of regulatory impact assessment is very uneven, among others, due to limited public consultation and quality control mechanisms.

From 2015 to 2017, the government set several priorities. Changes to legislation on referendums in 2013 have clearly improved the government's ability to achieve set priorities. In some cases, the government decided to reconsider policies and modified announced measures to avoid strikes or protests, mostly to do with influential trade unions or other interest organizations. Still, the government was able to implement most of its desired policies.

Health care reform has featured prominently in the coalition agreement of the Cerar government, which promised to re-expand public scheme coverage and to delineate more clearly between standard and extra services. Despite many calls for reforms both inside and outside the governing coalition, however, the adoption of the announced national health care resolution plan has been postponed several times. Doctors started striking in early November 2016 after failing to find common ground with the government on pay and workload standards in negotiations that lasted for almost a year. According to a 2017 report of the European Commission, the

Question
Score

Prioritization

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Implementation

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government also planned to realize a reform of the long-term care system to achieve sustainable, high quality and affordable service, but the implementation of this reform was delayed.

The promised privatization of Telekom Slovenije, the largest communication company in the country, fell victim to political opposition from within and outside the governing coalition. The same occurred with the promised privatization of Slovenia's largest bank NLB, which was postponed until 2017, after the initial public offering (IPO) had been expected to start in second half of 2016.

In the period under review, the government could not always replace failed policies with innovative ones. Although most policy areas have undergone evaluation to institutionalize complex learning in recent years, the extent to which the information collected by these evaluations is used in the drafting of new policies remains unclear. The monitoring of governing procedures and practices is limited and ad hoc. By establishing separate ministries for public administration, infrastructure and environment/spatial planning, as well as by creating a ministry without a portfolio responsible for development, strategic projects and cohesion, the Cerar government improved its strategic capacity. The strengthening of the Government Office for Development and European Cohesion Policy and the changing procedures associated with the creation of a new ministry for development, strategic projects and cohesion have helped to substantially increase Slovenia's absorption rate for EU assistance.

15 | Resource Efficiency

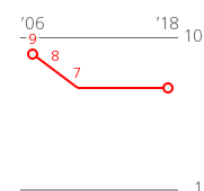
The Court of Auditors has consistently provided effective, independent auditing. Based on the Court's reviews, provisions regarding the transparent and efficient use of finances, human resources and information in the public sector have not been implemented in full compliance with the law. Therefore, the Court has regularly called offenders to eliminate anomalies and is becoming increasingly more important as an institution.

Although Slovenia has adopted a merit system to recruit its administrative elite, meritocratic criteria are not always applied properly. As in many other democratic countries, ministers exercise the right to hire directly those who will work as their closest collaborators. Additionally, incoming governments as a rule select their own office and department heads, but strong job security rules in the civil service require that replaced heads be offered an equivalent job elsewhere within the administration. As a result, department heads are generally put on "rotation" rather than "replaced."

Some ministers in the past announced reforms for the public sector, usually aiming to extend the inclusion of new public management principles, but in the last several years, attempts have also been made to introduce new public service principles to the administration.

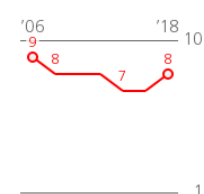
Policy learning

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Efficient use of assets

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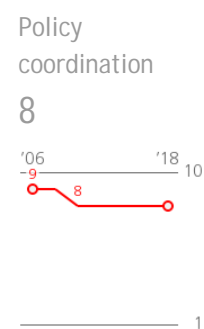
According to a report published by the European Commission on Slovenia in 2017, the government managed to reduce the general government deficit to an estimated 2.0% of GDP in 2016, with further decreases expected in 2017 to 2018. The gross public debt declined from 83% of GDP (2015) to 79% in 2016. The government has begun to organize spending reviews in education, health and social protection.

Government proposals to reduce central government transfers to municipalities have met resistance by the interest associations of municipalities. In September 2015, two interest associations filed a lawsuit to Ljubljana District Court against central government, arguing that the latter has broken an agreement on the amount of central government transfers for 2015. In October 2015, one of the associations filed a complaint to the Constitutional Court arguing that the municipal financing system is not in accordance with the constitution. In December 2015, 144 out of 212 mayors of Slovenian municipalities demanded the resignation of Finance Minister Dušan Mramor because he failed to follow the law regarding proper financing of municipalities. After lengthy negotiations, all three municipal associations and the Cerar government failed to reach an agreement regarding municipality financing for 2017, causing an even deeper divide between both sides.

Policy coordination among departments is assured by some permanent and ad hoc bodies in which civil servants and government representatives can cooperate, as can interest groups and experts. Usually, several (formal) coordination bodies are established within individual ministries. However, such an institutional building does not necessarily guarantee effective policy coordination.

Informal coordination procedures have played a significant role in policy coordination. Under the Cerar government, the leaders of the three coalition parties met frequently, making major decisions at coalition meetings that were often also attended by the ministers and sometimes also by the parliamentary party groups leaders of the governmental parties and coalition members of parliament. In press conferences and public statements after these meetings, very little information about the decisions made was provided to the public. The dominant role of the party leaders within their parties has also meant that a considerable amount of policy coordination takes place in party bodies.

Policy coordination is especially problematic and not sufficiently performed in the case of preparing Slovenian positions to the European Commission's EU legislative proposals. The role of the National Assembly is passive, while non-governmental actors have restricted opportunity structures to actively cooperate in EU policy-making process at the national level. In an effort to improve policy coordination, in March 2016 the Government Office for Legislation introduced the so-called MOPED, a modular framework for electronic document processing.



The Court of Auditors is in charge of auditing state spending, while the Commission for the Prevention of Corruption is the primary organization for investigating corruption. The state's Information Commissioner is responsible for guaranteeing citizens and media access to information, but at the same time must also ensure personal data protection. Recent decisions by the current Information Commissioner have been well documented in public and have attracted a lot of interest due to her involvement in preparing new regulations (e.g., regulations on unmanned aerial vehicles (UAV) or drone use).

A measure to prevent and fight corruption obliges professional officials (e.g., MPs, the prime minister, members of the National Council, national president, judges, prosecutors, state secretaries and mayors), high-ranking civil servants and people responsible for public procurements to prepare asset declaration reports (when they were elected to the position, when their terms terminate and the in-between of the term) and deliver them to the Commission for the Prevention of Corruption for monitoring. In a highly public act, commission leadership resigned in late 2013 to protest the government's inadequate anti-corruption efforts. As a response, the entering government in 2015 adopted a new program to combat corruption. However, when new leadership of the commission was appointed in the spring of 2014, several problems arose after problems with the appointment of its chief were uncovered. Only in 2015 did the commission's functioning stabilize somewhat, though internal disputes have not disappeared, and the commission's reputation as an effective, trustworthy, independent watchdog institution has faded. The commission is also responsible for protecting whistle blowers, maintaining the central register of lobbyists, assisting public institutions in developing integrity plans (methodology to identify and limit corruption risks) and monitoring their implementation.

One prominent NGO, Transparency International (TI) Slovenia, has been fighting corruption as well. In 2015 and 2016 it implemented several publicly visible projects to fight corruption and to assure greater transparency in many areas. One project established the Legislative Monitor, a web platform which enables citizens to trace processes in adopting laws together with actors involved in the processes. TI Slovenia also prepared an analysis of transparency on local elections and revealed several systemic deficiencies which impacted fairness of campaigns for local elections.

Party finances have been regulated by law since the early 1990s. In 2013, the law was changed to combat corruption; all corporate donations were banned, and the Court of Auditors' role as a control body was strengthened.

The government and other institutions have put more emphasis on the fight against corruption in recent years.

Anti-corruption
policy

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16 | Consensus-Building

Despite significant differences among major actors concerning many policies, all the actors agree that democracy is a strategic long-term aim.

Consensus on goals
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Despite significant differences among major actors concerning many policies, all the actors agree that a market economy is a strategic long-term aim.

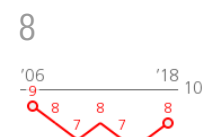
There are no (significant) anti-democratic political actors in Slovenia, so there is no need to exclude or co-opt them. Some reports prepared by the Slovene Intelligence and Security Agency as well as media reports reveal that neo-Nazi groups are present, and are becoming more visible than in the past. However, these groups have not gained broader support in society.

Anti-democratic actors
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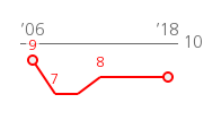
Although Slovenia has no ethnic or religious cleavage, a libertarian-authoritarian cleavage is present and important, and an economic cleavage has been gaining importance with the current global crisis. Even though conflicts are sharp, they are not so sharp as to cause society to fall apart. Alongside some other political leaders, the president of the state has been trying to depolarize cleavage-based conflict, but his efforts have not brought huge success.

Cleavage / conflict management
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Interest and other civil society groups play important roles in the formulation of various policies. Some interest groups are recognized as having vital importance to the state (e.g., representatives of employers, employees, farmers, crafts and trades, independent professions and non-commercial fields). These segments of society hold a special status, and their cooperation in policy-making is institutionalized in the National Council. Further, interest groups of employers and employees have a special role in Slovenian society, evidenced by institutionalized cooperation with the government in the social partnership system. From 1994 to 2009, a continuous series of social pacts were made, but during the economic crisis no common group could be found; as a result, no social pact was concluded. Only in January 2015 did social partners agree on a new social pact. However, for the first time, the Chamber of Commerce as the biggest employer organization did not sign it. The remaining employer organizations all withdrew from the social pact some months after its

Civil society participation
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validation because amendments to the law on minimal wage could not be agreed upon by all partners.

The 2009 Resolution on Normative Activity required that ministries prepare draft legislation in a transparent manner and grant interested or affected public organizations at least a month to participate in the policy-making process. However, this resolution was not given the status of an obligatory act, and the principle of allowing civil society participation in policy-making has not been respected in practice very often.

As discovered by the Center for Information, Service, Cooperation and Development of NGOs, all governments since 2010 violated this provision in a huge majority of cases. In particular, Janša's government justified this situation using the economic situation which demanded fast decisions. The Bratušek's government (2013-2014) violated the provision of the resolution in 65.5% of cases, while, Cerar's government violated the principles of the resolution in nearly 70% of cases in its first 100 days in power, while later this share dropped to 60%. There were many differences among ministries; the lowest percentage of violation from 2014 to the end of 2016 was recorded by the Ministry of Culture with 43% of cases, followed by the Ministry of Health with 49%, while the Ministry of Foreign Affairs violated the resolution in 86% of its cases.

For years, Slovenian political leadership has been seeking reconciliation on historical acts of injustice committed during and after World War II. An important symbolic step in this regard was made in 2016 through a ceremony in memory of the Huda Jama, a site where victims of a mass post-war execution were found. In a public opinion poll conducted by the Delo newspaper in October 2016, the majority of respondents expressed the need for further reconciliation but were doubtful any would ever be achieved. According to the poll's data, 35% of respondents evaluated Partisans and their role during WWII very positively, while only 2% of respondents had the same feeling about the Home Guard. Reconciliation is an especially important issue for supporters of SDS and NSi, parties which view Slovenia's socialist past more negatively.

Reconciliation

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17 | International Cooperation

Political leadership in Slovenia has set aims for political and economic development, although the opposition have expressed some doubts about the clarity of these aims. In 2016, Slovenia's Vision 2050 agenda was adopted, while Slovenia's new development strategy as a more precise roadmap for the country's long-term development had to be adopted. The current strategy is still valid until 2020. Individual ministries have also adopted or are in the process of adopting strategies

Effective use of support

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for particular policy areas, such as the Strategy on Development of Media or the Strategy of Development of Public Administration 2015-2020.

As a member of many international organizations, Slovenia can seek international assistance – typically in the form of documents, suggestions, analyses and opinions – for inclusion in its many announced domestic reforms. Recently, and especially during the crisis of 2009, Slovenia has been much more willing, or in need, to accept advice or assistance from international organizations, like EU institutions, OECD, IMF.

For the period from 2014-2020, the EU agreed to provide approximately three billion euros to Slovenia through its Structural and Investment Funds, with the annual assistance amounting to 1.4% of GDP. The creation of a new ministry for development, strategic projects and cohesion and the capacity upgrading of the Government Office have enabled the government to use more EU assistance than in previous years.

Slovenia is recognized by the international community as a reliable partner who is willing to participate in different forms of international collective action, such as the provision of financial aid to assist Greece or in NATO's reinforced presence in Latvia.

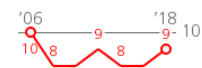
During the global crisis of 2009, Slovenia's credibility was threatened several times in connection with its ability to handle fiscal, political and economic crises. This criticism also appeared in statements by domestic politicians urging Slovenia to do what it had promised to address the 2009 crisis to retain its credibility.

Slovenia has been notably engaged in international cooperation efforts. The country has ratified many international documents, including conventions on human rights, international courts and agreements on the fight against climate change (i.e., the Paris Agreement).

Slovenia's government has also committed itself to comply with the decision of the arbitral tribunal on solving the Slovenian-Croatian border dispute.

In the 2015 to 2017 period, Slovenia also continued to follow its tradition of cooperation at the regional level. During this time, the country has tried to strengthen its cooperation with the Visegrad Group (Slovakia, Czech Republic, Hungary and Poland). Slovenia has also tried to maintain good relations and cooperation especially with the Western Balkans region (in particular former Yugoslav republics), among others, by participating in the so-called Berlin Process launched by Germany and other EU member states to improve cooperation among the Western Balkan countries.

The dispute continued between Slovenia and Croatia about the delineation of the maritime border between the countries in the Piran Bay. During Yugoslav times the



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Credibility

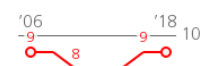
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Regional cooperation

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border had not been demarcated. In 2010, the two countries agreed to solve this border issue through international arbitration, but in 2015 Croatia withdrew from the arbitration agreement because the Slovenian member of the arbitration tribunal and Slovenia's advocate in the procedure had been in contact by phone. This was revealed through the illegal wiretapping of the two persons' conversations by the Croatian Intelligence Service. The International Court decided to continue the process of arbitration.

Strategic Outlook

According to hard economic data, the government of Prime Minister Miro Cerar has managed to stabilize the country's economic system but will need to continue preparing policies to ensure sustainability and guarantee development in the next decades. First in the forecast are major demographic changes expected to represent the most important developmental challenges in Slovenia, influencing the economic, pension, health and welfare systems. The necessity for structural reform was acknowledged by several governments in the past, but none were able to fully carry out such reforms. The present government announced that a major health care system reform was to be conducted, but the first draft was prepared only at the end of 2016. Welfare state services, including public health and school systems, are still highly desired by the Slovenian population; these desires frequently intersect with more neo-liberal approaches as a result of the fiscal problems facing the country in recent years. The next few years will be crucial in deciding what kind of development model Slovenia will finally adopt.

In the last several years, it has become clear that to find an appropriate developmental model for Slovenia, it will be necessary to strike a balance between responsibility and responsiveness. Extremely low levels of trust in political institutions have only recently begun to improve, and the increasing success of populist politicians and parties in neighboring countries could have harmful consequences for Slovenia's still weakly consolidated democracy in which libertarian-authoritarian cleavage has traditionally been very visible. As demonstrated at the beginning of 2016, issues like the refugee/migrant crisis can easily exacerbate this cleavage in Slovenia, leading to extreme polarization.

Other priorities for Slovenia include more effectively fighting corruption and re-establishing the rule of law, not only because this will help economically, it but will help to establish higher trust in the main political institutions which are necessary for the system to survive.

Warnings have already existed about the country's young generation becoming underprivileged. Although some measures to include more young people in the labor market – or at least help them be included in it – have been taken, it appears that the situation has not changed significantly. This will remain one of the most important focal points for the government in the coming years. Similarly, the country's older generations also face employment difficulties. Working-age people over 50, when unemployed, typically are so for long periods of time. In 2015, this group represented one-third of all the unemployed in the country. In addition, Slovenia is among the countries least prepared to deal with its aging population.