Ex-ante assessment of Financial Instruments in Slovenia

Final report

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***PwC SVETOVANJE d.o.o.**, Cesta v Kleče 15, SI-1000 Ljubljana, Slovenia*
T: +386 (1)5836 000, F:+386 (1) 5836 099, www.pwc.com/si
Matriculation No.: 6409458000, VAT No.: SI99320401

The company is entered into the company register at Ljubljana District Court per resolution Srg. 2013/27977 dated 10 July 2013. The amount of the registered share capital is EUR 7,500.

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Glossary of Terms

- Business Angel Investors (BAs)
- Business enterprise expenditure on research and development (BERD)
- Cohesion Fund (CF)
- Common Provisions Regulation (CPR)

- Common Strategic Framework (CSF)
- Energy Efficiency (EE)
- Energy Efficiency Directive (EED)
- Energy Performance Contract (EPC)
- Energy Services Company (ESCO)
- EU Programme for Employment and Social Innovation (EaSI)
- European Agricultural Fund for Rural Development (EAFRD)
- European Bank for Reconstruction and Development (EBRD)
- European Commission (EC)
- European Investment Fund (EIF)
- European Maritime and Fisheries Fund (EMFF)
- European Regional Development Fund (ERDF)
- European Social Fund (ESF)
- European Structural and Investment Funds (ESIF)
- Financial Instrument (s) (FI)
- Foreign direct investment (FDI)
- Fund of Funds (FoF)
- General Block Exemption Regulation (GBER)
- Government office for Development and European Cohesion Policy (GODC)
- Integrated Territorial Investment (ITI)
- Investment Priority (IP)
- Joint European Resources for Micro to Medium Enterprises (JEREMIE)
- Joint European Support for Sustainable Investment in City Areas (JESSICA)
- Local and Regional Self-Government Units (LRSGUs)
- Managing Authority (MA)
- Ministry of Agriculture, Forestry and Food (MAFF)
- Operational Programme (OP)
- Operational Programme for the Implementation of the EU Cohesion Policy (OP-ECP)
- Partnership Agreement (PA)
- Programme on Financial Engineering Instruments (PFEI)
- Public Private Partnership (PPP)
- Renewable Energy Sources (RE/RES)
- Rural Development Programme (RDP)
- Smart Specialisation Strategy (S4)
- Social Enterprise (SE)
- Specific Objective (SO)
- Technical Assistance (TA)
- Thematic Objective (TO)

- Urban and Territorial Development (UTD)
- Urban Development Fund (UDF)
- Venture Capital (VC)

Executive summary

Context and objective of the study

Focus of the Ex-ante assessment of Financial Instruments in Slovenia for the 2014—2020 programming period is to determine what/how FIs can facilitate and amplify investments in the four investment areas and to formulate evidence-based recommendations for the implementation of such instruments. The addressed investment areas in this study are Small and Medium-sized Enterprises (SMEs), Research, Development and Innovation (RDI), Energy Efficiency (EE) and Urban and territorial Development (UTD),

As required by the Common Provision Regulation (CPR, Article 37), this ex-ante assessment aims at improving the quality of the design of the new Operational Programme and Rural Development Programme through a clearly defined investment strategy for the implementation of FIs. The ultimate goal of an Ex-Ante assessment according to article 37 is to determine the best use of financial instruments based on market failures and to ensure that it will contribute to the achievement of program objectives under the Common Strategic Framework (CSF).

The structure of the report is based on the *ex-ante assessment methodology for Financial Instruments* developed by PwC for the European Commission and the EIB Group for the 2014—2020 programming period and modified to respond to an individual approach for the Slovenian market. The study first enlightens the background of the applied research methodology. The study proceeds with an analysis of the regulatory and planning documents on country's development and then considers the analysis of the macroeconomic context in the country to the extent it is relevant to Operational Programme for the Implementation of the EU Cohesion Policy in the period 2014–2020 (OP-ECP) and Rural Development Programme in the period 2014—2020 (RDP). The results of the implementation of the previous programming period have also been taken into account in order to acknowledge the lessons learnt for the future programming period. The report also presents a description of the development from the demand side through the analysis of the demand for funding, the identification of market segments and the analysis of the supply with the identification of the potential sources of funding for development at the national level. Based on the above, market failures and suboptimal investment situations on the market are defined from both qualitative and quantitative perspective to the highest possible degree. These serve as an initial identification step for provision of lessons learnt and relevant potential solutions for the upcoming programming period 2014—2020. The report proceeds with the conclusions and the recommendations in terms of potential value added of FIs, their structuring and investment strategies for FIs dedicated to development in Slovenia. The final section proposes an action plan and monitoring and evaluation framework for the establishment of such instruments.

Methodology

In April 2014, the European Commission issued the ex-ante methodological guidelines that provide a template for the preparation of such studies. The present report follows the specific methodology. However, it has to be noted that the methodology is used only as an overall framework and road map in order to better take into consideration the country specifics.

The report first depicts in detail the methodology focus and rationale, including the following main aspects:

- Demand side analysis through execution of the online survey, where we wanted to find out about difficulties of SMEs when obtaining different types of financing, review of the project pipeline of municipalities (if available) and review of strategic documents and statistics;
- Supply side analysis, an overview of the financial sector is provided in order to set the framework of the available financing in the market;
- Based on the analysis of the supply and demand, an indication of the gaps and resulting market failures is provided along with an indication of sub-optimal investment situations in order to identify the needs for the use of FIs;

- Based on this analysis, an investment strategy with potential management structures for the proposed FIs is also provided.

Major tools for data collection are: online surveys, interviews with stakeholders, obtained project pipelines from city municipalities and literature review & desktop research. Further details of the applied methodology are presented in Section 2.

Analysis

Policy overview for the 2014—2020 period

This section provides a summary of the policy context relevant to the implementation of future Financial Instruments for the 2014—2020 programming period.

Further analysis of the OP-ECP 2014—2020 and RDP 2014—2020 is performed, including important areas such as its different Priority Axes, their Specific Objectives and Investment Priorities or Sub-measures. In addition, the anticipated budgetary breakdown between each of these Priority Axes is provided, which serves as the basis for the identification of the market segments in the demand analysis and as consideration for the investment strategy budget.

Economic context and supply side analysis of the investment areas

These sections presents the 'macro-economic' environment and continues with the analysis of the Slovenian banking sector and important financial institutions. It primarily focuses on an overview of economic aspects that can affect the financing of projects and the use of FIs in Slovenia. This exercise helps to establish the economic framework in Slovenia and to identify the indicators relevant for the analysis.

This part firstly presents the main economic indicators that outline the current economic situation.

With a loss of more than 9% of GDP between 2008 and 2013, Slovenia experienced one of the hardest recessions among Euro area countries. However, Slovenia's economy rebounded in 2014, with 2.6% growth, driven by net exports and remarkable size of infrastructure investments co-funded by the EU. Growth is not expected to boom, especially with the bank recapitalisations weighing on the general government budget. On the other hand, restructuring of the banking sector is gaining momentum, which will lead to associated cost reduction. Public debt is expected to reach the maximum in 2015, before it will start to contract. The general government deficit is expected by the EC to drop from 4.9% in 2014 to 2.9% in 2015, mainly on the account of expenditure savings, subsidy reforms, reductions, and measures taken to reduce the public sector pay bill.

Furthermore, Slovenia performed an extensive reconstruction of the banking system in 2013 and continued with additional measures in 2014. Commercial banks currently have enough liquidity, therefore, enabling of renewed growth of credit to achieve more vigorous and durable output growth is essential. Furthermore, it is important to emphasize that credit alongside with robust economic growth cannot be restarted without addressing the demand side.

Existing Financial Instruments and Lessons learned

Overall, from the EU perspective, a strong momentum for the use of FIs was generated in the last programming period. In Slovenia, Financial Instruments have been differently represented and used across the four investment areas. During the programming period 2007—2013, microfinance, loans, guarantees, venture and seed capital have been designed and implemented.

In the previous programming period, Slovene Enterprise Fund (SEF) overtook the responsibility of a holding fund, based on "Programme of Financial Engineering Instruments" (PFEI) for SMEs at the end of 2009. Their portfolio included equity financing instruments (venture capital) as well as debt financing instruments (guarantees, guarantees with subsidized interest rate, loans), although almost 70% of the funding was dedicated for guarantees. In addition, SID bank contributed to the financing with its financial instruments within funds for financial engineering for SMEs and RDI, with a total potential of EUR 650 million. In addition to these financial instruments for direct financing, majority of the funds is given to the final beneficiaries via commercial banks. According to the balance sheet data, there was around EUR 1.2 billion of these earmarked funds placed through banks to SMEs by the end of 2014. Eco Fund has been providing

grants and soft loans for financing energy efficiency projects, while Slovenian Regional Fund has been covering the areas relevant for the regional development policies.

We have provided an overview of Existing FI in Slovenia, as well as the main lessons learnt from the programing period 2007—2013. Please find it in detail in Section 6 as well as in Appendix D. -. The main lessons learned from the 2007—2013 programming period include the following considerations:

- Different coverage of the financial instruments across the four investment areas exists;
- Some investment areas will still have to be partly financed by grants;
- Bureaucratic legislative framework in Slovenia sometimes presents an obstacle for efficient financing;
- Rigid tender specifications "force" the companies to adapt their own strategies according to the tender specification;
- Existing funds all have limited capacities;
- Divided opinions of effectiveness of financial instruments exist (i.e. cost effectiveness of the interest rate subsidy);
- Existing institutions providing funds seek to maximize its adaptation to the market.

Analysis of market failures, suboptimal investment situations and investment needs

Following the description of Slovenian economic and business context and lessons learnt from the previous programming period, the supply and demand for investment areas are computed.

Small and Medium Enterprises (SMEs)

For the SMEs, the quantified total supply of each financial product has been estimated for two categories of SMEs size (micro and small + medium). The quantification of the potential demand for finance from SMEs has been based on their future needs expressed in the online survey and past use of Financial Instruments. The financing gaps have been calculated based on the potential total demand for various financial products across the SME population Moreover, in order to provide a better picture of the scale of unmet demand among viable companies, which is key to inform policy makers, a second measure of demand was calculated, referred to as viable gap.

It has to be considered that, against the background of an environment of imperfect information and uncertainty, the quantification of financing gaps can only provide indications and is only one element of the analysis. Therefore, quantification also has to be considered in combination with the additional quantitative and qualitative assessment, performed throughout the study.

The estimated potential demand is based on the online survey answers provided by the SME owners and is related to their knowledge of their respective markets and the perspectives of their company. That is why the following points have to be taken into account when considering the financing gaps based on potential demand:

- Potential demand may not actually translate into action;
- Lack of previous investment due to the crisis;
- Limited knowledge of financing sources and products; and
- Uncertain economic environment.

Microfinance

Demand for microfinance covers three different micro-enterprises populations: existing SMEs, people currently unemployed and/or at risk of poverty that see themselves as self-employed potential business creators and so could create and develop their company if their access to finance were facilitated (financial inclusion) and existing social enterprises.

In Slovenia, the potential financing gap for microfinance in 2015 ranges between EUR 1,138 million and EUR 1,260 million. The microfinance-financing gap may be partly explained by limited supply of microfinance in Slovenia. The use of the ESI Funds for financing microfinance products as well as supporting institutions providing microfinance during the 2014—2020 programming period would benefit a large number of micro-enterprises in the country and would foster business creation as well as the sustainability of the newly created companies.

Table 1: Potential financing gap for microfinance for micro-enterprises in 2015 (EUR mil)

	Financing gap for existing micro-enterprises	Financing gap including financial inclusion	Financing gap including financial inclusion and social entrepreneurship
Microfinance	**1,105-1,227**	**1,137-1,260**	**1,138-1,260**

Source: PwC analysis, 2015

Short-term loans

On the supply side, the analysis highlighted that commercial banks do not face liquidity issues, but are willing to lend only to stable SMEs, with reliable future cash flows.

On the demand side, SMEs of all size categories need working capital to remain operational in short-term, even though their activity is generally low. The findings of potential financing gaps reveal difficulties for both categories of SMEs to access short-term loan financing. While smaller in number, financing gaps are higher for small and medium-sized enterprises, mainly due to their larger amount generally required, and an important share of viable small and medium-sized enterprises that are unsuccessful in accessing debt financing in Slovenia.

The calculation of viable financing gaps for all size categories of SMEs is provided in the table below.

Table 2: Viable financing gaps for short-term loans, overdrafts and credit lines in 2015 (EUR mil)

	Viable financing gap for micro-enterprises	Viable financing gap for small and medium-sized enterprises	Viable financing gap for SMEs
Short-term loans, bank overdrafts and credit lines	**130 - 144**	**599 – 662**	**730 - 807**

Source: PwC analysis, 2015

Medium- and long-term loans

All SMEs, irrespective of their size, use medium and long-term debt financing in Slovenia. These loans are sought to finance equipment renewal as well as investment and business expansion. The calculation of supply and demand revealed potential financing gaps for all size categories of SMEs. Viable financing gaps were also calculated and are presented in the table below.

Table 3: Viable financing gaps for medium and long-term loans in 2015 (EUR mil)

	Viable financing gap for micro-enterprises	Viable financing gap for small and medium-sized enterprises	Viable financing gap for SMEs
Medium and long-term loans	**311 - 344**	**885 - 978**	**1,196 – 1,322**

Source: PwC analysis, 2015

Equity

Supply of equity financing is provided in Slovenia by private Venture Capital funds in cooperation with Slovene Enterprise Fund. Slovene Enterprise Fund has also provided seed financing and Business Angels are also present in Slovenia.

A potential financing gap was calculated for equity financing for all SMEs in the country, and should be considered indicative. The table below presents the potential financing gap for equity financing in Slovenia for 2015.

Table 4: Potential financing gap for equity financing for all SMEs in 2015 (EUR mil)

	Financing gap
Equity financing	**14 - 92**

Source: PwC analysis, 2015

Financing gap for equity financing indicated in the table above needs to be takes as indicative only, given the different dynamics required to have a well-performing equity ecosystem. The design of any Financial Instrument providing equity financing products need to consider the following elements:

- That a sufficient critical mass in demand from specific target groups for equity financing exists in the country;
- That these targets may also be attractive for private investors; and
- That the public authorities are able to mobilise and leverage existing networks to facilitate matchmaking with investors and provide mentoring as well as support to the SMEs applying for equity financing.

Research, Development and Innovation (RDI)

Investment in research and development in Slovenia is vital for the development of SMEs in Slovenia. The intensity of investments in research and development in Slovenia, which relates to the gross expenditure for development and research, has increased in the past decade, despite some fluctuations.

Please find in the below table the financing gap for RDI.

Table 5: Financing gap for RDI financing in 2015 (EUR mil)

	Financing gap
SMEs	**0 - 14**
Total companies	**0 - 247**

Source: PwC analysis, 2015

The result of the calculation show that the estimated amount of addition public or private financing will be needed to meet potential demand per year is between EUR 0—14 million for SMEs and between EUR 0—247 million per year for total companies, taking into account that smaller enterprises may spend a smaller proportion of turnover for RDI investment than medium sized. Importantly, despite the variation in range, these results point to a market potential for SMEs wanting to invest in RDI if access to finance market failures are addressed.

Energy Efficiency (EE)

Improvements in energy efficiency would not only reduce overall emission, but also trigger additional investments and create jobs. The Slovenian government has published several reports confirming a clear commitment to improve in this field in line with EU-wide goals and key strategic documents such as Europe 2020, Low-carbon road map 2050, and other relevant European legislation on energy.

Based on the analysis of available data, gaps have been calculated separately for three areas: public and private buildings renovation as well as for industrial processes sector. The gaps have been calculated for the period of six years, from 2015—2020.

Table 6: Financing gap for EE financing in 2015—2020 (EUR mil)

	Financing gap
Public building renovation	**65 - 132**
Private building renovation	**645 - 783**
Industrial production processes	**568 – 607**

Source: PwC analysis, 2015

Urban and Territorial Development (UTD)

Towns and other urban settlements represent the backbone of Slovenian settlement system. Urban lifestyle is overlapping most of the populated Slovenian territory and linking urban centres in a typical polycentric system. Urban centres of the regions can also be part of urban areas or functional urban areas and are highly connected with its hinterlands. Furthermore, Slovenia will be using in this programming period the Integrated Territorial Investments (ITIs) for sustainable urban development, which is based on the principle of internal urban development and good functional integration with other towns and surroundings. ITIs will help implementing urban development projects and urban renewals, linking activities to improve the quality and security of life in cities, increase energy efficiency, create sustainable mobility and accessibility, and also develop creative industries, improve entrepreneurship and social inclusion in all the 11 city municipalities.

Moreover, the demand has been identified based on the project pipelines of 9 city municipalities. This project pipeline can be updated after the municipalities will prepare individual sustainable urban strategies in the context of implementing ITI mechanism.

We have divided the projects into two categories, based on the year of implementation.

Table 7: Financing gap for UTD financing in 2015—2020 (EUR mil)

	Financing gap
"Ready to start" projects of Slovenian city municipalities (2015—2016)	**590—594**
»Waiting for realisation projects« of Slovenian city municipalities (2017—2020)	**68—74**

Source: PwC analysis, 2015

The gap for project starting in 2015 and 2016 is much higher as it includes the projects of Ljubljana, whereas we were not able to obtain their data for 2017—2020 project list.

Proposal of structure and investment strategies of the FIs

The proposed Investment Strategy consists of five investment funds, which include several financial products and a Technical Assistance facility, which provides grants to financial intermediaries and final beneficiaries:

- Financing Fund for SMEs and large companies which would provide three products to financial intermediaries:
  - A portfolio guarantee, including also micro-guarantees;
  - A senior loan aiming at providing micro-loans to final beneficiaries;
  - Equity financing aiming at investing in SMEs and large companies.
- A Fund financing agriculture companies and companies from rural development areas, providing a portfolio guarantee to a financial intermediary.
- An RDI Fund aiming at financing innovative projects of start-ups, SMEs and large companies and providing a senior loan to a financial intermediary.
- An Energy Efficiency Fund providing three products:

- Loans for the renovation of public and private buildings;
- A risk-sharing instrument aiming at financing ESCOs;
- Equity financing to reinforce the equity structure of ESCOs.

- An Urban and Territorial Development Fund providing loans to finance urban projects from municipalities in Slovenia, potential via the future mechanism of Integrated Territorial Investments (ITIs).

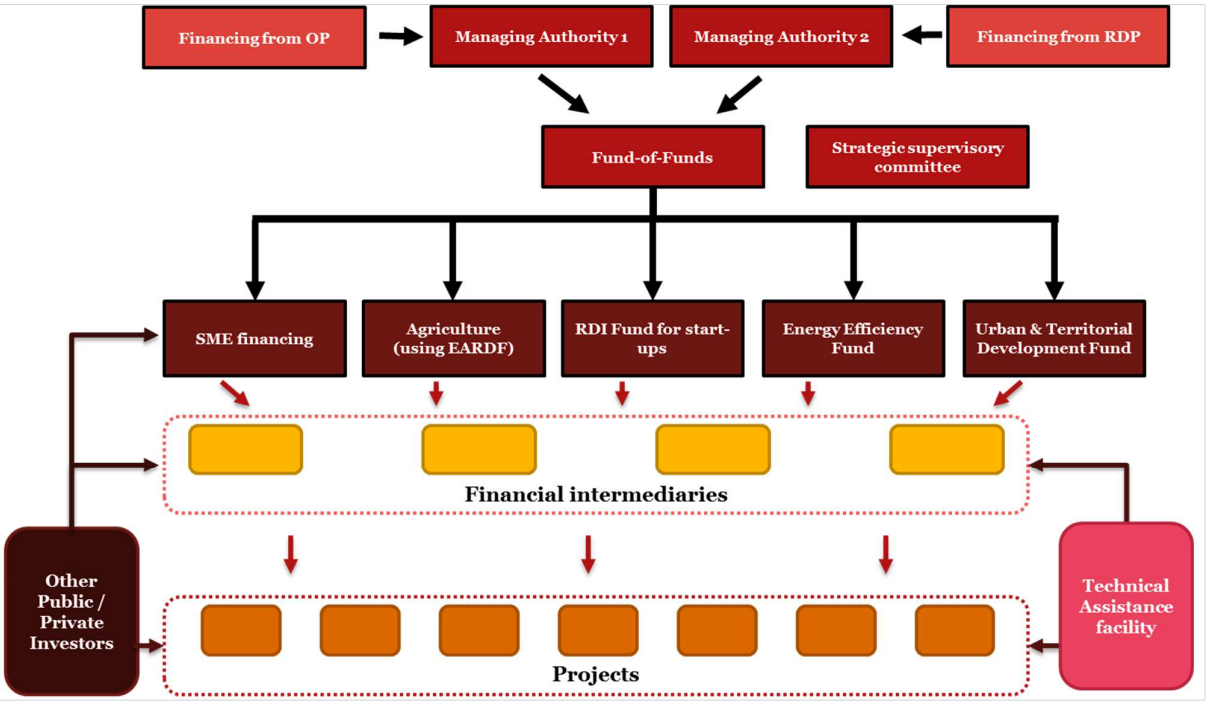
The characteristics of each FIs are detailed in Section 8.2. The information include objectives, scope of intervention, target groups, expected advantages, allocation of the initial amount, expected leverage effect and thus budget available, socio-economic benefits along with potential partners and stakeholders to be involved in the process.

In respect to the management and governance structure, there are three possible options:

- Option 1: Structuring FIs without a Fund-of-Funds;
- Option 2: Structuring FIs with a Fund-of-Funds;
- Option 3: The MA providing FIs support directly to final recipients.

Taking into consideration the analysed factors throughout the study, the creation of Fund-of-Funds is the option that presents the greatest potential for added value and maximisation of the potential leverage generation for Slovenian market.

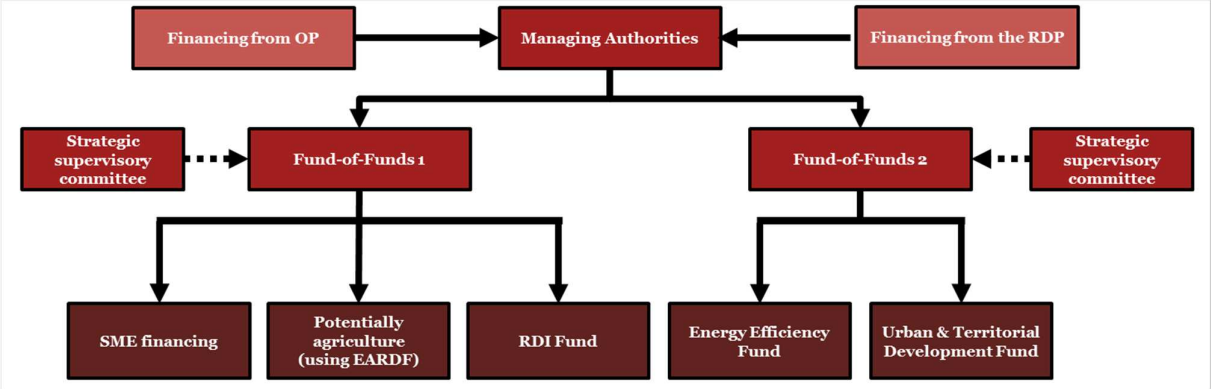
Figure 1: Fund-of-Funds governance structure proposed for Slovenia over the 2014—2020 programming period



Source: PwC, 2015

This Fund-of-Funds structure may however be adapted. As presented in the figure below, an option with two (or potentially even more) Funds-of-Funds can be implemented. Compared to a single Fund-of-Funds the alternative solution with several Funds-of-Funds is less efficient and therefore considered a second-best choice.

Figure 2: Potential governance structure with two Funds-of-Funds for Slovenia over the 2014—2020 programming period



Source: PwC, 2015

Key steps and recommendations for the Managing Authorities (MAs)

The study concludes with the action plan, which integrates the setting up of the Financial Instruments into the programming process of the 2014—2020 OP-ECP and RDP in Slovenia.

The different stages of the action plan include several key recommendations for the MA to help the constitution and implementation of the FIs:

- Validation of the Financial Instrument;
- Creation of the Fund-of-Funds;
- Selection of the specific funds;
- Operations;
- Monitoring and evaluation.

1. Introduction

1.1. Objectives and rationale of the study

The scope of the study is to provide the Government Office for Development and European Cohesion Policy (GODC) as the Managing Authority for Operational Programme for the Implementation of the EU Cohesion Policy 2014—2020 (OP-ECP) and the Ministry of Agriculture, Forestry and Food (MAFF) as the Managing Authority for Rural Development Programme 2014—2020 (RDP)with evidence-based analysis and guidance to support the use of Financial Instruments (FIs) in Slovenia in the programming period 2014—2020. The final deliverables provided at the end of the study may be used by the Slovenian authorities for the purpose of preparing an ex-ante assessment in line with Article 37 of the Common Provision Regulation (CPR) or other studies that may be required to enable the Slovenian authorities to take the necessary decisions regarding the design and implementation of FIs during 2014—2020 in the investment areas covered by the study.

The scope of the study is outlined below through the several tasks and sub-tasks:

- TASK 1: General considerations and guidance on the use of FIs in the Republic of Slovenia.
- TASK 2: Specific guidance and analysis on the use of FIs in four main areas of application:
  - Task 2.1: SMEs, agricultural sector, fisheries sector and aquaculture;
  - Task 2.2: Research, technological development and innovations;
  - Task 2.3: Transition to the economy with low carbon emissions;
  - Task 2.4: Urban and territorial development.
- TASK 3: Conclusions and next steps.

Article 37 (2) of the CPR articulates the required content of an ex-ante assessment around seven main groups, namely:

a) Analysis of market failures or suboptimal investment situations and the estimated level and scope of public investment needs;

b) Assessment of the value added of the FI, consistency with other forms of public intervention in the same market and possible State aid implications;

c) Estimate of additional public and private resources to be potentially raised by the FI, including assessment of preferential remuneration when needed;

d) Identification of lessons learnt from similar instruments and ex-ante assessments carried out in the past;

e) Proposed investment strategy, including an assessment of its possible combination with grant support, options for implementation arrangements, financial products and target groups;

f) Specification of expected results including measurement of indicators;

g) Provisions allowing the ex-ante assessment to be reviewed and updated.

1.2. Structure of the study

This report conveys the objectives and rationale of the study along with current findings. The structure of the final report is developed to present all the required information in a user-friendly manner and is outlined below:

- Section 1 provides an outline of the study, describing its objectives, rationale and its structure;

- Section 2 presents the methodological approach used to develop the study, including rationale behind the methodology as well as the description of different tools that have been used to gather data and information;
- Section 3 introduces the policy framework relevant for the use of FIs in the 2014—2020 programming period in Slovenia, including identifying the kinds of investments, which are most suitable to be supported by FIs;
- Section 4 describes the economic context in Slovenia, an essential first step before determining the existence of market failures and suboptimal investment situations;
- Section 5 provides an analysis of the supply of financing available across four investment areas under analysis;
- Section 6 describes the existing Financial Instruments in Slovenia as well as the main lessons learnt from the programming period 2007—2013;
- Section 7 presents Building block 1, where first crucial steps of ex-ante assessment are performed, including the assessment of the demand side, analysis of market gaps, value added, additional resources to be raised and lessons learnt;
- Section 8 presents Building block 2, which defines the proposed Financial Instruments, its delivery and management. Furthermore, general aspect, as well as the potential State aid implications of any envisaged FI are examined as required by Article 37(2)(b). Analysis of different governance structures afforded by the Regulation is performed (e.g. Fund-of-Funds, direct management) and the pros and cons for the envisaged FI(s). This section also outlines the role that technical assistance[1] can play alongside any implementation and how it should be managed. It also proposes provisions for the update and review of the ex-ante assessment as required under Article 37(2)(g);
- Section 9 presents the concluding remarks;
- Appendixes complement the main chapters and provide detailed information and explanation for different sections of the report.

[1] Please note that the term "Technical Assistance" in this study refers to the funds provided under the proposed Technical Assistance facility (section 8.2.6) and not to the funds that are planned for the area of Technical Assistance through ESI funds in Slovenia.
The exception are the funds that are planned for Technical Assistance in the EAFRD fund.

2. Methodology of the study

The goal of this chapter is to present the main methodological techniques used throughout the study. The present study will use different tools and techniques in order to gather information and provide an analysis of market failures in order to quantify, where possible, the market gaps, and propose a suitable investment strategy. More detailed methodological subsections will also be included in later sections of the report.

2.1. Rationale behind the methodology

In April 2014, the European Commission issued the ex-ante methodological guidelines[2] that provide a template for the preparation of such studies. The present report follows the specific methodology. However, it has to be noted that this methodology is to be used as a road map in order to achieve the expected results. The specifics of each country have to be taken into account. The present report takes into account the market conditions of Slovenia and the experience with FIs in the country.

During the research conducted, it was revealed that the collection of information was not always evident. The banking sector, which is the main source of supply, was not able to provide us with all the necessary figures do to bank's limited internal statistical data collection. Moreover, on the demand side, the limited experience on the use of FI in and the limited available pipeline of projects in some investment areas raised the need to apply different methodologies in order to quantify the demand of different policy priorities. More specifically:

- On the supply side, an overview of the financial sector is provided in order to set the framework of the available financing in the market. Normally, the goal of the supply side analysis is to provide an indication of the available financing without the available public intervention schemes. Such an indication will be provided by providing assumptions on the leverage effect of these schemes. It has to be noted through that, wherever possible, the analysis will be based on the existing projects in the investment areas, which will be complemented by the projection of influencing factors for the following years in order to identify whether the existing demand will increase or decrease in the coming years. In the more accurate sense of this picture, the project pipeline represents the point where supply meets demand. It is however a strong indication to be used in order to identify market failures and sub-investment situations.
- On the demand side, similar quantification challenges had to be addressed. For demand quantification, different methodologies were used depending on the investment areas, which will be presented in the relevant sections.
- Based on the analysis of the supply and demand sides, an indication of the market failures is provided along with an indication of sub-investment situations in order to identify the need for the further use of FIs in addition to the existing ones. Based on this analysis, an investment strategy with potential management structures for the proposed FIs is also provided.

2.2. Tools used to gather data and information

Different tools were used to gather the information needed, including online survey for enterprises, literature review, stakeholder interviews and gathering of project lists from Slovenian city municipalities.

Literature review & desk research

The literature review aimed to gather most of the existing information on the current situation of public initiatives and possible projects to be financed in Slovenia in addition to information and studies from other EU member states to identify and analyse:

2 European Commission, 2014: "Ex-ante assessment methodology for the use of financial instruments"

- Existing indicators and information on public initiatives (on both the demand and supply sides) in Slovenia;
- Information on the economic and political environment of Slovenia;
- Insights on the successes, failures and lessons to be learned about the use of FIs in the past;
- Insights on the policy priorities of the Managing Authority for the next programming period 2014-2020.

The literature review enabled the sourcing of qualitative and quantitative indicators that were used to analyse the context and situation of financing public initiatives in Slovenia.

Stakeholder interviews

In order to complement the data collection and the literature review, interviews with stakeholders involved in public initiatives, financing and investments were carried out. When selecting the relevant stakeholders, different groups were defined to cover the whole scope of the preparing and financing projects in Slovenia. Three groups of stakeholders were identified:

- Supply side representatives;
- Demand side representatives; and
- Government officials.

SME online surveys

The first questionnaire used for the online survey for all SMEs included 20 questions and is in detail presented in Appendix I. -. The online survey opened on 4 May 2015 and closed on the 29 May 2015. The survey was launched in order to gather information from Slovenian SMEs regarding their financing problems and needs. Overall, 553 SMEs gave valid responses to the online survey.

With a second questionnaire, we wanted to include companies that would be eligible for the use of Financial Instruments within specific categories that are defined in the RDP 2014—2020. Online survey was launched on 13 May and ended on 3 June 2015. 64 companies, of which 27 chosen agriculture as their primary activity, answered the survey. The questionnaire is presented in Appendix J. -.

Selection of projects of the Slovenian city municipalities for urban and territorial development projects

We have contacted 11 city municipalities to provide us with the list of the relevant projects in the areas of energy efficiency and urban and territorial development for the programming period 2014—2020. Furthermore, we have also asked them to comment on the existing list of projects that has been prepared for the purposes of the project Jessica in the year 2011. We have received 9 replies from the city municipalities – Koper and Slovenj Gradec did not provide data. For Ljubljana, we obtained data only for years 2015 and 2016.

Strategic workshops

With a purpose to present and align the first results and our findings, we have organized two strategic workshops with the Managing Authorities and main political stakeholders. The first one covered the investment areas of SMEs and RDI; the second one covered the areas of EE/URE and UTD. Discussion covered the analysed market failures, proposed financial instruments and possible governance options.

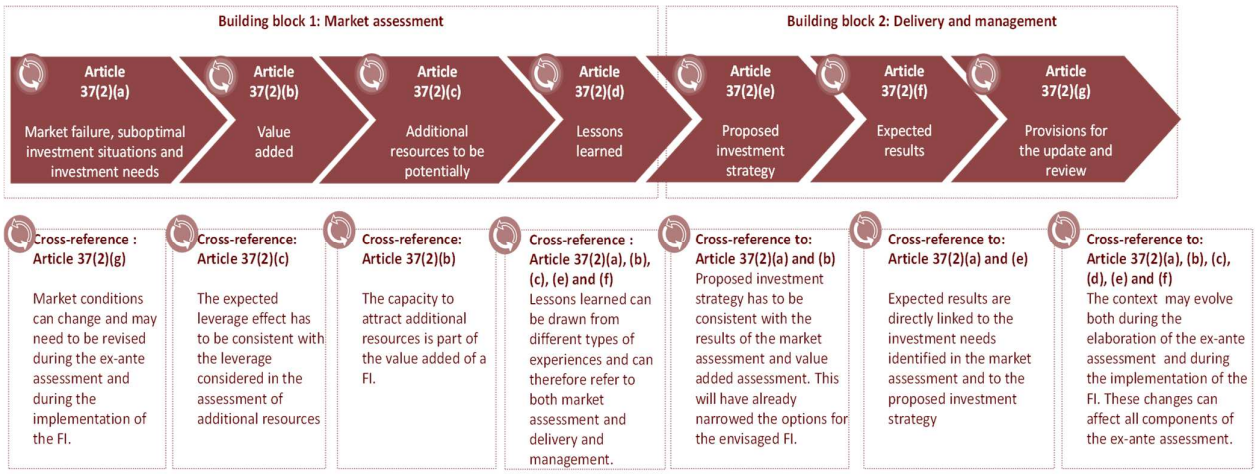
2.3. Data analysis

All the data and information collected through the data collection, the literature review, interviews with stakeholders, surveys sent to the SMEs and agriculture companies and projects obtained from the municipalities, have been used and assessed in order to validate the study's findings. The methodology used is based on the principles of triangulation, which ensures that all findings presented in the report are supported, to the extent possible, by evidence from these three data sources. Information obtained through these data sources has been compared in order to identify trends or contradictions in the findings.

Drawing from the good practice *Ex-ante assessment methodology* published by the EC (2014), the analysis of this Study is conducted on an iterative basis across **two building blocks**, which aim to facilitate the development of a robust ex-ante assessment:

- **Building block 1: Market assessment**
- **Building block 2: Delivery and management**

Figure 3: Two building blocks in the ex-ante assessment



Source: Ex-ante assessment methodology for FI in 2014-2020 - General Methodology (Volume I)

3. Policy overview of the four investment areas over the 2014—2020 programming period in Slovenia

Since the implementation of an FI must comply with the ESIF Regulations, the Operational Programme (OP) and Rural Development Programme (RDP) provisions and shall pursue the national policy objectives, several documents have been analysed in order to conclude in which investment areas, and for which TOs, there is potential for the implementation of FIs.

Based on the requirements of GODC, which TOs should be included into the analysis, we have concentrated on TOs 1, 3, 4 and 6, since our reading suggests that drawing resources from TOs 8 and 9 is unlikely to be conducive to the use of FIs.

Based on data provided by MAFF which measures or sub-measures should be included in the analysis, we focus on the sub-measures 4.2, 6.4 and 8.6.

The Partnership Agreement (PA) has been relied on for financial data and programming information in relation to ESIF resources. The OP-ECP and RDP have been used in particular to map the programming architecture from which resources could be drawn for deployment by way of FIs, for establishing the expected results stemming from the various resource envelopes, and to assess the potential role of major projects as investment targets for FIs.

The four following sub-sections distil the contents extracted with regard to the four investment areas (MSP, RDI, EE/RES, and UTD) under analysis in this report. Thereafter, the overall envelope of resources eventually available for deployment via FIs in relation to the four investment areas in this study is outlined.

3.1. Increase of competitiveness of SME, agricultural sector (EAFRD), fisheries sector and aquaculture (EMFF)

Multiple IPs are related to promoting increase of competitiveness of SME, agricultural sector and fisheries sector and aquaculture, primarily under TO3 and secondly under TO1, TO8 and TO9, specifically SO where main target groups are SMEs.

The use of FIs in the OP-ECP is envisaged under IPs 1b, 3a and 3b. The use of FIs for IPs under TO8 (promoting employment and supporting transnational labour mobility) and TO9 (Social inclusion and poverty reduction) is not planned.

In order to successfully achieve the objectives set in IP under TO3 actions should be simultaneously implemented in the field of investments in international and regional competitiveness of research, innovation and technological development, labour market and education, and in the field of enhancing the efficiency of public administration and the judiciary.

The main challenge in maintaining economic growth and competitiveness is competence- and capacity-building of enterprises and their ability to respond to societal challenges. Building on the existing capacities and the gained knowledge can restart development and improve economy's competitiveness within the national and international environment.

IP 3a is focused on promoting entrepreneurship while IP 3b is focused on developing new business models for SMEs, in particular with regard to internationalisation.

The main target groups for the IPs 3a and 3b are SMEs in all stages of development. Key intermediaries could be loan funds, guarantee funds, seed capital funds, venture capital funds, business angels, business support organisations and other forms of public-private partnerships.

As presented in Table 67: Indicative allocation from the OP-ECP 2014—2020 in the SME and RDI sector in Appendix A. -, resources available over the 2014—2020 programming period for TO 1 are equal to ca. EUR 486.8 million while for TO3 to ca. EUR 775 million. According to the OP, the use of an FI (or FIs) is envisaged for both TOs.

The use of Financial Instruments within the RDP 2014—2020 is foreseen for the three sub-measures listed below. Ministry of Agriculture, Forestry and Food wants to ensure easier access to financial resources when banking market failures have been identified and thus encourage faster economic development in rural areas.

4.2. Support for investments in processing/marketing and/or development of agricultural products

The objectives of measure 4.2. include the improvement of the competitiveness of the food-processing industry, the rise of the added value of agricultural products and greater environmental performance of the food-processing plants.

Beneficiaries of support are legal and natural persons, who deal with the processing or marketing of agricultural products as companies, cooperative societies and institutes, individual entrepreneurs, farms, dealing with the production and/or the processing of agricultural products, farms with complementary activities, agricultural and grazing communities, which carry out the processing of milk on pastures, as well as economic interest groupings.

6.4. Support for investments in establishing and developing non-agricultural activities

The objectives of measure 6.4. strive to promote economic activities in rural areas, development of endogenous potential of the local environment and the preservation or the establishment of existing or new jobs.

Beneficiaries are natural persons with a registered complementary on-farm activity and micro-companies in rural areas. Small companies may also be beneficiaries when it comes to investments in adding value to wood, which are not supported within the sub-measure 8.6 – Investments in forestry technologies, wood processing and mobilization of wood.

8.6. Support for investments in forestry technology and processing, mobilisation and marketing of forest products

Within the scope of this measure the support covers investments in activities of roundwood treatment, instead of industrial wood processing, as well as activities of the first “small scale” wood processing, thus diversifying the beneficiaries' production. The objective is to add value to forestry products.

Beneficiaries of support are companies, cooperative societies, individual entrepreneurs and farms with registered complementary activities, defined as micro or small companies.

As shown in Table 68: Indicative allocation under the RDP 2014-2020 in the field of agriculture and rural development, the amount of funds available for Financial Instruments, in the context of sub-measures outlined above is 88 million and for grants a little less than 85 million.

3.2. Research, technological development and innovation

TOs 1 and 3 are both related to investments in RDI and an innovative business and research climate. According to the OP-ECP, the use of FIs is envisaged for both TOs, and particularly for the IP 1b (Promoting business investment in R&I, developing links and synergies between enterprises, research and development centres and the higher education sector) for the TO 1, and for IPs 3a and 3b for the TO3. IP 3a is focused on promoting entrepreneurship while IP 3b is focused on developing new business models for SMEs, in particular with regard to internationalisation.

The main target groups and beneficiaries related to the IP 1b are development partnerships, enterprises, knowledge institutions, different forms of of business integration of enterprises, also with knowledge

institutions, research organisations, regional development agencies, NGOs - operating under priority areas addressed in Slovenian Smart Specialization Strategy (S4)[3].

The main target groups for the IPs 3a and 3b are SMEs in all stages of development. Key intermediaries could be loan funds, guarantee funds, seed capital funds, venture capital funds, business angels, business support organisations and other forms of public-private partnerships.

As many investments by RDI institutes will be made through innovative SMEs which then undertake risky investment in RDI, the inter connections between the use of TO1 and TO3 resources should be kept in mind and the elements of TO1 and TO3 actions could be analysed in order to determine which could be combined or separated when implementing FIs. For instance, a potential complement to the TO1 could come from the support provided using TO3 resources to SMEs that should help to advance the commercialisation of R&D results into business activity in the real economy.

However, despite the interconnections between TO1 and TO3 are important to be kept in mind, as our analysis is focusing on RDI, only the resources under TO1 will be relevant.

As presented in Table 67: Indicative allocation from the OP-ECP 2014—2020 in the SME and RDI sector in Appendix A. -resources available over the 2014-2020 programming period for TO1 are equal to ca. EUR 486.8 million while for TO3 to ca. EUR 775 million.

3.3. Support to the transition to the economy with low carbon emissions

Resources under TO4 will potentially support the development toward low carbon economy. Particular attention should be directed at the area of support to the energy efficiency and renewable energy use in public infrastructure, including public buildings and housing sectors. TO3 should also be considered, especially its focus groups.

According to the OP-ECP, it is understood that the results of the ex-ante assessment analysis will feed-in to further consideration by the MA of the usage of such revolving instruments. FIs are envisaged for TO4 resources in relation to IP 4a (supporting EE, smart energy management and RE use in public infrastructure, including in public buildings, and in the housing sector), IP 4b (promoting the production and distribution of energy derived from renewable sources) and in IP 4c (Development and use of intelligent low- and medium-voltage distribution systems).

The potential to improve energy efficiency in Slovenia is huge, also on the account of the building stock structure, which is considerably unfavourable. To increase the impact and financial leverage for IP4a, the system of energy performance contracting is important. The main target groups for this investment priority are enterprises, public sector and households.

In order to achieve the target share of RES in gross final energy consumption by sectors electricity and heating, the country should make efforts to promote the use of all environment-friendly RES. Under IPs 4b the main target groups are enterprises, public sector, households, municipalities, cooperatives, institutes and also individuals.

The projects under IPs 4c will contribute to the achievement of the objectives set in the field of energy efficiency and optimal use of distributed renewable energy sources. The main target groups and beneficiaries are final consumers and electricity generation undertakings connected to low-voltage and medium-voltage distribution network and operators of energy distribution systems, operators of energy distribution systems, owners/operators of production units of distributed electricity sources and electricity storage facilities.

[3] Please find details on S4 priority areas in Appendix M. -. All information on S4 are available on http://www.svrk.gov.si/si/delovna_podrocja/evropska_kohezijska_politika/ekp_2014_2020/strategija_pametne_specializacije_s4/

As presented in Table 69: Indicative allocation from the OP-ECP 2014—2020 in the Energy Efficiency and Renewable sector in Appendix A. -, resources available for TO 4 are equal to EUR 281 million across the 2014—2020 programming period. The use of an FI (or FIs) for the relevant specific objectives for this investment area is envisaged.

3.4. Sustainable urban and territorial development

Several IPs under TO4, TO6 and TO9 are related to promoting sustainable urban and territorial development through infrastructure, renewal and/or regeneration schemes, sustainable urban transport and/or other urban investments.

It is understood that the results of the ex-ante assessment analysis will feed-in to further consideration by the MA of the usage of such revolving instruments in these areas of intervention.

As a priority, IP 6d is used for promoting sustainable urban development (taking action to improve the urban environment, to revitalise cities, regenerate and decontaminate brownfield sites, reduce air pollution and promote noise-reduction measures). IP 6d has an intent to enhance the efficiency of land-use in urban areas, the measures under this investment priority will promote the exploitation of internal potentials of urban areas. Target groups are population living in cities and urban areas, the economy, local communities, public open space and buildings managers, organisations active in the area of urban and the main beneficiaries are municipalities.

As presented in Table 70: Indicative allocation from the OP-ECP 2014—2020 in the Urban and Sustainable Urban Development sector in Appendix A. -, resource from TO6 amount to ca. EUR 615 million. The use of FI will be envisaged based on the results of the ex-ante assessment analysis.

4. Slovenian economic context

This section of the study contains an overview of the economic context in Slovenia. As recommended in each volume of ex-ante assessment methodology for financial instruments, gathering data on macroeconomic indicators such as GDP growth, exports/imports, etc. is an essential step before determining the existence of market failures and suboptimal investment situations.

With a loss of more than 9% of GDP between 2008 and 2013, Slovenia experienced one of the hardest recessions among Euro area countries. However, Slovenia's economy rebounded in 2014, with 2.6% growth, driven by net exports and remarkable size of infrastructure investments co-funded by EU. Growth is not expected to boom, especially with the bank recapitalisations weighing on the general government budget. On the other hand, restructuring of the banking sector is gaining momentum, which will lead to associated cost reduction. Public debt is expected to reach the maximum in 2015, before it will start to contract.

Key economic indicators

Slovenia ended recession in 2013 and grew almost in every sector, although net exports remained the main engine of growth. The latter had exceptional 6.3% growth, which lead to a significant gain in Slovenian market shares. Investment was another important contributor to growth in 2014, mainly driven by infrastructure projects, cofounded by the EU. On the other hand, machinery and equipment investment contracted, despite strong rebound recorded in 2013. Private consumption has increased for the first time since 2010, due to the slowly rising of employment rate[4].

Growth is expected to continue, although with decelerated rate. According to the EC, economic growth is forecasted to be 2.3% in 2015, before further decreasing to 2.1% in 2016. This is estimated because net export are expected to decrease. On the other hand, investment in equipment and machinery is expected to increase, which will accelerate and support future growth. Private consumption is expected to strengthen as well, while government consumption (under a no policy change), is expected to increase surprisingly later in 2016, after a 5-year decline.

On the export side, Slovenia has regained export market share since 2013. This trend strengthened in 2014, following devastated market share losses between 2008 and 2012. According to the European Commission's export performance indicator, performance has evolved and outperformed Euro area in 2011. Despite the fact, that Slovenia lagged behind peers, such as the Czech Republic, Hungary, Poland and Slovakia between 2009 and 2012, the gap was reduced significantly in recent years.

Private investment decreased dramatically in 2009 and 2010, but the financial crisis was not the main reason for the current situation. There is also highly indebted corporate sector, significant state involvement in the economy, and an unsupportive business environment. Lack of investment is worth special attention because of the impact it has on domestic demand and short-term economic outlook. In addition, the lack of investments is harmful for the potential future growth of the Slovenian economy. On the other hand, exceptionally high capacity utilization at the start of 2015 has projected private investments to rise in the following years[5].

Both households and non-financial corporations cease to invest significantly when the crisis began, while public investment was reduced at a later stage due to fiscal consolidation. Non-financial corporations and households sharply reduced their investment in terms of GDP by almost 40% between 2008 and 2009. Government expenditure on investment continued to grow until 2009, but as the recession took hold and revenue shortfalls materialised public investment was targeted as a key measure of the required fiscal consolidation. Public investment declined by 22% between 2009 and 2012 and this contraction dampened the tentative export-led recovery, experienced by Slovenia in 2010—11. Since 2012,

[4] European Economic Forecast, Spring 2015. Available at: http://ec.europa.eu/economy_finance/eu/forecasts/2015_spring/si_en.pdf

[5] http://ec.europa.eu/economy_finance/eu/forecasts/2015_spring/si_en.pdf

there has been a significant increase in public investment due largely to EU co-financed projects and the 2015 deadline for drawing on funds from the EU 2007—2013 multiannual financial framework. Consequently, public investment amounted to over 5% of GDP in 2014, one of the highest levels in the EU. Strong public investment has been one of the key drivers of the economic recovery experienced in Slovenia in 2014 and it is expected to continue to grow in 2015, albeit at a more modest pace6.

At the end of 2013, the Foreign Direct Investments (FDI) in Slovenia stood at EUR 8.9 billion (24% of GDP), which is 0.8 percentage point lower than in 2012. The accelerated growth before the crisis and relatively stable post-crisis stock show that Slovenia is able to attract FDI, although from low level. FDI is at reasonably stable mode of financing even in crisis times, in contrast to portfolio and other investments7.

The labour market is showing signs of recovery although structural challenges continue to affect long-term unemployment, and the employment of low-skilled and older workers[8]. Registered unemployment rate reached its highest level at 14.2% in February 2014, but decreased to 12.5% in April 2015. In this month, Slovenia had less than 803,000 persons in employment; around 88.5% of them were in paid employment, employed by legal entities (92.8%) and natural persons (7.2%) and 11.5% were self-employed. Majority of people are employed in manufacturing, wholesale and retail trade and repair of motor vehicles and motorcycles[9].

According to the EC, Slovenia's debt has strongly increased in recent years, from 22% of GDP in 2008 to 80.7% in 2014 and is expected to stand at 83% of GDP in 2015. While exceptional items, particularly bank recapitalisations, have contributed significantly to this increase, sustained primary deficits over the period have also attributed[10].

The general government deficit in 2014 was 4.9% of GDP (down from 14.9% of GDP in 2013) and almost one percentage point lower than the forecast by the EC. European Commission is forecasting the general government deficit to be 2.9% of GDP in 2015. Reduced deficit is expected mainly because of expenditure savings, subsidy reforms, reductions, and measures taken to reduce the public sector pay bill.

In 2016, under a no-policy-change assumption, the general government deficit is expected to decline further to 2.8% of GDP. A significant increase in consumption expenditure is expected to be more than offset by a reduction in gross fixed capital formation due to the end of the drawdown period from 2007-2013 EU programmes[11].

Credit rating

Based on the condition of Slovenian economy, Standard & Poor's, Fitch and Moody' increased Slovenian rating in 2013. The latest Standard & Poor's credit rating in March 2015 for Slovenia stands at A. In their view, the policy risks in Slovenia have receded since political party SMC won the elections. However, they still believe that prospects for economic growth remain weak due to political patronage, weak institutional and corporate governance, as well as non- parliamentary opposition such as from trade unions12. Fitch's rating for Slovenia is BBB+. Their stable outlook is based on reducing sovereign's vulnerability to the banking sector. In addition, the combination of high current account surpluses and private external debt deleveraging is strengthening external metrics from a weak position13. According to Moody's Investors Service, which gave a stable Baa3 rating, economic growth prospects and large debts stocks continue to pose challenges for

6 European Commission, Country Report Slovenia 2015. Available at: http://ec.europa.eu/europe2020/pdf/csr2015/cr2015_slovenia_en.pdf
7 European Commission, Country Report Slovenia 2015. Available at: http://ec.europa.eu/europe2020/pdf/csr2015/cr2015_slovenia_en.pdf
8 http://ec.europa.eu/economy_finance/publications/european_economy/2015/pdf/ee1_en.pdf
9 SI-Stat: http://www.stat.si/StatWeb/en/show-news?id=5260
10 European Commission, Country Report Slovenia 2015. Available at: http://ec.europa.eu/europe2020/pdf/csr2015/cr2015_slovenia_en.pdf
11 European Economic Forecast, Winter 2015; Available at: http://ec.europa.eu/economy_finance/publications/european_economy/2015/pdf/ee1_en.pdf
12 Standard and Poor's ratings services; Available at http://www.standardandpoors.com/en_US/web/guest/article/-/view/type/HTML/id/1376334
13 Fitch ratings; available at: https://www.fitchratings.com/creditdesk/press_releases/detail.cfm?pr_id=982090

Slovenia. The rating agency expects Slovenia's growth to remain weak, as the recovery of part of the corporate sector will likely take several years[14].

In conclusion, Slovenia continues to battle with excessive macroeconomic imbalances. However, thanks to macroeconomic adjustments and its decisive policy action, imbalances have been unwinding. Problems from economic structure, characterized by weak corporate governance, high level of state involvement in the economy, losses in cost competitiveness, the corporate debt overhang, the increase in government debt are being closely watched and addressed. While considerable progress has been made in repairing the banks' balance sheets, determined action with respect to the full implementation of a comprehensive banking sector strategy, including restructuring, privatisation and enhanced supervision is still required[15].

[14] Moody's: available at http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_1001846

[15] EC European Economy, Macroeconomic Imbalances Slovenia 2014; Available at http://ec.europa.eu/economy_finance/publications/occasional_paper/2014/pdf/ocp187_en.pdf

5. Supply side analysis across the four investment areas

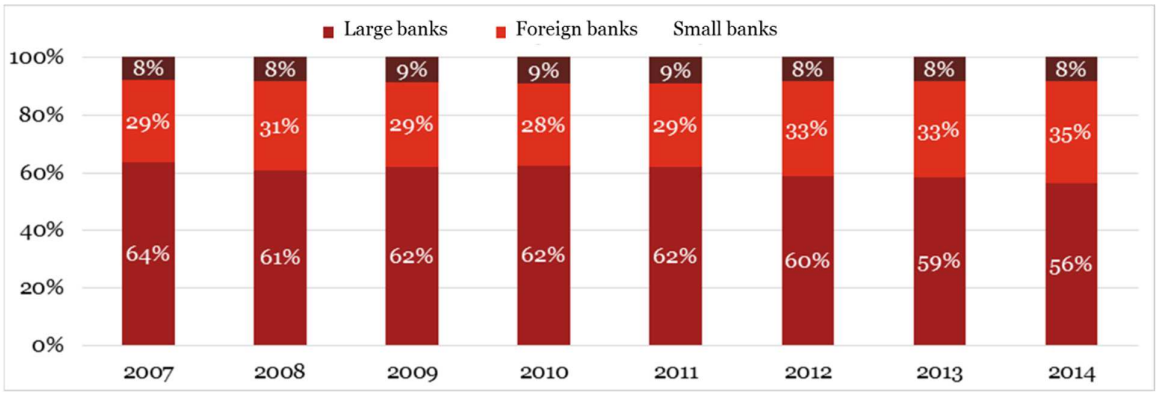
The supply-side analysis provides a horizontal examination of the Slovenian banking sector regarding the supply of financial products available to support SMEs, RDI, EE/URE and UTD. This examination includes an overview of the banking sector in Slovenia and an analysis of the financial products offered in Slovenia, with a specific focus on lending activities towards central government, municipalities, enterprises and households. This analysis of commercial lenders is followed by an overview of the supply of finance provided by other market players, both at international (i.e. EIB, EBRD) and national (SID, SEF, Eco Fund, SRDF) levels. We also provide an overview of the Slovenian capital market. Finally, we provide a summary of the analysis, which highlights potential supply side market weaknesses that may contribute to sub-optimal investment situations in the areas under consideration of this study.

5.1. Banking market in Slovenia

Slovenian banking sector is built of 1 central bank, 17 commercial and retail banks, although 2 of them are gradually ceasing its operations (Factor banka d.d. and Probanka d.d.). In addition, there are also three savings banks[16]. Please find further details on the main commercial banks in Appendix C. -.

Even though that the highest market share is still owned by the state banks, the trend of foreign banks gaining their share, on the account of state owned banks, is continuing. Foreign banks had a 35% market share in 2014. The state owned bank NLB had in 2013 a market share of 23.5%. In 2009, this number was 30.30%[17].

Figure 4: Market shares by bank group in percentage of total assets (in %)



Source: Bank of Slovenia, Financial Stability Review, May 2014

Most claims of the Slovenian banking system is to non-financial corporations, although the amount of claims in the observed period is falling. Since 2010, NFCs reduced their obligation by almost 40%. Households present second largest group of claims. In this sector, decreasing claims over the years were less significant.

[16] Bank Association of Slovenia; Available at: http://www.zbs-giz.si/zdruzenje-bank.asp?StructureId=366

[17] NewspaperFinance; Available at: http://www.finance.si/8803012/NLB-se-%C5%A1e-naprej-kr%C4%8Di-SKB-dohiteva-Unicredit-banko

Table 8: Breakdown of classified claims by client segment, (EUR mil and in %)

	2011		2012		2013		2014		2015 (mar.)	
	EUR mil	%	EUR mil	%	EUR mil	%	EUR mil	%	EUR mil	%
NFCs	24,3	49,1	22,7	47,5	17,2	41,7	14,7	39,1	14,5	39,2
OFCs	2,2	4,4	2,0	4,2	1,9	4,5	1,2	3,3	1,3	3,4
Households	10,2	20,7	10,0	20,8	9,5	23,0	9,3	24,9	9,4	25,5
• sole traders	1,0	2,1	1,0	2,0	0,8	1,9	0,7	1,9	0,7	1,9
• population	9,2	18,6	9,0	18,9	8,7	21,1	8,6	23,0	8,7	23,5
Non-residents	5,6	11,4	5,2	10,8	5,0	12,2	5,5	14,7	5,3	14,4
Government	2,8	5,7	3,6	7,5	3,4	8,3	3,4	9,2	3,4	9,1
Banks and Saving Banks	3,7	7,5	3,4	7,1	2,6	6,4	1,9	5,2	1,8	4,9
Central Bank	0,4	0,8	0,8	1,7	1,5	3,7	1,3	3,5	1,3	3,5
Others	0,2	0,4	0,1	0,3	0,0	0,1	0,0	0,1	0,0	0,1
Total in Mio EUR	**49,5**	100	**47,9**	100	**41,3**	100	**37,5**	100	**36,9**	100

Source: Bank of Slovenia, Financial Stability Review, May 2013 and 2015

Slovenian banking system has been affected **by the balance sheet contraction, risking non-performing loans (NPLs), erosion of capital buffers and liquidity pressures since the onset of crisis**[18].

The 2008—2009 global crisis exposed vulnerabilities of the Slovenian banking system. Bank lending was channelled to corporates in the non-tradable sector and credit became the primary funding source for investment and corporate takeovers, which resulted in significant increase in corporate leverage which put bank lending at risk. Furthermore, Slovenian banks also took significant liquidity risk. All of these vulnerabilities were revealed in 2008—2009. Slovenian banks lost access to external markets and were consequently forced to repay their large external debt when matured. Between August 2008 and end—2013, the net reduction in external liabilities of the banking system reached EUR 11.8 billion, approximately a quarter of the aggregate balance sheet as of end—2008.

The European Central Bank provided long-term liquidity support. Banks used it to pay off its maturing liabilities, but this did not turn the fundamental dynamics around. Vicious loop of accumulated NPLs and deepening recession continued. Banks reduced their lending enormously as capital flows were reversing and foreign funding has been drying up. Correspondingly, the corporate sector cut investment sharply, deepening the recession. Consequently, borrowers' expected cash flows and creditworthiness reduced, leading banks to further contract their credits. NPLs increased rapidly, from 2.6% of total classified claims at end 2007 to 18.1% in November 2013. Corporate borrowers were the main source of problematic loans. Fifty corporates with the largest exposures accounted for some 43% of all banking sector arrears by November 2013. Households on the other hand were in much better position, with only 4% of them in arrears, including mortgages.

A number of important measures have been taken in the 2012—2014 period to address problems in banks. The bank recovery and resolution process begun in 2013 and has contributed to a significant reduction in risk in the banking system. The banks continued the process of balance sheet contraction in 2014, despite the improvement in the domestic macroeconomic situation. This improvement in the macroeconomic situation in 2014 helped to ease the corporate financial recovery, with the anticipated further revival of the business cycle. However, this will only be reflected in the financial cycle gradually and with a lag, even though it will increase credit growth that have the most beneficial impact on bank performance and on improvement in the

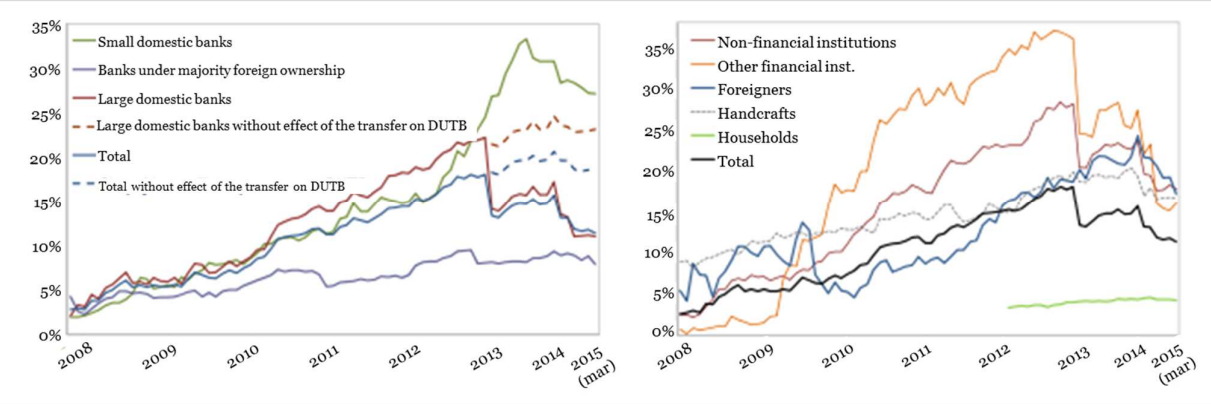
[18] Country report Slovenia 2015; Available at: http://ec.europa.eu/europe2020/pdf/csr2015/cr2015_slovenia_en.pdf

quality of the credit portfolio. Based on the last Moody's rating, the Slovenian banking system is still not fully capable of crediting the private sector[19].

In 2013, the Bank of Slovenia carried out a comprehensive diagnostics of the main banks. The exercise identified a total capital shortfall of EUR 4.8 billion (adverse scenario in the bank-level bottom-up stress tests). The shortfall was addressed by a transfer of non-performing loans (NPLs) to the Bad Asset Management Company (BAMC), burden sharing with qualified subordinated instruments, and an outright capital injection.

Despite the above-mentioned interventions, domestically owned banks remain saddled with a high share of NPLs[20].

Figure 5: Arrears of more than 90 days overdue as a proportion of banks' classified claims by bank group (left) and client segment (right) (in %)



Source: Financial Stability Report, Bank of Slovenia, 2015

The contraction in the banking system's total assets continued for the fifth consecutive year in 2014. The largest decline on the asset side was in **loans to the non-banking sector**, while less profitable investments in more liquid assets and securities were up. The reasons for contraction have been on **the demand** as well as **on supply side.**

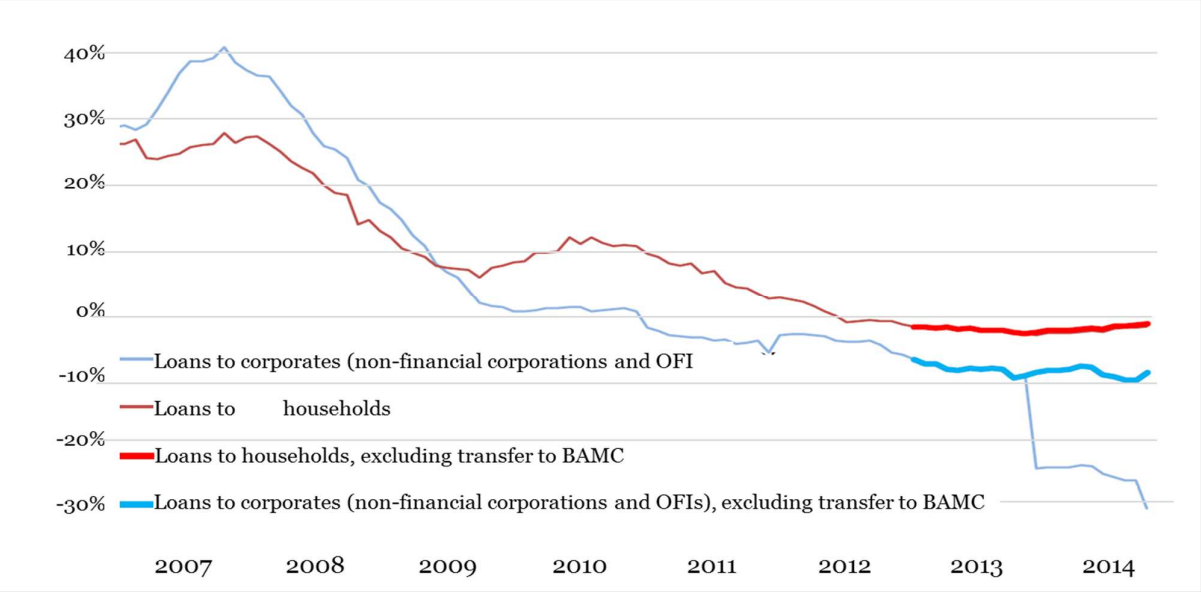
Year-on-year growth in corporate loans, before the creation of impairments, was -31% in October 2014. This includes the effects of institutional factors such as the transfer of the non-performing loans to the BAMC from NLB, NKBM and Abanka, and the initiation of the orderly wind-down process at Probanka and Factor banka. The growth rate of loans to non-banking sector in March 2015 was -10.7%, but if we exclude the effects of institutional factors, the annual growth rate stood at -7.1%. Towards the end of 2014, the multiannual contraction in bank lending began to decline.

In the last two years before the occurrence of impairments, loans to households declined at an annual rate of 3%. In March 2015 were close to zero year-on-year growth. Transfer to DUTB had a very small impact in this sector. Growth in loans to households remains negative in 2015, although the decline in consumer loans has been slowing down since the begging of 2015, while the growth of housing loans remained low, but positive.

[19] Newspaper Delo; Available at: http://www.delo.si/gospodarstvo/infrastruktura/moody-s-v-sloveniji-pricakuje-zgoljsibko-gospodarsko-rast.html

[20] Dalgic et. all. Reviving credit growth for strong and sustainable recovery; Available at: www.zbs-giz.si/system/file.asp?FileId=7561

Figure 6: Year-on-year growth in loans prior to the creation of impairments (in %)

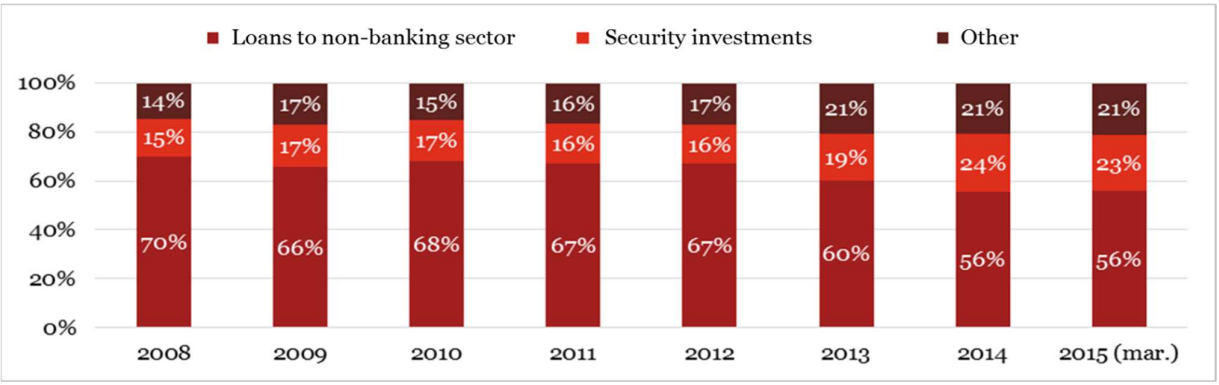


Source: Bank of Slovenia, Stability of the Slovenian banking system, 2014

Significant fall at the end of 2013 was driven by the transfer of NPLs from NLB and NKBM to BAMC. Additional transfers to the BAMC from Abanka in 2014 and Banka Celje in December 2014 further reduced the aggregate level across the systems.

Credit supply has also been a recent limiting factor. Credit standards for corporate loans tightened over the entire crisis and stay in 2014 at a very low level. This is a reflection of the Slovenian banks' considerable aversion to take up additional credit risk and the redirecting of loans to less-risky clients, in particular households, and other forms of investment[21]. The negative credit growth is more pronounced for domestic-owned banks, partly because of the speed of deleveraging of domestic-owned banks but also due to differences in market behaviour and the banks' risk aversion.

Figure 7: Breakdown of banks' investments (in %)



Source: Bank of Slovenia, Stability of the Slovenian banking system 2014

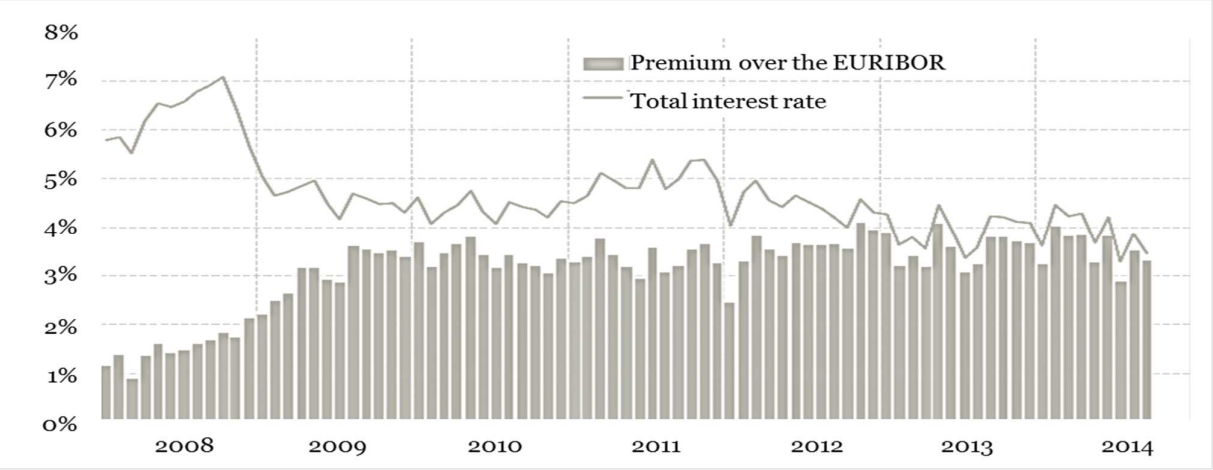
Unstable sources of funding also represent a limiting factor. Amount of short-term funding sources is increasing, which present a significant limiting factor in the funding of long-term loans. The lack of

[21] Bank of Slovenia, Stability of the Slovenian banking system 2015

competitiveness in the Slovenian banks' supply is also seen as rising proportion of loans raised by the non-financial corporations abroad, where loans can be obtained by conditions that are more favourable and at lower interest rates. In September 2014, that proportion was 27%, which has been an increase of 12 percentage points relative to 2008.

Indication of all of stated above is a very high premium over the EURIBOR, which averages 3 percentage points on newly approved long-term loans. This is a reflection of the risk associated with clients on the one hand and the banks' unwillingness to take up credit risk on the other.

Figure 8: Interest rate and premium over the EURIBOR on newly approved long-term corporate loans (in %)



Source: Bank of Slovenia, Stability of the Slovenian banking system, 2014

Financial Leasing

The largest sectors applying for financial leasing are non-financial corporations and households. Together they account for more than 80% of all approved transactions. The non-financial corporations usually make contract for immovable property, while households almost exclusively for movable property. We also added sole trader sector, which is gaining its share.

Table 9: Newly approved leasing transactions - movable and immovable property, by sector (EUR mil and %)

	NFC			Households			Sole Trader			Total		
Year	Mova.	Immov.	% total	Mova.	Immov.	% total	Mova.	Immov.	% total	Mova.	Immov.	% total
2013	152.6	346.4	56%	4.2	292.9	34%	5.4	79	9.5%	165	721	886
2014	213.8	356.3	56%	3	310.8	31%	1.4	105	10.5%	240	775	1016

Source: Bilten, Bank of Slovenia, 2015

When comparing leases according to maturity date, those with five or 10-year maturity date present the largest share of all finance leases. These leases are also primarily based on contracts made for movable property, although they had a significant increase on immovable property in the last year. On the other hand, contracts on immovable goods have relatively higher share in leases with short and very long-term maturity date.

Table 10: New finance lease contracts by maturity (EUR mil and in %)

	1 year			1-5 years			5 - 10 years			More than 10 years		
Year	Move.	Immov.	% total	Move.	Immov.	% total	Move.	Immov.	% total	Move.	Immov.	% total
2013	125.7	99.6	25%	295.3	12.3	35%	297.5	15.8	35%	2.8	37.1	4.5%
2014	124.8	50	17%	337.1	77.1	41%	312.7	74.6	38%	0.6	38.6	3.9%

Source: Bilten, Bank of Slovenia, 2015

Households

The Financial Stability Review report from May 2014 reveals that the financial debt of Slovenian households with around 34 percent of gross domestic product (GDP) and 52 percent of disposable income is less than half the financial debt of Euro area households. The amount of loans to households and non-profit institutions in the observed years decreased, primarily due to consumer lending, since the amount of housing loans increased from 2011. The upward trend can be expected in the future, mainly due to the lowest level of interest rates on housing loans in Slovenia since acceptance of EUR.

Table 11: Liabilities from loans to households (EUR mil)

	2010	2011	2012	2013	2014
Loans	**9,234**	**9,436**	**9,253**	**8,907**	**8,758**
Short-term loans	1,005	1,020	956	901	857
Long-term loans	8,229	8,416	8,297	8,006	7,901

Source: Bank of Slovenia, 2015

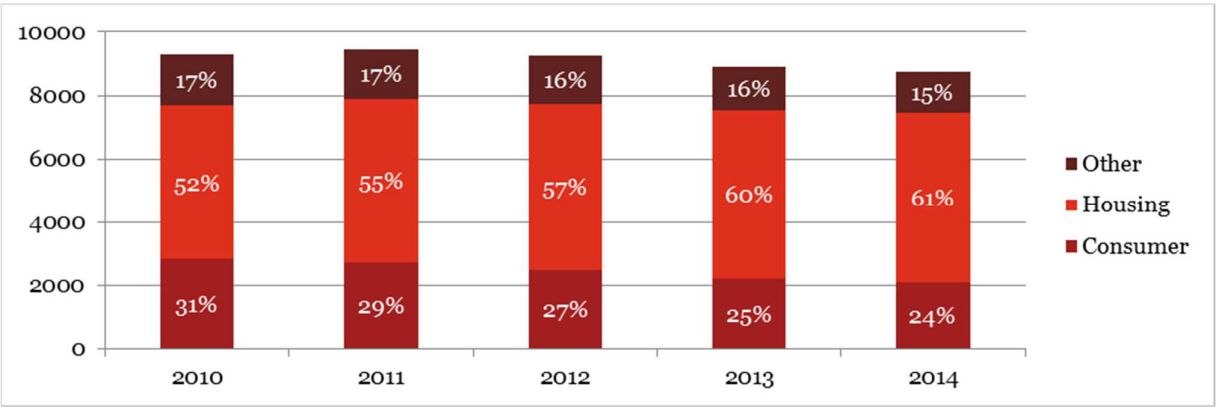
Households remain reserved when it comes to additional borrowing. The volume of new loans has been declining, although it slightly increased in the last year. Positive change was fuelled with long-term loans; however, the amount is still lagging behind the volumes in 2010.

Table 12: The volume of new household loans by commercial banks (EUR mil)

	2010	2011	2012	2013	2014
New loans	**3,111**	**2,429**	**1,977**	**1,645**	**1,679**
Short-term loans	478	373	326	253	198
Long-term loans	2,632	2,056	1,651	1,392	1,480

Source: Bank of Slovenia, 2015

Figure 9: Loans to household and to serving non-profit institutions (EUR mil)



Source: Bilten, Bank of Slovenia, 2015

Non-financial Corporations

The negative trend of non-financial corporates is closely linked to the low cash-flow capacity and high leverage of the Slovenian corporate sector, the remaining high level of corporate NPLs on banks' balance sheets and the ongoing financial and operational restructuring in the corporate sector. The most successful and recognized companies have access to more competitive rates of financing abroad, as loan rates in Slovenia tend to be above those of their regional peers. Some of the companies also took opportunity to tap international and domestic capital markets. As a result, competition between domestic banks has further increased and has started applying pressure on corporate lending rates, which could adversely affect banks' net interest margins and future profitability[22].

The reasons for the contraction in loans on the demand side lied in weak corporate creditworthiness and reluctance to raise new loans. Nevertheless, demand for loans is gradually turning positive. According to the non-financial corporation's survey, their total demand fell by 15.6% in 2013, while the contraction was less severe during the first half of 2014 (5.6%). In 2013, the most common reasons for the rejection of loans were the client's disagreements with terms and poor credit ratings (21.6% and 21%). The reason "inadequate collateral" has risen from 6% in 2010 to 13.8% in 2013.

Table 13: Liabilities from loans to non-financial institutions by commercial banks (EUR mil)

	2010	2011	2012	2013	2014
Loans	**20,867**	**20,313**	**18,986**	**14,226**	**11,362**
Short-term Loans	6,624	6,578	6,188	4,128	2,443
Long-term Loans	14,243	13,735	12,797	10,098	8,919

Source: Bank of Slovenia, 2015

Low demand has reduced the number of issued loans for more than a half since 2010. Reduction is noticeable in both short and long-term loans, although more significantly in the short-term. On the other hand, the trend is estimated to turn, due to the lowering interest rates, which are starting to be comparable with the EU area and will favourably affect the demand[23].

Table 14: The volume of new loans to non-financial institutions by commercial banks (EUR mil)

	2010	2011	2012	2013	2014
New Loans	**21,915**	**18,129**	**13,215**	**9,490**	**8,213**
Short-term Loans	13,734	10,027	7,780	5,445	3,739
Long-term Loans	8,181	8,102	5,435	4,045	4,474

Source: Bank of Slovenia

The volume of new loans represent the total amount of issued loans in each year, while liabilities from loans represent the balance sheet amount on the last day in a year, which means that the data is not directly comparable.

Corporate leverage, measured as the debt-to-equity ratio, is gradually declining and remains significant limiting factor is terms of corporate creditworthiness. Demand for housing loans remained low in 2014 and has been linked in part to expectations of a continuing decline in real estate prices, in particular due to the expected activities of the BACM, which could have a significant impact on the supply of housing should it enter the market.

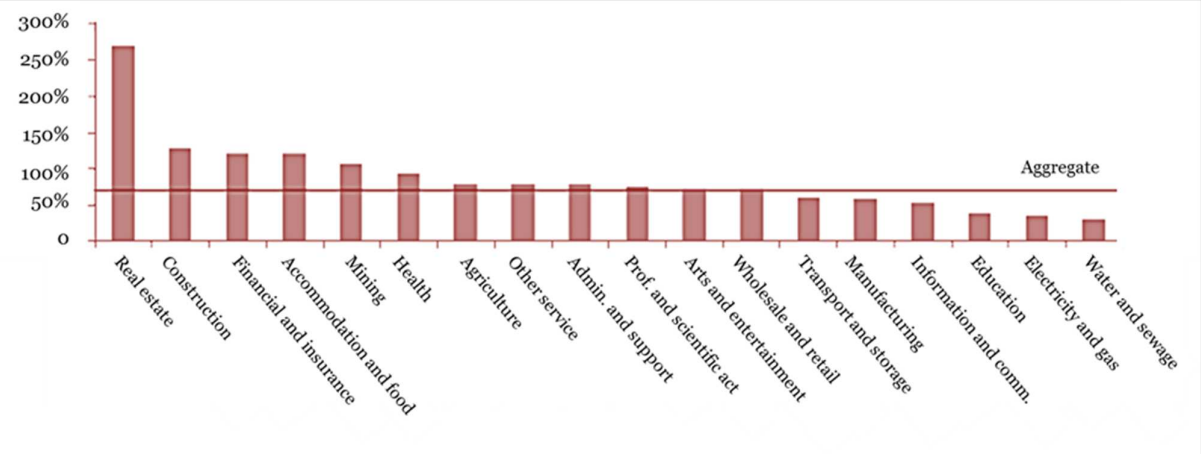
Over-indebtedness of companies hinders investment and growth. Companies are continuously faced with excessive financial leverage compared to their own euro area peers and past trends. Financial problems

[22] Country report Slovenia 2015; Available at: http://ec.europa.eu/europe2020/pdf/csr2015/cr2015_slovenia_en.pdf
[23] http://www.bsi.si/iskalniki/sporocila-za-javnost.asp?VsebinaId=17657&MapaId=137#17657

are extensive. According to *Damijan*, the excess debt of SMEs (debt that exceeds the sustainable level of debt) is concentrated in heavily indebted SMEs, since 7.5% of SMEs (4,210) own 77% of the excess debt, amounting to almost 2.9 billion EUR (the entire surplus SME debt amounts to 3.8 billion EUR). 60% of the excess debt is owned by micro-enterprises and only 17% by medium-sized companies.

In general, debt restructuring and subsequent capital injections are the key for rehabilitation of many highly indebted companies and for restarting sustainable loan growth.

Figure 10: Net debt to equity in non-tradable sectors (in %)



Source: Bank of Slovenia, 2015

For the small- and medium-size enterprises (SMEs) in need of debt restructuring, additional measures may be needed. Small enterprises are particularly at risk from debt distress, as restructuring is held back by the generally secured nature of claims that incentivizes foreclosure over rehabilitation. Furthermore, claim sizes are two small for banks to negotiate over, especially in the absence of good financial data and information about business prospects.[24]

The recovery in economic activity in expected to be accompanied by a gradual reversal in the credit cycle and weak growth in loans to the non-banking sector prior to the creation of impairments in 2016. Positive growth is expected in loans to households prior to the creation of impairments in 2015, while in contrast the growth in loans to the non-banking sector will remain negative till the 2016. The reason lies in additional impairment costs that will be created by the banks due the still relatively high probability of default.

Main findings on the Slovenian banking sector:

- Slovenia performed an extensive reconstruction of the banking system in 2013 and continued with additional measures in 2014;
- Key challenge of restructuring highly leveraged corporate sector remains;
- Enabling renewed growth of credit is essential to achieve more vigorous and durable output growth. This requires completing the repair of bank's balance sheet;
- Slovenia's banking system in large part reflects continues financial stress in its overleveraged corporate sector. Therefore, credit alongside with robust economic growth cannot be restarted without addressing the demand side;
- Early and decisive actions are needed to address balance sheet weaknesses, restore credit growth and support durable recovery;

[24] Dalgic et. all. Reviving credit growth for strong and sustainable recovery; Available at: www.zbs-giz.si/system/file.asp?FileId=7561

- Consumer loans reflect the continued uncertainty of households and thus greater prudence in borrowing;
- Slovenian banks tightened credit standards more than their Euro area counterparts on average during the crisis;
- Proportion of loans raised by non-financial corporation abroad is increasing;
- The main limiting factors on the part of the banks are in the structure and maturity of funding sources, tightened credit standards and an aversion to take up credit risk.

5.2. International Financial Institutions

This section presents the key International Financial Institutions (IFIs), public sector actors and commercial banks active in providing finance to the target sectors of this study in Slovenia.

European Investment Bank (EIB)

The European Investment bank has signed more than 90 loan operation in amount of EUR 5.5 billion since 1993 in Slovenia. Over the past five years (2010—2014), EIB has invested EUR 2.3 billion in the Slovenian economy for project promoting EU objectives in Slovenia. SMEs have accounted for 38% of this total and energy projects further 32%. EIB lending covers all major sectors of the economy in Slovenia, ranging from basic infrastructure, energy, manufacturing and services, including support for SMEs through local financial institutions, to the promotion of the productive sector, competitiveness and the knowledge economy. EIB financing in Slovenia amounted to EUR 111 million in 2014, 68% of which went to Slovenia's SME sector, while 32% contributed to the EIB's ongoing support to increasing the capacity of the Port of Koper[25]. EIB loans signed from 2012 to 2014 are listed below[26].

Table 15: EIB loan portfolio for Slovenia (EUR mil) – signed agreements from 2012-2014

Name of the Project	Sector	Signature date	Signed Amount
Port of Koper Infrastructure II	Transport	22/12/2014	36
SKB loan for SMEs	Credit lines	17/12/2014	50
NKBM loan for SMEs & priority lending	Credit lines	09/12/2014	25
SID energy efficiency and renewables	Energy	05/12/2013	25
SID loan for SMEs and midcaps	Services	05/12/2013	25
SID loan for SMEs and midcaps	Credit lines	05/12/2013	300
BK loan for SMEs and priority lending	Credit lines	28/10/2013	10
BS loan for SMEs-mid caps and other priorities	Credit lines	21/10/2013	30
Renault sustainable Hi-Tech for all	Industry	23/05/2013	90
Slovenia EU funds 2007-2013	Telecom	21/12/2012	10
Slovenia EU funds 2007-2013	Education	21/12/2012	90
Slovenia EU funds 2007-2013	Urban development	21/12/2012	135
Slovenia EU funds 2007-2013	Services	21/12/2012	32

[25] http://www.eib.org/projects/regions/european-union/slovenia/index.htm
[26] http://www.eib.org/projects/loans/regions/european-union/si.htm?start=2012&end=2015&sector

Slovenia EU funds 2007-2013	Water, sewerage	21/12/2012	105
Slovenia EU 2007-2013	Transport	21/12/2012	128
SKB loan for SMEs and priority lending	Credit lines	19/11/2012	75
BK loan for SMEs and priority lending	Credit lines	15/10/2012	20
BC loan for SMEs and priority lending	Credit lines	17/08/2012	25
Total Amount			**1,211**

Source: European Investment Bank, 2015

European Investment Fund (EIF)

European Investment Fund (EIF) aim is to support Europe's SMEs by improving their access to finance. Its primary role is designing, promoting and implementing equity and debt financial instruments. The support by the EIF is provided via wide range of selected financial intermediaries all over the Europe, following the EU objectives to support entrepreneurship, growth, innovation, R&D and employment. EIF is part of the EIB Group and its tripartite shareholding structure include the EIB (63.7%), the EU represented by the EC (24.3%) and 26 financial institutions from 14 European Union MS and Turkey (12%).

First EIF operation in Slovenia was executed in 2004. EIF is collaborating with 4 finance and guarantee institutions, 3 finance and guarantee providers (data from 31 December 2014). EIF has supported in Slovenia over 1,300 SMEs.

In the area of Guarantees & Securitisation, the EIF actively support Slovenian SMEs through guarantees transactions. It cooperates with many financial intermediaries such as Banka Koper, the Slovene Enterprise Fund (SEF) and Sberbank to support their risk-taking capacity. EIF also signed agreements with SEF and Banka Koper under the EU Competitiveness and Innovation Programme (CIP).

Furthermore, EIB has also been cooperating with Slovenian commercial banks under the programme Progress Microfinance. It signed the agreement with Banka Koper, Sberbank and SKB Leasing[27].

The European Bank for Reconstruction and Development (EBRD)

The European Bank for Reconstruction and Development (EBRD) helps Slovenia in expanding the role of the private sector and promoting good corporate governance. With investments, business services and involvement in policy dialog they are stabilizing the financial sector. Moreover, they are supporting sustainable energy. The total portfolio of financing built up by the EBRD in Slovenia up to February 2015 amounted to a net investment of EUR 818 million. Approximately 33 per cent of the Bank's investments were made in the corporate sector, 33 per cent in the financial institutions sector, 21 per cent in the energy sector and 13 per cent into the infrastructure sector[28].

Support for development of micro, small and medium-sized enterprises is one of the key objectives of EBRD. To achieve this objective, it makes financing available to SMEs through a range of intermediaries in the country it operates. These intermediaries include banks in which the EBRD has an equity stake or with which it has signed a loan, and investment or venture capital funds in which the EBRD has made an investment. In addition, direct financing and support may be provided through a number of loan and equity facilities.

Figure 11: Current investment volume in Slovenia as of 31 December 2013 (EUR mil)

Sector	Number of Projects	Current Portfolio Amount

[27] http://www.eif.org/news_centre/publications/country-fact-sheets/eif_factsheet_slovenia_en.pdf
[28] http://www.ebrd.com/slovenia.html.

Power and Energy	1	100
Financial Institutions	3	19
Agribusiness	2	62
Equity Funds	14	23
Information and Communication Technology	1	6
Property and Tourism	1	7
Total	**22**	**217**

Source: EBRD, Strategy for Slovenia, 2013

The Bank portfolio at the end of December 2013 consisted of 22 operations totalling EUR 218 million. The current portfolio is dominated by the large loan facility provided to TES, the state controlled energy company.

5.3. National Financial Institutions

SID Bank

SID Bank (SID – Slovenska izvozna in razvojna banka) was established as a national promotional and development bank in 2008, with the aim of providing financing and insurance of sustainable development for Slovenia, particularly for the international competitiveness of Slovenian enterprises. SID Bank is the successor of Slovene Export Corporation, Inc., Ljubljana (Slovene: Slovenska izvozna družba, d.d., Ljubljana), which was founded in 1992 as a special private-law financial institution for export insurance and financing. SID Bank is the holding company in the SID Banka Group, providing a wide specter of services for encouraging competitiveness in the international economy context.

The main activity provided for its own account is financing of business transactions in the area of market gaps, in the areas defined by law or in the following four current areas of interest:

- Development of the knowledge society and innovative entrepreneurship (research, development and new technologies, education to promote knowledge, funding educational infrastructure and employment of specialized skills and knowledge).
- The development of environment-friendly society and production (financing environmental projects, renewable energy, energy efficiency and environment-friendly materials and production).
- The development of a competitive economy and internationalization (financing projects for growth and development, and promotion of internationalization).
- Regional and social development (infrastructure financing at the regional level and housing in specific areas)[29].

SID Bank acquires resources mainly through borrowing on foreign financial markets on its own behalf and for its own account, as well as with the guarantee of the Republic of Slovenia. Part of the financial resources represent concessional loans, provided by larger development banks of EU, such as EIB or the German KfW. Possibility of such borrowing gives the Slovene economy opportunity to acquire competitive financial resources which provide direct or indirect support to economy development and competitiveness[30].

At the same time, SID Bank on behalf and for the account of the state provides services of export credits and non-marketable insurance, as well as Interest Rate Equalization Programme.

The total value of Bank's financial services in 2014 amounted to EUR 3.7 billion on the banking side and EUR 0.9 billion on the insurance side, the value of SID Bank Group altogether amounted to EUR 8.9 billion. A reduction in comparison to 2013 is consistent with the Slovene banking system trends and with the countercyclical role of SID Bank. The services mentioned provide financial support for 2.281 enterprises. The role of SID Bank is complementing the existing supply with complementary services and by this eliminating

[29] http://www.sid.si/financiranje/financiranje-posredno
[30] http://www.sid.si/about-sid-bank

market inefficiency. Its activity must be formed in a way, which avoids market distortions and competing with other financial institutions.

Co-financing through commercial banks

SID Bank provides long-term assets to the economy and to other beneficiaries through commercial banks in the total amount of almost EUR 2.2 billion at the end of 2014 for the purpose of encouraging:

- Research, development, innovations, new technologies, education, educational infrastructure, employment of persons with specialized skills and knowledge
- Environmental protection, renewable energy, energy efficiency and environmentally friendly materials and production or products
- Financing projects for SME growth and development, business internationalization of the companies of all sizes
- Financing infrastructure at the regional level and housing on special areas.

Projects financed directly through SID Bank under the financial engineering funds:

- Financial services for small and medium enterprises;
- SME investments in energy efficiency;
- Technology development projects.

Financial services for small and medium enterprises consist of three programs. Each has its own terms and conditions, albeit they mostly differ in project sizes. According to the latest SID report from July 2014, the fund has already approved 237 contracts in the amount of EUR 63.8 million. For this purpose, SID Bank in 2013 created a fund of EUR 500 million, under the "financial engineering measures, to encourage the development of small and medium-sized enterprises". EUR 380 million were provided by borrowing on the international market and EUR 120 million by borrowing from the Republic of Slovenia (Ministry of Economic Development and Technology).

For financing technological development projects, SID authorized 23 projects in amount of EUR 102.8 million. For this purpose, SID Bank created a fund of EUR 150 million in 2011, under the "financial engineering measures to promote technological development projects". SME investment in energy efficiency is financed from the European Community and European Investment Bank[31].

SID's financing of municipalities

SID Bank has customized finance instruments to develop a long-term financing program for infrastructure and environmental projects of municipalities. The program is implemented in cooperation with the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB), with a total value of more than EUR 100 million.

Slovene Enterprise Fund (SEF)

Slovenian Enterprise Fund is a public financial institution of Republic of Slovenia, established for granting financial support and incentives to the business sector in Slovenia. SEF annually launches tenders for public aid for development and enlargement of investments of micro, small and medium-sized enterprises (SMEs) in Slovenia.

The purpose of the fund is to improve access to finance for micro, small and medium-sized enterprises (SMEs) in Slovenia.

The fund offers financial instruments in several forms - guarantees as collateral for bank loans, interest rate subsidies, direct microfinance, capital injections, convertible loans and financial incentives for specific target groups.

[31] http://www.sid.si/resources/files/doc/sporocila_za_javnost/2014/Sporoilo_za_javnost_Julij_2014.pdf

Because the need for financial resources and support vary based on the stage of the life cycle in which the company is, SEF adjusted the Financial Instruments in relation to the development phase and the specific needs of the company within each phase.

The Fund closely co-operates with other domestic and international financial institutions such as commercial banks, the European Investment Fund (EIF) and the European Mutual Guarantee Association (AECM)[32].

Slovenian Environmental Public Fund (Eco Fund)

Eco Fund is a public financial fund established by the Republic of Slovenia. The main purpose of Eco Fund's performance is encouraging sustainable development of the country by financing investments, which aim at preventing, eliminating or reducing environmental burdens. In so doing, Eco Fund follows the objectives of the National Environmental Action Programme, the National Energy Programme and the objectives of operational and action programmes adopted on the basis thereof, as well as the objectives of the common EU energy and environmental policy. Fundamental business orientation of Eco Fund is promoting environmental investments with measurable environmental impacts in the field of air and climate protection, with emphasis on energy efficiency and increased use of renewable energy sources, in the field of water protection and efficiency, and in the field of waste management.

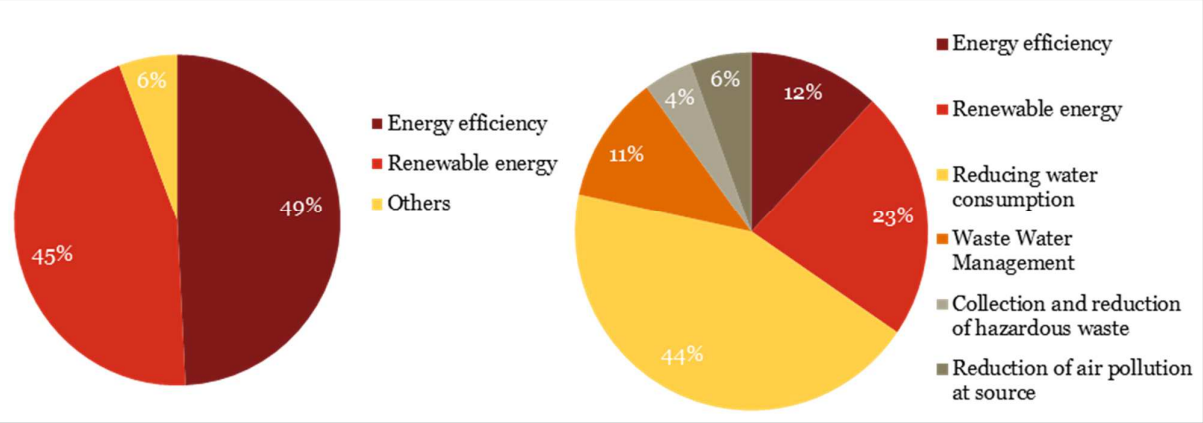
Eco Fund's source of finance for granting favourable loans consists of a dedicated wealth fund (own fund – capital) and of loans which the Eco Fund takes out with domestic and foreign financial institutions. Eco Fund acquired – and still acquires but to a lesser extent – a significant part of the resources under the dedicated wealth fund on the basis of the Act Regulating the Use of Funds Arising from the Proceeds Based on the Ownership Transformation of Companies Act, in accordance with which the Eco Fund is entitled to 8.5% of the resources of each sale proceeds.

Compared to commercial banks, key advantages of Eco Fund in the market of financing environmental investments are favourable loans at lower interest rates than those prevailing on the commercial market and the ability of the Fund to provide loans with a longer repayment period than those of commercial banks. Most recent assessments of the effective interest rate of Eco Fund and commercial bank loans showed that by raising a loan from Eco Fund, 1.5% of the total investment price could be saved. Since 1995, Eco Fund granted loans in the total amount of almost EUR 500 million for investments worth more than EUR billion. Eco Fund provides loans for environmental investments in accordance with three programmes, namely loans for environmental investments of citizens, loans for environmental investments of municipalities, and loans for environmental investments of other legal persons, private entrepreneurs and private citizens.

Since 2008, the activity of Eco Fund has been complemented with the allocation of grants for investments in the field of energy efficiency and renewable energy sources (to citizens for investments in residential buildings, to citizens and legal persons for electric vehicles, and to municipalities for low-energy or passive construction and renovation of buildings). In 2008 and 2009, the resources for grants were taken partly from the public budget (EUR 4 million) and partly from other dedicated resources (EUR 7.5 million), since 2010, however, they are provided in accordance with the energy legislation (by the end of 2014, around EUR 85 million was disbursed), and since 2013 also through the Climate Change Fund[33].

[32] http://www.podjetniskisklad.si/business-report.html
[33] Eco Fund, Annual report 2013; available at http://www.ekosklad.si/dokumenti/media/LetnaPorocila/LP_13_slo.pdf

Figure 12: Structure of loans for natural persons (left) and legal persons (right) in 2013



Source: Eco Fund, Annual Report, 2015

Slovenian Regional Development fund (SRDF)

The Fund acts as one of the key institutions of regional development policy. It operates as a public financial fund, which is designed for a more sustainable achievement of public goals in regional development and rural development. As a primary form of incentive, the Fund grants loans with a favourable interest rate and a long maturity, i.e. payback periods of up to 20 years. This is advantageous, especially when viewed in comparison with "market" or bank investment loans. Only exceptionally, in cases of projects, located in the areas of the Hungarian and Italian national communities, the Fund supports investments, in addition to loans, also through grants, which are not available for other projects[34].

According to the business and financial planning, the fund estimated investments in form of financial incentives amounted to EUR 34 million in 2013, which was provided from own resources and additional EUR 9.75 million of grants, financed by Ministry of Economic development and Technology[35]. Overview of actual financial incentives approved is given in the table below.

Table 16: Overview of financial incentives in 2013 (EUR mil)

	Approved Amount	Total Investment Amount
Projects in the field of primary agricultural	0.9	1.7
Projects in the areas of autochthonous national communities;	2.1	3.8
Projects for initial entrepreneurial investments	0.03	0.03
Co-financing of local and regional infrastructure	9	52.7
Pre-financing projects with approved EU funds	1	5.7
Total	**13**	**63.9**

Source: Slovenian Regional Development Fund, annual report 2013

Incentives are being granted by the fund in the following fields of investment:

- co-financing of initial entrepreneurial investments;
- co-financing of local and regional infrastructure as well as social and economic infrastructure owned by municipalities;

[34] Slovenian Regional Development fund; Available at http://www.regionalnisklad.si/english
[35] SRDF, annual report 2013; Available at: http://www.regionalnisklad.si/uploads/datoteke/5_LP%202013_cistopis_13102014_urejeno.pdf

- co-financing of projects in the field of rural development and support for projects in primary agricultural production as well as projects of processing, marketing and complementary activities;
- co-financing of investment projects to increase the economic basis of the autochthonous national communities;
- co-financing of projects based on the implementation of emergency measures in regional development;
- Incentives by the Fund have a priority focus on projects undertaken by investors in regions with a high development threat.

5.4. Microfinance market

The EU definition describes microfinance as loans or lease receivables up to EUR 25,000, offered especially to micro-enterprises, directly or through a loan to the entrepreneurs.

Microfinance is, therefore, a tool to encourage social and financial inclusion and is an important incentive for the development of micro-enterprises and for job creation. Moreover, the efficient provision of microfinance plays a crucial role in mitigating the effects of financial and economic crises.

Microfinance market is under-developed in Slovenia. Currently, there is not specific microfinance institution established in Slovenia.

In the 2007–2013 programming period, the Slovene Enterprise Fund has provided micro-loans, which were intendent for micro and well as for small companies to finance working capital, investments or combinations of both.

Furthermore, via EIF programme Progress Microfinance, three Slovenian commercial banks have provided microfinance to the micro companies: Banka Koper, SKB Leasing and Volksbank (Sberbank).

5.5. Equity financing market

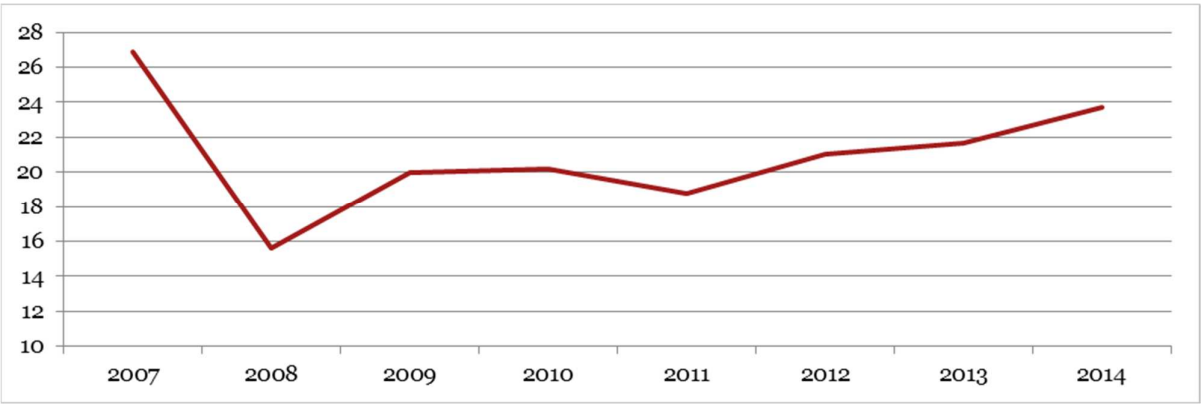
Slovenian capital market has been through major changes after Slovenia was accepted in the European Union. It has become a part of a single European capital market. The biggest challenge was coordination between Slovenian and European legislation. As a result, numerous new financial laws had to be made. Slovenian capital market has relatively small range and is underdevelopment, which makes it an emerging market.

The Securities Market Agency (ATVP) supervises market activities. The agency exercise supervision over the brokerage companies, banks engaged in investment transactions and services, management companies, investment funds, mutual pension funds, etc. in order to maintain a safe, transparent and efficient market.

Ljubljana Stock Exchange

The operator of the Slovenian regulated capital market is the public limited company Ljubljanska borza, d. d., Ljubljana (Ljubljana Stock Exchange) which has recently become part of the emerging Central and East European regional market through integration with the Central and East European regional market as part of the Vienna Stock Exchange (VSE) Group.

Figure 13: Market Capitalization of Ljubljana Stock Exchange (EUR bil)



Source: Ljubljana Stock Exchange

As can be seen in the Figure above, following the financial crisis the LSE market capitalization had a steel drop in 2008. It increased in 2009, but was still well below record high in 2007, with EUR 27 billion. Since then, market capitalization had an increasing trend, although second crisis in 2011 created a fall. Increasing trend over the last couple of years amounted to EUR 21.68 billion in 2013 and EUR 23.73 billion in 2014.

Pension Funds

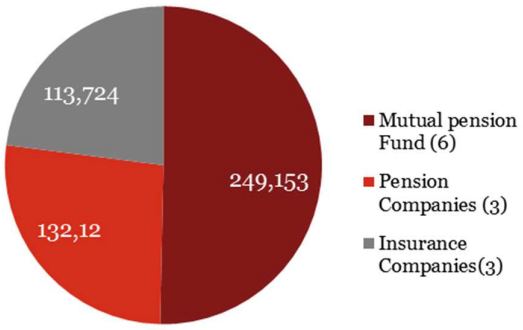
An important player and a potential co-investor for envisaged financial instruments, in the Slovenian capital market is the domestic pension fund industry.

Slovenia runs a three-tier pension system. The first (public and mandatory) pillar is represented by earnings-related programs, financed through social contributions and related to employment. The first tier is financed on a pay-as-you-go basis, through contributions paid by employees (15.5% of gross wages), employers (8.85% of gross wages), self-employed (total), and through generous state compensatory contributions.

The second (private, voluntary or mandatory) pillar is now either voluntary for private sector employees, mandatory for particular working categories and, since 2004, for public sector. Occupational pension schemes (open- and close-ended) were separated from individual ones (third pillar) in 2001. Different providers are allowed to offer private pension plans: mutual pension funds, pension companies, insurance companies and the public pension fund facility Kapitalska družba. These entities are subject to different laws, they are supervised and licensed by different agencies, they have different legal status and they evaluate assets differently[36]. This pillar is also the one that could provide a potential partner in insuring financial instrument for investments concerning areas of this study.

[36] European Social Observatory, country report Slovenia; available at: http://www.ose.be/files/publication/2010/country_reports_pension/OSE_2010_CRpension_Slovenia.pdf

Figure 14: Number of insurers in the 2nd (voluntary) pillar in 2013



Source: Ministry of labour, family, social affairs and equal opportunities[37], 2015

The third pillar represents various forms of individual voluntary insurance. Regardless of employment status, individual can save according to his financial capacity and wishes at different providers. These are various forms of life insurance, where collected funds on savings accounts are capitalized and paid out in the form of annuity or as a lump sum when retirement comes. The essential features of this form of pension schemes are long-term investments and lower tax incentives from the state.

Investment Funds

The sole purpose of the investment fund is public fund-raising money from natural persons and legal entities and investing it in securities and other liquid financial investments under the principles of risk spreading.

In the Republic of Slovenia, management of investment funds is allowed to companies, which have obtained permission from Securities Market Agency. Investment funds services are used under the conditions laid down in the Act on Investment Funds and Asset Management in the Republic of Slovenia[38].

Table 17: Investment funds and its asset values in Slovenia at 31 December 2013 (EUR mil)

	Net asset value	Share %	Number of funds
Triglav Skladi, d. o. o.[39]	537.8	29.23	17
KD Skladi, d. o. o.	377.1	20.50	14
NLB Skladi, d. o. o.	352.3	19.15	18
INFOND, d. o. o.	240.7	13.08	19
Alta Skladi, d. d.	158.7	8.63	20
NFD, d. o. o.	78.0	4.24	9
Abanka Skladi, d. o. o.[40]	-	-	-
Primorski Skladi, d. d.	49.4	2.68	4
Ilirika DZU, d. o. o.	36.0	1.96	9
Perspektiva DZU, d. o. o.	9.3	0.51	6
Numerica Partnerji DZU, d. o. o.	0.4	0.02	1

[37] http://www.mddsz.gov.si/si/delovna_podrocja/delovna_razmerja_in_pravice_iz_dela/pokojninsko_in_invalidsko_zavarovanje/dodatno_pokojninsko_zavarovanje/izvajalci_dodatnega_pokojninskega_zavarovanja/seznam_izvajalcev_dodatnega_pokojninskega_zavarovanja/

[38] http://www.a-tvp.si/Default.aspx?id=177

[39] Triglav Skladi d.o.o. took over in 2013 the management business from Abanka Skladi d.o.o.

[40] Družba Abanka Skladi, d. o .o. je v letu 2013 prenehala z opravljanjem storitev upravljanja investicijskih skladov

Total	1.839,9	100	117

Source: Securities Market Agency (ATVP)[41]

Business Angels

In Slovenia there is also an active network of Business Angles called "The business angels of Slovenia" (Bas). It was founded in 2007. It is the focal point connecting ambitious entrepreneurs, who are in the early stages of company growth and the most successful businessmen in Slovenia. Members of the club are businessmen with a high level of integrity, extensive experience, rich social capital (e.g. "smart money") and the willingness to assist a fast-growing start-up company with expansion and development. They invest up to EUR 500,000 in companies that have made an initial entry to the market with a working prototype and a well-developed business plan. Angel investors aim to contribute knowledge and know-how in order to assist entrepreneurs in growing their business, which makes them an important element of entrepreneurial eco-system[42].

Venture Capital

Venture capital stands for capital investment in companies, which are not listed on a stock exchange market. Investors are not the founders of the company, but are nevertheless willing to invest their own capital in high-risk initial phase of development and expansion of the business.

Emerging venture capital funds are important partners in the provision of financial resources in the developed world. Funds fill the gap between the initial situation, where the SMEs are financed with their own savings and the condition, where the companies are financial solid and can already be financed by bank loans[43].

Please find below the list of Venture capital companies registered in Slovenia[44]:

- Prvi sklad, družba tveganega kapitala, d.o.o;
- DTK Murka, družba tveganega kapitala, d.o.o;
- META Ingenium, družba tveganega kapitala, d.o.o;
- SCS, družba tveganega kapitala, d.o.o;
- STH Ventures, družba tveganega kapitala, d.o.o;
- Sklad poslovnih angelov, družba tveganega kapitala, d.o.o;
- Sklad tveganega kapitala Taxgroup, družba tveganega kapitala, d.o.o;
- Metuzalem, družba tveganega kapitala, d.o.o;
- Vzpon, družba tveganega kapitala, d.o.o;
- P.E.N., Prva energijska naložba, družba tveganega kapitala d.o.o.

First public tender was published in 2010 by the Slovene Enterprise fund, inviting private venture capital companies. Republic of Slovenia invested in those companies 49% of the equity stake out. These selected venture capital companies invested the acquired funds, together with funds provided by private investors, as venture and mezzanine capital in promising, innovative and fast-growing SMEs. Until the end of June 2015, the selected venture capital companies (first 5 from the above list) invested in 26 SMEs that had projects aiming to be profitable and with a high growth potential[45].

[41] http://www.a-tvp.si/Default.aspx?id=101
[42] http://www.poslovniangeli.si/
[43] http://www.imamidejo.si/resources/files/doc/Osnove_lastni__kih_oblik_financiranja_MSP.pdf
[44] http://www.mgrt.gov.si/si/zakonodaja_in_dokumenti/podjetnistvo_konkurencnost_in_tehnologija/drugi_pomembni_dokumenti/register_druzb_tveganega_kapitala/
[45] EY, Assessment of Member State policies to facilitate access to finance for SMEs, Slovenia, June 2014

Seed Capital

Seed capital in the form of equity financing is a relatively new instrument offered in 2014 by Slovene Enterprise Fund to start-up companies, which are registered up to 5 years. This type of instrument has two forms:

- Seed capital in the amount EUR 50,000 is intended to start-ups registered less than 3 years. Financial support in the form of convertible loan;
- Seed capital in the amount EU 200,000 EUR is intended to start-up companies registered up to 5 years. This type of financing will be combined with the private investors.

Total amount committed in the 2014 and 2015 has been EUR 5 million.

6. Existing Financial Instruments and lessons learnt

The use of the financial instruments has been increasingly promoted in the EU over the last 10 years, and especially in the last programming period, several EU countries chose to design and implement FIs.

Overall, a strong momentum for the use of the FIs was generated in the last programming period. However, absorption rates varied between countries. In order to improve the performance of FIs and the accuracy of set targets but also the relevance of the proposed structures with the environment and needs of each country, new regulation has been introduced in the EU.

Financial instruments including microfinance, loans, guarantees, venture capital have been designed and implemented in Slovenia during the programming period 2007—2013.

Slovene Enterprise fund

- Programme on Financial Engineering Instruments (PFEI);
- Guarantee Fund Programme (P1 2009).

In the programming period 2007—2013, under the priority "Promoting entrepreneurship", Ministry of Economic Development and Technology planned various forms of financing for SMEs. In early 2009, "Program of Guarantees for bank loans with subsidized interest rates" (P1 09) was approved as well as Programme on Financial Engineering Instruments (PFEI) for SMEs in Slovenia for equity financing for the period 2009- 2013. The first phase for PFEI was worth 35.05 million. Additional funds were added to PFEI in the amount of EUR 45.7 mil.

The PFEI has been put into action and also implemented by the Slovene Enterprise Fund (SEF), **taking over the responsibility of a holding fund**, including equity financing instruments (venture capital) as well as debt financing instruments (guarantees, guarantees with subsidized interest rate, loans).

The funds for the implementation were in majority provided through the European funds – ERDF (46%), revolving funds, national funds of Republic of Slovenia (59%) and through European investment fund (2%). SEF has also insured some of its own funds (2%)[46]. Due to the already established system of financial engineering, Slovenia decided not to participate in the European JEREMIE program at that time.

Within their activities, the SEF has also been **focusing on Start-up companies** (via grants and seed capital). Furthermore, it **directly provided micro loans** for micro and small companies. With their diversified programme, SEF has been aiming to cover all four phases of the company's growth.

The table below show the results of SEF for the period 2007-2014. While the success rate of using the funds for micro-credit and guarantees was almost 100%, use of funds for the venture and seed capital was lower. SEF approved in the period 2007—2014 EUR 696.6 mil of funds (the amount includes subsidies) and thus encouraged investments of 1.42 billion.

Table 18: Allocation according to financial instruments in the 2007—2013 programming period (EUR mil)

Financial instruments 2007-2014	No. of supported projects	Amount of appropriations	% of spending	Amount of encourage investment
Guarantees	2,005	375.2	94%	787,0
Guarantees TIP	334	8.,8	50%	144,7
		13.0	64%	
Post-guarantee	110	2.1	37%	12,4

[46] Programme of financial engineering instruments for SMEs in Slovenia for the period 2009-2013 (PFEI)

Credits	457	11.0	99%	20,3
Subsidies to launch	410	19.9	87%	31,8
Subsidies for new technological equipment	962	149.3	99%	345,0
Grants for tourism projects	38	19.7	99%	54,0
Venture capital	25	23.3	69%	23,0
Seed capital	22	1.4	58%	2,8
TOTAL	**4.363**	**696,6**	**84%**	**1.421,6**

Source: Slovene Enterprise Fund, 2015

SID Bank

SID Bank is the first Slovene financial institution to include Financial Instruments in its product supply. The Bank currently (September 2015) provides eight products based on Financial Instruments which have State aid status. The largest part aims at financing SMEs and RDI under credit lines of financial engineering funds. Three products in the EE field have already been established: for direct financing of enterprises, for direct financing of municipalities, and for financing investments of natural persons through banks. In addition to its own resources, SID bank for its Financial Instruments most commonly uses EIB resources and resources of the Ministry of Economic Development and Technology, as well as CEB and EC. Main characteristics of SID bank Financial Instruments are presented in Appendix D. -.

SID Bank deals with its final beneficiaries on a primary basis through banks, which represents around three quarters of its lending activity volume. As a part of its business, SID Bank provides insurance of export transactions and investments in the range of approximately EUR 900 million per year. Especially in the first years of the crisis, it also deposited guarantee schemes with the purpose of preventing the contraction in financing of the economy. In the last two roles it acts on behalf and for the account of the Republic of Slovenia.

European Progress Microfinance facility

The European Progress Microfinance *Facility* started operating in 2010 under the auspices of the European Investment Fund and ensures guarantees, as well as the financing of instruments, intended for the microfinance of intermediaries in the EU Member States[47]. The objective of the initiative is to increase the availability of microfinance, so that micro-companies' access to finance would be established or would improve through certain selected intermediaries, such as public or private banks or non-bank microfinance institutions, but not non-profit microcredit providers. The *Microfinance* Facility does not directly finance micro-entrepreneurs, but grants the selected microcredit providers an option to increase loans by:

- Issuing guarantees; and
- Providing resources, in order to increase microcredit loans.

In Slovenia, the European Investment Fund has signed a financing agreement in cooperation with three commercial banks – Banka Koper, Banka Celje and Sberbank. The current results show that banks have provided support to more than 600 companies by means of microfinance.

Eco Fund

Eco Fund is a public fund specialized for supporting **different environmental investments.** Key financial instruments to support investments have been **soft loans, non-repayable subsidies (grants)** and awareness-raising activities. Soft loans, provided by the Eco Fund, have lower interest rates and longer maturity.

[47] European Commission: Employment, Social Affairs and Inclusion. http://ec.europa.eu/social/main.jsp?langId=en&catId=836

According to the available resources, offered on the market by Eco Fund, the values of the individual contract values are lower, due to specific factors, which affect the real values (alteration of the amount of investment, non-conformity with the formal requirements, etc.).

Slovenian Regional Development Fund

Fund has executed almost all of the tenders based on the state aid rules. As new state aid rules were under approval in 2014 (adopted in March 2015), the Fund was not able to realize the majority of their calls for tender in 2014. Consequently, the funds were transferred in the year 2015.

Fund is largely financed through own funds, the largest source of financing in the amount of EUR 14 million was awarded in 2011 by the Ministry of Economy, Development and Technology, where he performed as the contractor for execution of tenders.

The Fund is very diversified with its offer and covers municipalities, companies (it has also been active in the sector of agriculture).

Please find attached the list of the existing Financial Instruments in Slovenia in Appendix D. -.

Main lessons learnt in the 2007—2013 period

Table 19: Main lessons learnt for the 2007 - 2013 programming period

Lesson learnt	Description
Different coverage of the financial instruments across the four investment areas.	Offering of the different financial instruments is most widespread and developed in the field of SMEs through the Slovenian Enterprise Fund and SID Bank. In the field of energy efficiency, SID Bank and Eco Fund are present and cover companies, municipalities and individuals.
While guarantees have been prevailing, other type of financing was also available.	Offer of the Slovenian Enterprise Fund is largely based on the guarantees, but it also developed many other instruments, in the field of debt as well as equity financing (micro-credit, convertible loans, venture capital, and capital - equity entry).
Grant financing has been crucial for some of the areas.	Certain areas have been fully or partly covered by grants and have therefore been crucial for the development of these areas (agriculture, RDI, a large part of the existing projects in the field of energy efficiency). Based on interviews conducted, similar expectations and challenges were pointed out, i.e. that stakeholders may not want to obtain financing via financial instruments, as they are not willing to adapt to this type of financing.
Furthermore, grant incentives will stay an important component.	There are areas where financing without the inclusion of grant incentives will not be possible (e.g. start-up companies, energy efficiency renovation of buildings that fall under cultural heritage, specific incentives for research and development, certain sectors of agriculture), so it will be necessary to define which FI would be reasonable to complement the subsidy.

Slovenian legislative framework sometimes presents an obstacle for efficient financing.	Current legislative framework in certain areas does not allow efficient use of funds through financial instruments that are available (e.g. 100% consent of the owners of a loan by the building administrator to obtain funds for energy rehabilitation, treatment guarantees the Slovenian Enterprise Fund as non-prime state insurance, inability of additional borrowing of the Slovenian Regional Development Fund…).
Rigid tender specifications "force" the companies to adapt their strategies.	Problem of rigid and highly bureaucratic system - the beneficiaries are creating strategies based on the tender specifications and are also adjusting their plans accordingly, instead of preparing the strategy that would follow their business plan and expectations.
Many existing Funds with limited capacities.	Funds are overwhelmed; they do not have enough capacity (staff) for reviewing applications, as well as not to expand their offers.
Overlapping of different instruments.	Same or similar types of financial instruments offered through different stakeholders in the same area and in the same time period (e.g. the field of RDI: SID Bank credit line and guarantee of SEF).
Divided opinions on effectiveness of interest rate subsidies.	Different opinions exist regarding combination of guarantees and interest rate subsidies considered as an (cost) effective instrument.
Venture capital cycle is in the divestment phase, no new investment cycle set-up.	Venture capital market will after a 5-year investment phase, follow a 5-year de-investment phase. There is a possibility of setting up a new fund. Based on the information obtained through the interviews, it would be efficient for the functioning of venture capital funds to include a higher proportion of investments from abroad; therefore, there are also considerations of co-operation of Slovenia in cross-border venture capital fund.
Due to market limitations and experiences of other countries, desire to go across border exists.	Slovenia as a small country in all areas does not have a sufficient critical mass to achieve the desired effect. In the field of equity financing preferences for integration with other countries exist.
Existing institutions providing financing seek to maximize its adaption to the market.	The discussions include the main correspondents in order to understand the aspects of the main stakeholders involved in the market in order to increase transparency. However, notwithstanding the above, Slovenia still needs greater flexibility, which will enable faster conversions of the programs according to the needs of the market.

Source: PwC analysis, 2015

Please note that the Financial Instruments, which already exist in the country, have proven results in supporting their final beneficiaries. In that perspective, there is no reason to stop them. They can therefore continue during the 2014-2020 programming period, in parallel to the Financial Instruments and financial products proposed in the present Investment Strategy. Existing financial instruments can stay the same if

provided with another source of financing, not ESI funds (i.e. Government funding, Municipalities' funding, private funding).

If the Managing Authority decides to continue one or several existing Financial Instruments and to use ESI Funds as a funding source, these Financial Instruments have to be adapted and to be compliant with the new regulation of the European Union regarding the development of FIs using ESI Funds. This consequently involves change in the design and in the implementation of the Financial Instruments. This change is needed to align the existing Financial Instruments of Slovenia with the EU regulation related to Financial Instruments in the 2014-2020 programming period. This regulation notably includes the selection of financial intermediaries on the basis of open, transparent, proportionate and non-discriminatory procedures, avoiding conflicts of interest (Art. 38(5) CPR).

For instance, if the Managing Authority is willing to continue the individual guarantee currently provided to commercial banks on a project-by-project basis, this financial product has to be adapted to be compliant with the EU regulation relative to Financial Instruments for the 2014-2020 programming period.

7. Building block 1: Market assessment of the investment areas

This section of the study provides consideration and guidance for the application of FIs in the four investment areas. Specific in-depth considerations have been provided for the investment areas SMEs, RDI, EE/RE and sustainable urban and territorial development.

The analysis of the investment area presented in this chapter covers the major steps of the ex-ante assessment from the Building block 1 – market assessment building, as designated in the good practice *of Ex-ante assessment for financial instruments* (Vol. I – general methodology).

For each of the four investment areas for which a specific level guidance and analysis is provided, the sections of the chapter cover the following steps of the ex-ante assessment:

Analysis of market failures, suboptimal investment situations and investments needs

For each investment area we conduct a demand-side analysis for financial products where we: (i) identify the main actors needing financing in Slovenia; (ii) identify a potential pipeline of projects; (iii) assess which financial products are the most suited to the identified project pipeline; (iv) identify a rough estimate of the amounts necessary to finance these projects. The analysis is based upon information gathered through desk research as well as an extensive round of interviews with key public and private sector actors in the focus areas.

We then perform a gap analysis to compare the results of the sector-specific demand analysis with the supply-side analysis in order to identify any potential market failures and sub-optimal investment situations that could be addressed through dedicated FIs established using OP resources.

Value added of the potential future Financial Instruments

Using the information gathered during the identification of potential market failures and sub-optimal investment situations, we assess the value added of the envisaged FI and compare it with other possible forms of intervention (e.g. alternative FIs, grants) in addition to identifying possible interactions with existing public interventions.

Estimate of additional public and private resources

In this step, we assess the potential public and private co-financing resources associated with the implementation of the envisaged FI. This includes identifying the origin of the resources, when they would potentially be available and estimating the leverage effect for the FI.

Review of lessons learnt from past and existing funds in other Member States

As part of the continuous improvement principle set out in the requirements for the ex-ante assessment, we identify and analyse relevant past experiences regarding the use of similar existing funds/instruments in other relevant Member States. We then analyse the main success factors/pitfalls of the cases examined in order to use the experience gained to enhance the performance of the envisaged FI in Slovenia.

7.1. Small and Medium-sized Enterprises

This chapter aims at identifying the existing supply and potential demand of selected financial products available in Slovenia to, micro-, small and medium-sized enterprises.

7.1.1. Analysis of market failures, suboptimal investment situations and investment needs

Overview of the SME market in Slovenia

In 2013, there were more than 180,000 of small and medium-sized enterprises (SMEs) in Slovenia, which indicates high importance of this segment for the Slovene economy.

Number of SMEs have been increasing over the past few years (Table 20). The increase was particularly pronounced for micro companies between 2012 and 2013 (by 5.4%) as well as total SMEs on general (5.1%). On the other hand, small and medium sized companies had a decrease in the same period. This can be explained by three trends, all related to the global crisis. First, larger SMEs may have downsized into micro-enterprises, which is true for both small and medium sized companies. Second, people recently unemployed because of the crisis may have decided to create their own enterprise instead of finding a job during this difficult period. Third, the use of grants made it easier for the unemployed to start their own company. This is evidenced by 15.4% increase in the number of 0—1 employee companies between 2010 and 2013 (from 115,289 to 133,084 in 2013)[48].

Table 20: Absolute number of SMEs in Slovenia and percentage change year-on-year between 2010—2013

	2010		2011			2012			2013		
	No. of comp.	*% of total*	No. of comp.	*% of total*	*Change y-y*	No. of comp.	*% of total*	*Change y-y*	No. of comp.	*% of total*	*Change y-y*
Micro (0-9)	156,305	*94.4%*	159,986	*94.7%*	**2.4%**	164,115	*94.9%*	**2.6%**	172,983	*95.2%*	**5.4%**
Small (10-49)	7,181	*4.3%*	6,950	*4.1%*	-3.2%	6,815	*3.9%*	-1.9%	6,788	*3.7%*	-0.4%
Medium (50-249)	2,129	*1.3%*	2,082	*1.2%*	-2.2%	2,031	*1.2%*	-2.4%	1,988	*1.1%*	-2.1%
Total SME	165,615	*100%*	169,018	*100%*	2.1%	172,961	*100%*	2%	181,759	*100%*	5.1%

Source: SI-STAT, 2015

In 2013, SMEs accounted for 69% of overall employment, generated 67% of revenue and 54% of added value. This indicates that SMEs are on average less productive than larger companies are, generate less revenue and even less added value with a higher number of employees. Although the gross value added generated by SMEs was higher than that of larger companies, the average value added per employee in SME amounted to EUR 33,362 in 2013, which is 32 % less than in large companies[49].

Table 21: SMEs in Slovenia, basic data for 2013

	Number of enterprises	Share	Number of people, working	Share	Revenue (EUR ths)	Share	GVA (EUR ths)	Share
Total	182,089	100%	817,458	100%	90,625,516	100%	18,001,488	100%
Micro (0-9)	172,983	95%	235,900	29%	18,106,864	20%	4,584,119	25%
Small (10-49)	6,788	4%	136,185	17%	18,199,850	20%	2,523,418	14%
Medium (50-249)	1,988	1%	194,698	24%	24,002,460	26%	2,602,210	14%
SME total	181,759	99,8%	566,783	69%	60,309,174	67%	9,709,746	54%

[48] SI-STAT_ http://pxweb.stat.si/pxweb/database/Ekonomsko/14_poslovni_subjekti/01_14188_podjetja/01_14188_podjetja.asp

[49] http://pxweb.stat.si/pxweb/Dialog/varval.asp?ma=1420804S&ti=&path=../Database/Ekonomsko/14_poslovni_subjekti/07_14208_admin_viri/&lang=2

Large (250+)	330	0,2%	250,675	31%	30,316,342	33%	8,291,742	46%

Source: SI-STAT, 2015

Important sectors for Slovenian SMEs are manufacturing, which contributed 29% of the total value added in 2013, wholesale and retail sale sector accounted for 21% of the value added, followed by professional activities and construction sector[50].

Traditionally, SMEs are focused on the domestic market. Among all enterprises that performed business activities (activities B-N according to SKD 2008), 12% of SMEs were internationally engaged as exporters in 2012. These enterprises generated less than half of the total value of commodity exports (46.2%). Thus, the micro-companies contributed 10.9% of the total exports value[51].

The economic crisis which hit Europe between 2008 and 2009, following another economic downturn in between 2010 and 2011, which did not spare the SMEs and had a negative influence on the development of this sector. Although the number of SMEs increased by 8,000 between 2008 and 2013, their employment and value added rates decreased. In that time, SMEs shed 41,000 job positions. A similar trend was observed in larger companies, which in the same period contributed more than 3,000 abolished jobs to the net job loss and lowering of the value added.

The maximum loss in SMEs was observed in the construction sector. Between 2008 and 2013 the value added declined by 36%, and the employment rates went down by 29%. After the period of crisis (2009—2013), the SME added value in production still stayed below the 2008 levels (for 7%) but this sector progressed more rapidly than other sectors, mostly due to the export activity of this sector. On the contrary, the added value and employment rates in SME information and communication sector grew in the 2008—2013 period.

According to the report of the action plan "Small Business Act" 2014 implementation review of progress, the projections for the SME sector are less optimistic for the next period. The number of SMEs is expected to decrease and with that, the number of employees is expected to decrease as well, by almost 16,000. The Commission expects the value added to be increased, primarily by micro- and small enterprises[52].

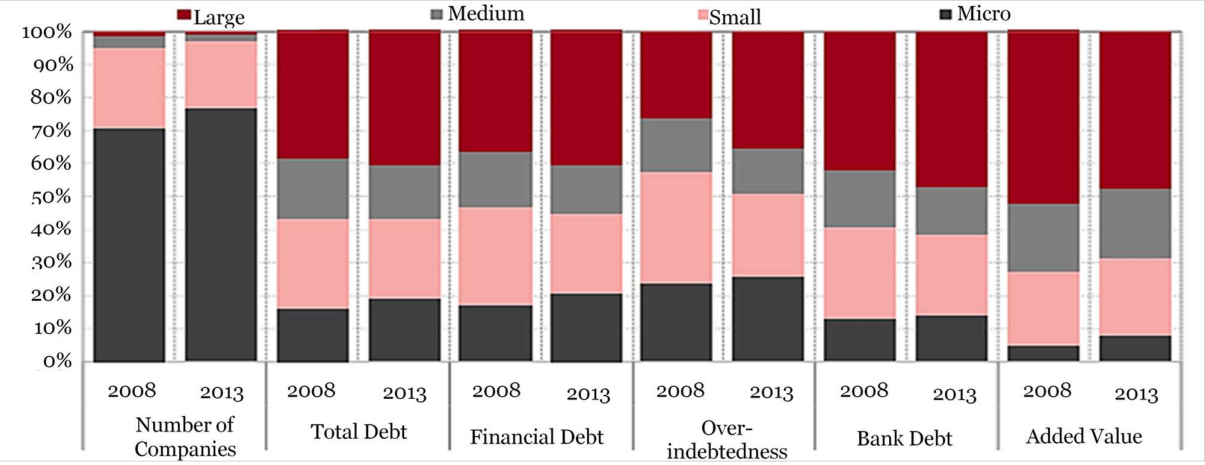
One of the main issues SMEs are facing is indebtedness. In 2013, the majority of over-indebted companies belonged to the group of micro-companies (77%), even though these companies represent only a fifth of the total financial debt. In the 2008—2013 period, their share of financial and bank debt increased, together with the increase in the number of companies and value added. The second largest share among over-indebted companies belong to small companies (19.8%) which represents 28.9% of the total debt. The lowest proportion represent medium-sized enterprises, only 2.5% of which were in 2013 among the over-indebted companies. In the period 2008—2013, they lowered their total financial and bank debt, the value added, however, remained at almost the same level. The largest share of the debt belongs to the large companies.

[50] EC, Review of progress of implementation of the Action Plan 'Small Business Act " 2014; http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2014/slovenia_sl.pdf

[51] http://www.stat.si/StatWeb/glavnanavigacija/podatki/prikazistaronovico?IdNovice=6537

[52] http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2014/slovenia_sl.pdf.

Figure 15: Basic characteristics of over-indebted companies by size, in proportion of over-indebted companies (in %)



Source: UMAR, 2015

Note: Micro-companies have 1-5 employees, small 6-50, middle-sized 51-250, and large over 250 employees

At European level, a considerable amount of resources are available for SME financing and are available through various programs of the European Investment Bank (EIB), European Investment Fund (EIF) and European Association of Guarantee Institutions. EIS replaced the program for competitiveness and innovation "Competiveness and Innovation Programme (CIP)" with two new programs, COSME 2014—2020 and Horizon 2020. These programmes provide financing through financial intermediaries (banks, Slovene Enterprise Fund, Regional Development agencies, venture capital companies, investment firms, leasing companies, various Funds etc.) which then offer direct financing to SMEs.

On the domestic market, Slovene Enterprise Fund and Slovenian Export and Development Bank (SID Bank) together in collaboration with commercial banks provide a considerable amount of funds, which are available to SMEs. Some of their financing programmes are available to the companies directly and some through other financial intermediaries[53].

Analysis of demand for financing

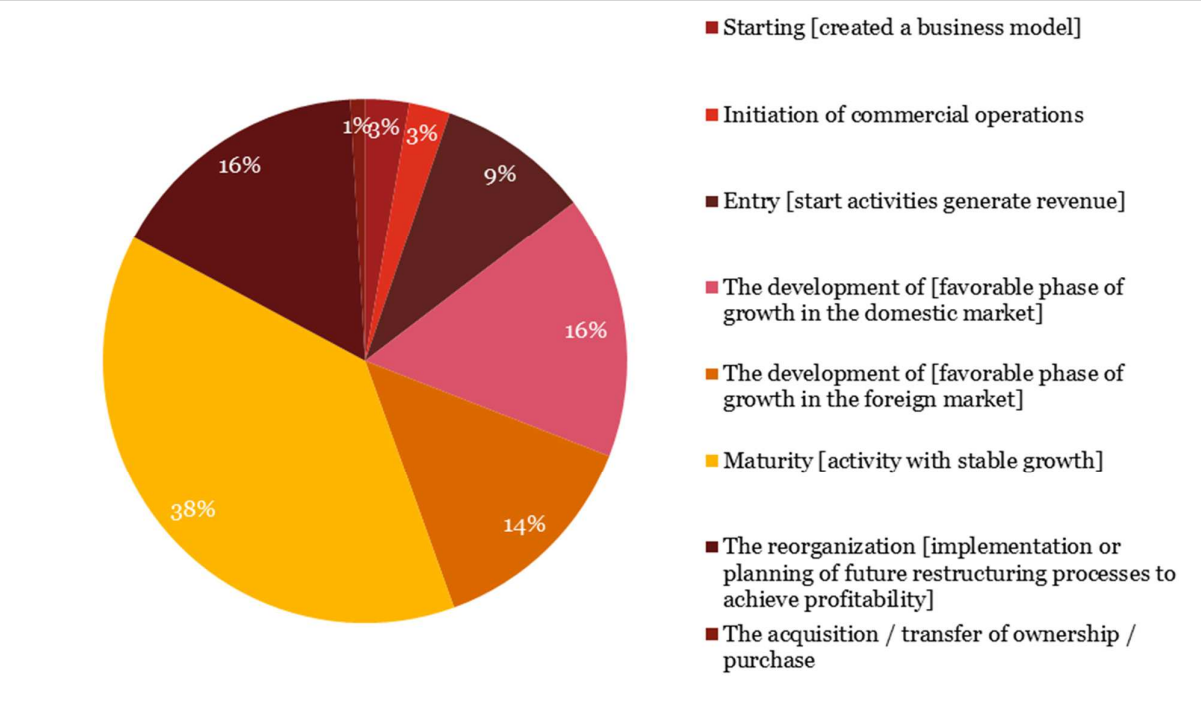
Analysis was conducted on the basis of an online questionnaire, which was sent via several e-mail databases and was posted on several websites. 553 SMEs provided valid responses (51% of micro and 32% of small and 17% medium-sized enterprises).

The results of the online survey indicate that almost forty percent of small and medium sized company owners and managers (38%) consider their enterprise to be in maturity stage. The survey confirms already logical consequence, which is, that the bigger the size of the company, the more developed and mature it is. More than half of medium size companies were in maturity stage, while only a third of micro company were as developed. Second most perceived development stage in surveyed SMEs is in the development of the favourable growth. However, micro companies are growing more in the domestic market, while small and medium sized companies are already expanding in foreign countries.

Total SMEs

Figure 16: Development stages of enterprises in Slovenia

[53] Bank of Slovenia, 2014. Financing small and medium sized enterprises.



Source: PwC, SMEs online survey in Slovenia, 2015

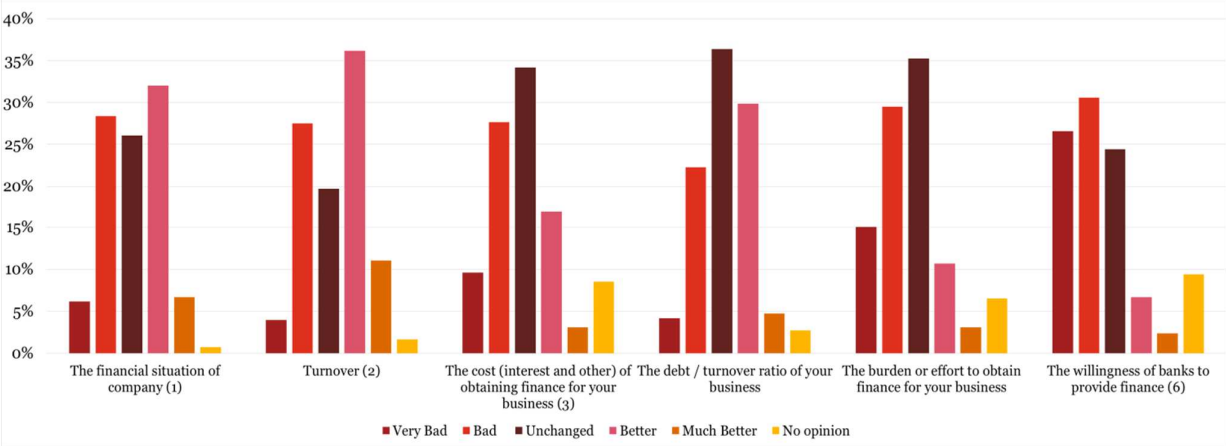
Nearly 60% of the respondents (57.1%) observed a decrease in the willingness of the banks to lend over 2012—2014 (including 26.6% that noted a strong decrease). This perception is observed among SMEs of all sizes, however, the strongest is present in micro companies (59.9%), followed by small (55.1%) and medium (52.6%). It is probably linked with the size of an asset base (potential source of collateral) and experience in dealing with banks.

Additionally, 44.5% of micro-enterprises perceived the administrative burden of obtaining finance to worsen over the same period and are dominating in the negative perception, followed by small and medium size companies.

Whereas the biggest proportion of SMEs surveyed (47.2%) observed an improvement in their turnover over the 2012—2014 period, this does not mean their actual financial situation improved, just that the improvement in turnover should be put in perspective of the preceding difficult crisis years. Nevertheless, 34.5% of the SMEs took the view that their financial situation deteriorated in the same period, as compared to 38.7% that noted improvement and 26% that did not see any change. This is also linked to the perception of 34.5% of the enterprises that the ratio of turnover to debt improved and 26.4% that deteriorated. This could be a result of companies getting out of debt and increasing their operations.

The situation is a bit different with the perception of micro companies. While perception of turnover is positive, the financial situation is less formidable. Furthermore, micro companies are more burdened with the ratio of debt to revenue and cost of acquiring finance than larger counterparts.

Figure 17: Perception of change in the following factors between 2012 and 2014

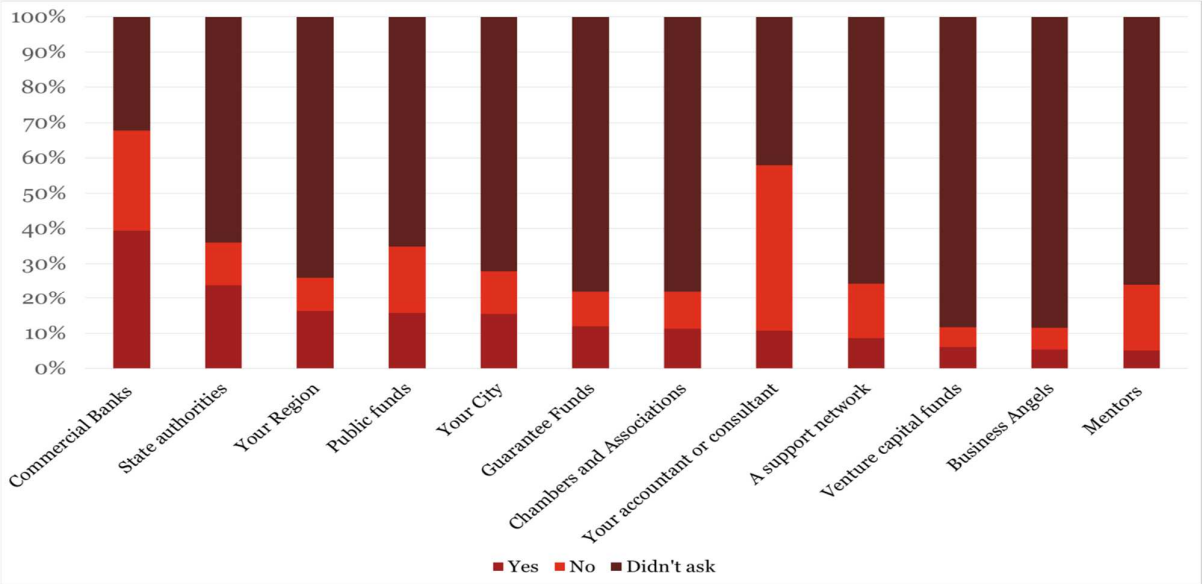


Source: PwC, SMEs online survey in Slovenia, 2015

While SMEs frequently approach commercial banks for financing, 39.6% still felt unsupported by them, most of all micro companies (41.4%). The latter are on general more dissatisfied with the help they receive from the financial lenders (banks, governments, etc.). Despite active public initiatives to support SME financing in Slovenia (e.g. by way of providing guarantees or of improving access to equity financing), SMEs are unlikely to seek help from public actors and if they do, the percentage of dissatisfaction is higher. The help participants feel they receive is from their accountants or consultants, i.e. professional network, although personal network (family and friends) is not excluded. The reason for this could be that an accountant/consultant usually examines business plan of a company and makes sure it is coherent. This adds credibility in the eyes of the bank assessing it. Second, an accountant helps an entrepreneur fill in a loan application correctly. This greatly reduces the risk that a bank would return the application if it is incorrect or incomplete, resulting in time and cost savings.

Finally, although SMEs need equity, they generally did not request support from equity providers like Venture Capital funds (88.2% did not ask them for help) or Business Angels (88.4%). Among other reasons (entrepreneurial culture and attitude towards equity, development of investment, etc.), one of the reasons may be lack of visibility of these actors.

Figure 18: Feeling unsupported by the following actors



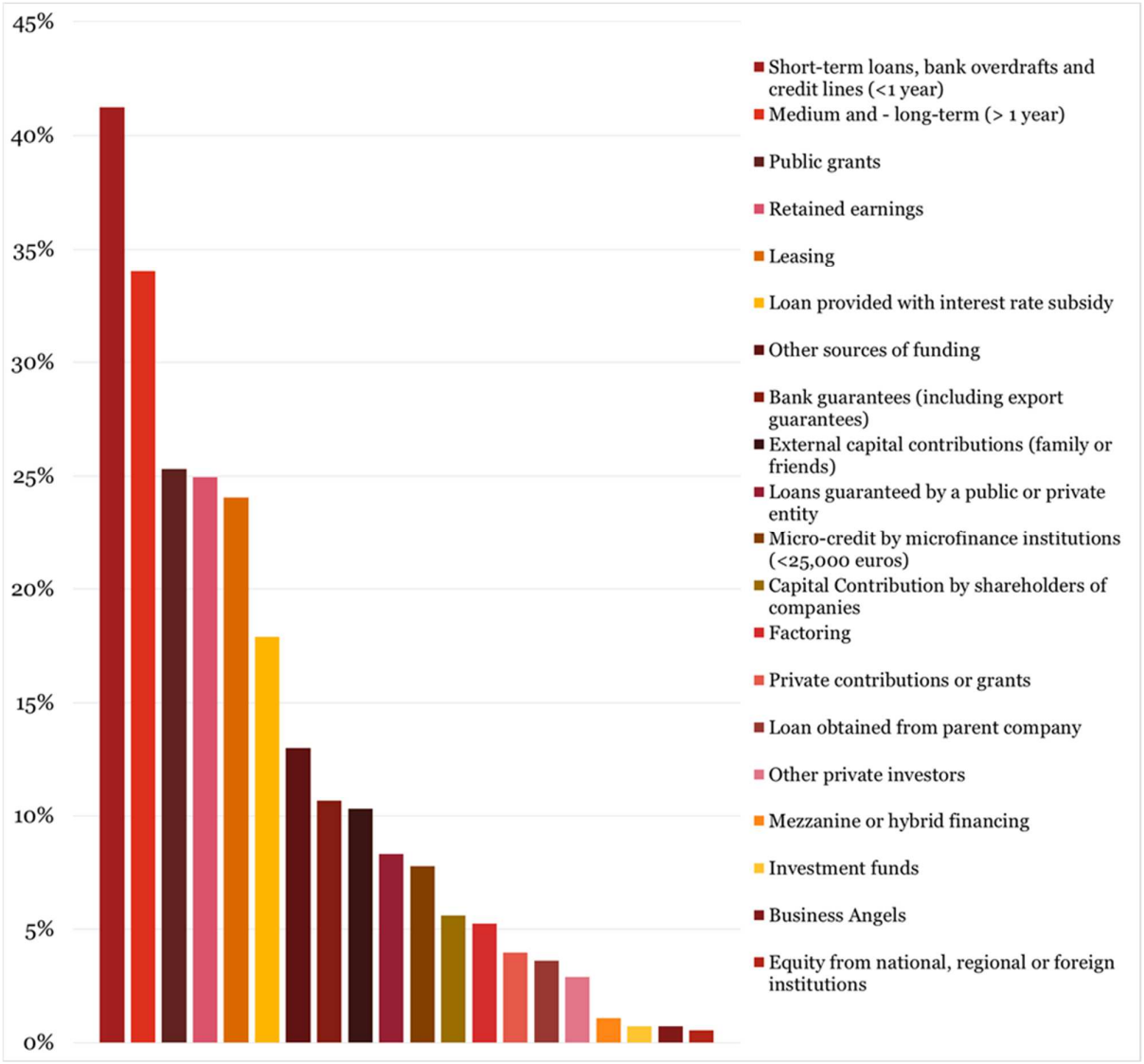
Source: PwC, SMEs online survey in Slovenia, 2015

Most of the time, when SMEs look for and receive financing, they rely on debt (source) and banks (provider), as illustrated in Figure 19. Over 2012—2014, 41.2% of the SMEs that used finance in Slovenia chose short-term loans, bank overdrafts and credit lines, while 38.4% used medium and long-term loans. In addition, 25.3% of the SMEs used public grants. Additionally, while 35.8% of medium sized companies were funded through public grants, only 20.2% of micro and 28% of small companies were funded.

The number of used finance instrument in comparison with the size indicates that larger the company is, more finance instruments it receives. For example, share of micro companies that had more than 1 financial instrument was 57.8%, whereas shares of small and medium enterprises that had more than 1 financial instrument were 75.6% and 75.8% respectively.

To continue with differences between the sizes, retained earnings are more important source of financing (22.3% and 28% respectively) than public grants for micro (22%) and small enterprises (27%). Another difference is that small and medium sized companies have high share of loans with interest rate subsidy (27.7%), while only 9.2% of micro companies use loans with interest rate subsidy.

Figure 19: Financial products used by SMEs in Slovenia over 2012—2014

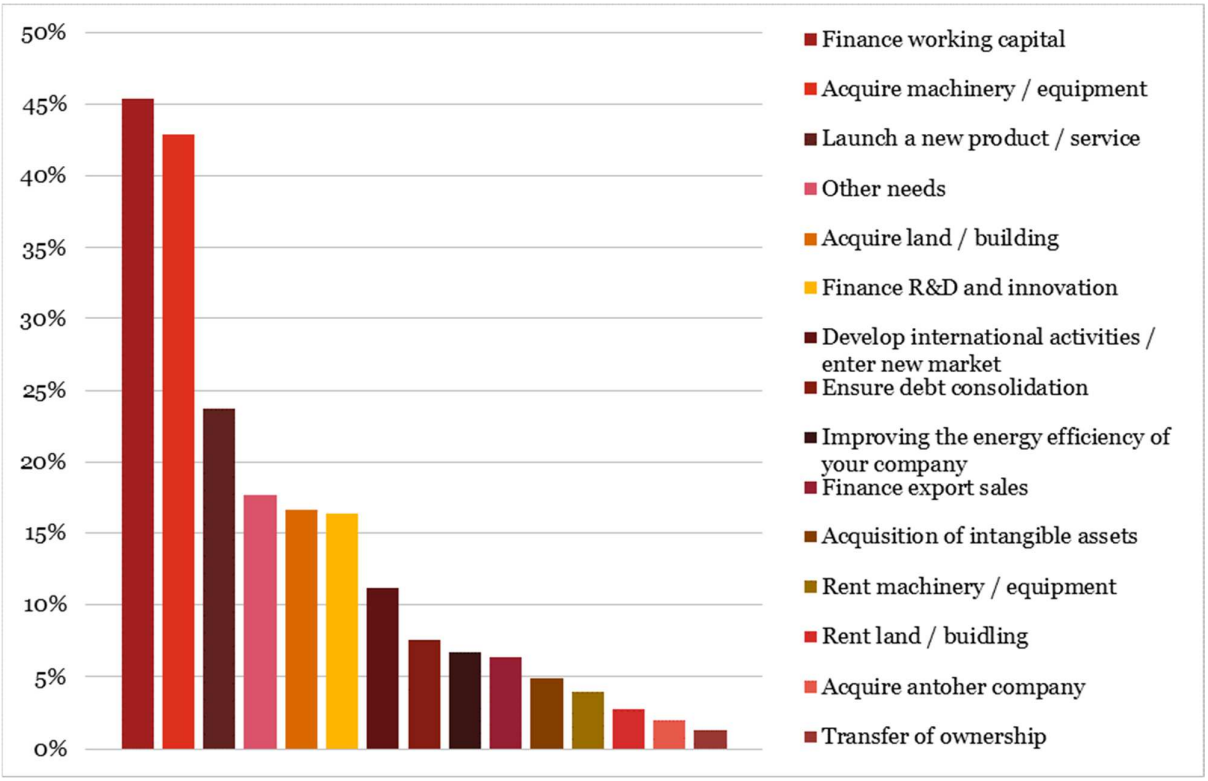


Source: PwC, SMEs online survey in Slovenia, 2015

Regarding the use of funding, the highest proportion of the received funds was dedicated to finance working capital (45.4%) (Figure 20). This indicates that SMEs direct their resources first for daily business and then to investment in new machinery (42.9%) or introduction of a new product/service (23.7%). These findings support the preference for short-term loans, associated with financing working capital, as described above.

On the other hand, companies with between 50—250 people employed mostly finance purchase of machinery and equipment (54.7%), The second is to finance working capital (50.5%). This however is not in line with the highest preferences for short-term loans that SMEs use, which are usually not used for investment. Use of other financial instruments do not differ much between the sizes of the companies.

Figure 20: Use of funding by SMEs over 2012—2014 in Slovenia



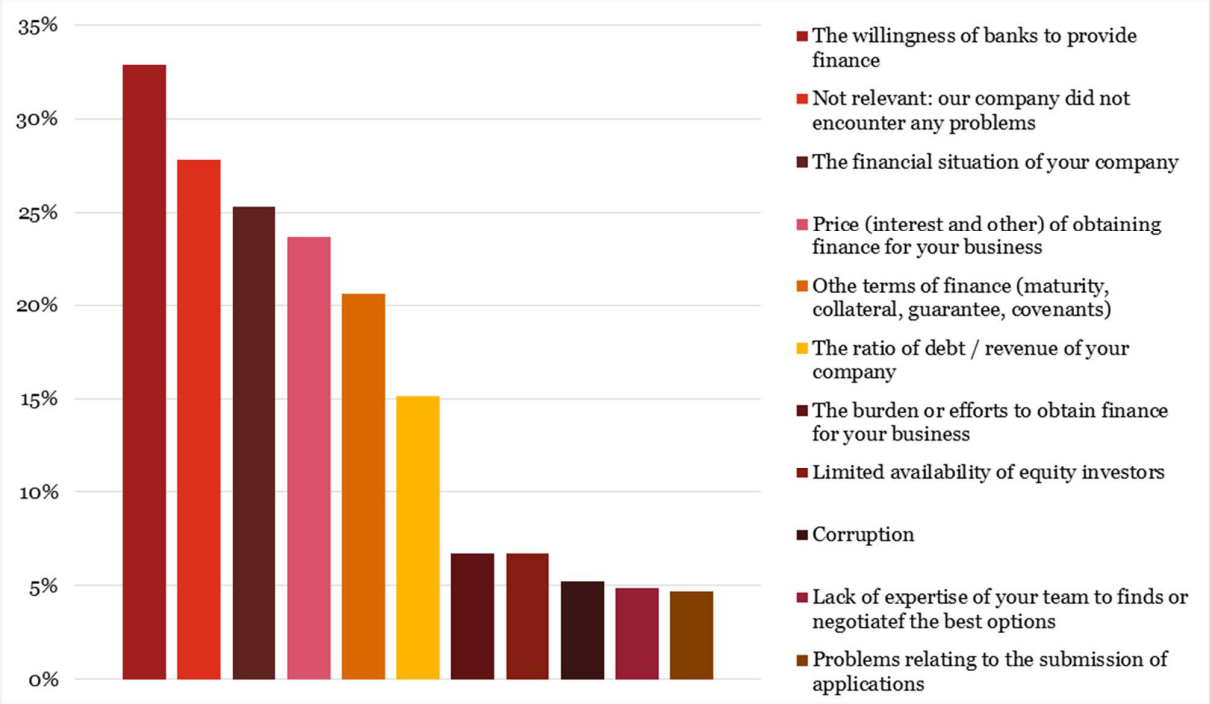
Source: PwC, SMEs online survey in Slovenia, 2015

Confirming their perceived deterioration in the willingness of banks to provide financing, 32.92% of the SMEs respondents state that this unwillingness was the main difficulty in raising finance over 2012—2014 (Figure 21). This was perceived mostly by micro (34.8%) and small (32.4%) enterprises, while for medium sized enterprises it was perceived as the third issue in finding finance (9.6%). Surprisingly, 27.8% of SMEs claimed they have not faced any difficulties when seeking finance, although it is possible they did not request finance at all. This option was third main choice for micro companies (24.8%), fourth for small companies (25.6%) and first for medium companies (13.6%).

Third main barrier to access finance for all SMEs is financial situation of the company (25.3%). However, it was selected as second by micro (27%) and medium sized enterprises (9.6%).

In addition, price of obtaining funding (23.7%) and other financing conditions (20.6%) also account for relatively high share of perceived barriers, mostly for small companies.

Figure 21: Perceived reasons behind difficulties for SMEs in seeking finance over 2012—2014



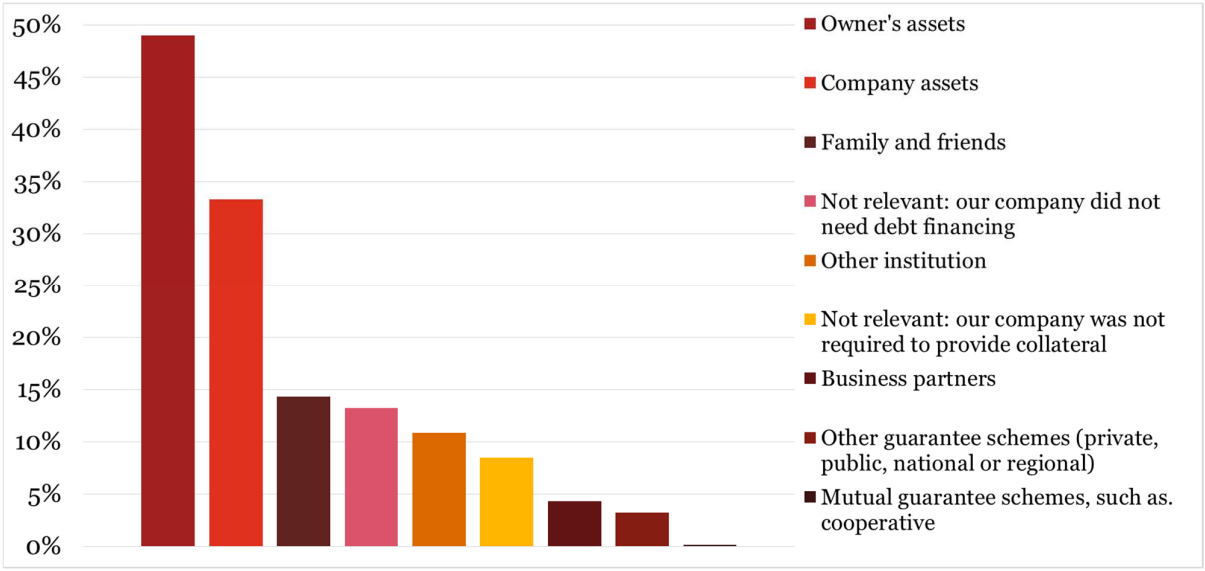
Source: PwC, SMEs online survey in Slovenia, 2015

Collateral requirements remain a concern for SMEs. The majority of the SMEs secure collateral through personal assets (49.0% of the SMEs), via company's assets (33.3%) and 14.3% receive support from family and friends. Public guarantees supported only 3.3% of the respondents.

It should also be noted that 13.2% did not need financing and 8.5% that did not need collateral at all to secure their debt. Following this, it might be assumed that collateral was not relevant for 22.7% of the micro-enterprises.

When comparing between the sizes of enterprises, resources of the owner is first collateral choice only for micro companies. Small and medium sized enterprises are using company assets as the first choice (50.6% and 46.3% respectively) and then decide to include personal wealth. Guarantee from family and friends is the second option for micro companies (21.6%), third for small (10.2%) and none for medium sized.

Figure 22: Types of collateral for loan financing used by SMEs



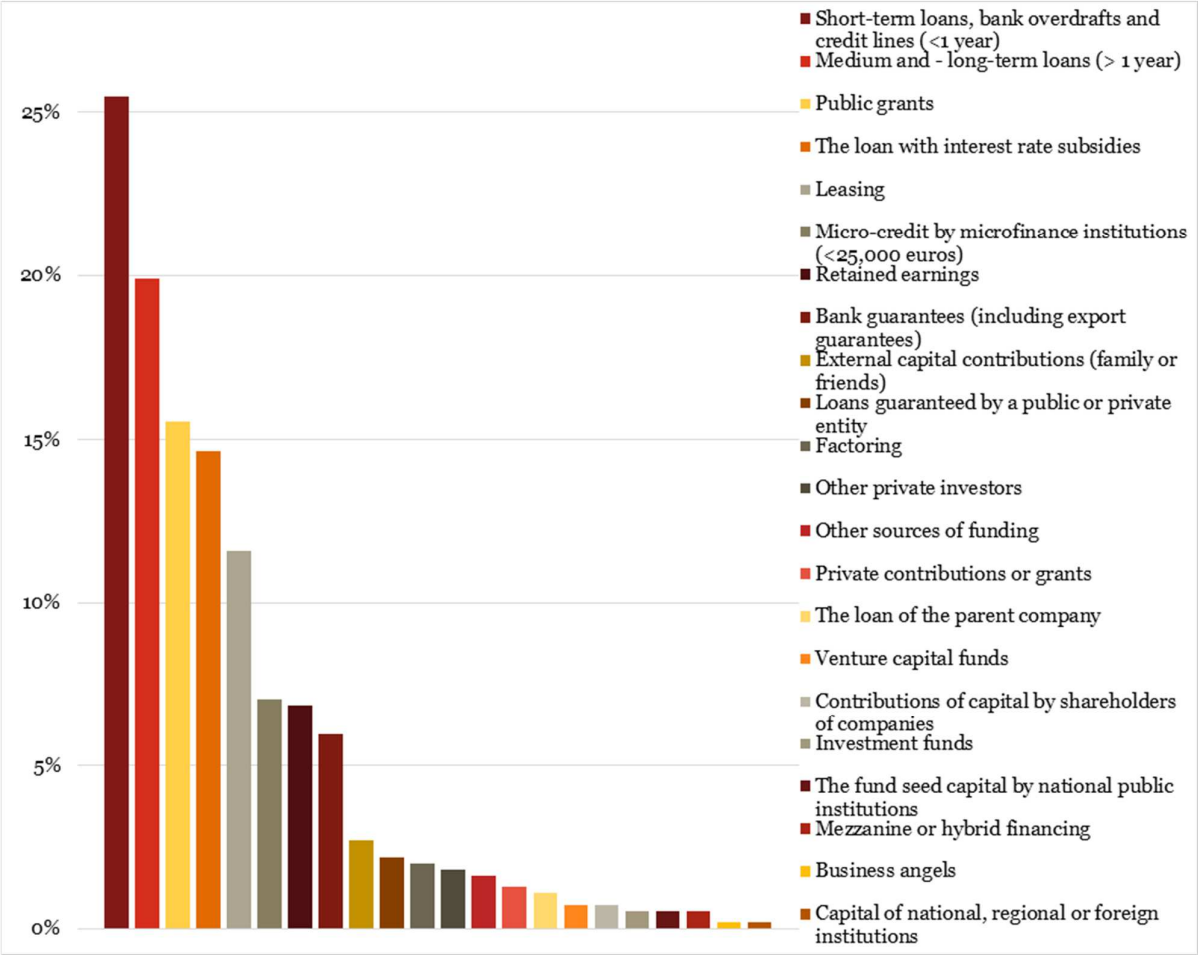
Source: PwC, SMEs online survey in Slovenia, 2015

The online survey also looked ahead into the financing sources of SMEs that already requested or those who are going to in 2015 (Figure 23). These findings can also be extrapolated for the 1 to 2 years to come, since economic conditions and expectations of SMEs take time to change. As in the past, loans are the main source of finance anticipated for the future: 25.5% of the respondents plan to use short-term loans and over-drafts, while 19.9% intend to use medium to long-term loans.

It appears that SMEs plan to use less short-term loans than in the previous years: 25.5% as compared to 41.2% over 2012—2014. Another source of financing seemingly losing in importance are public grants, decreasing from 25.3% over 2012—2014 to 15.6% in 2015, except for micro companies which enhanced demand of public grants and grow into the first choice of financing (23.6%). Finally, all financial instrument will be used less than in the year 2012—2014, according to the number of the provided answers.

Finally, SMEs remain to have little interest in equity financing, even though this type of financing is needed for their growth and development, especially for micro companies.

Figure 23: Financial products to be sought by SMEs in 2015



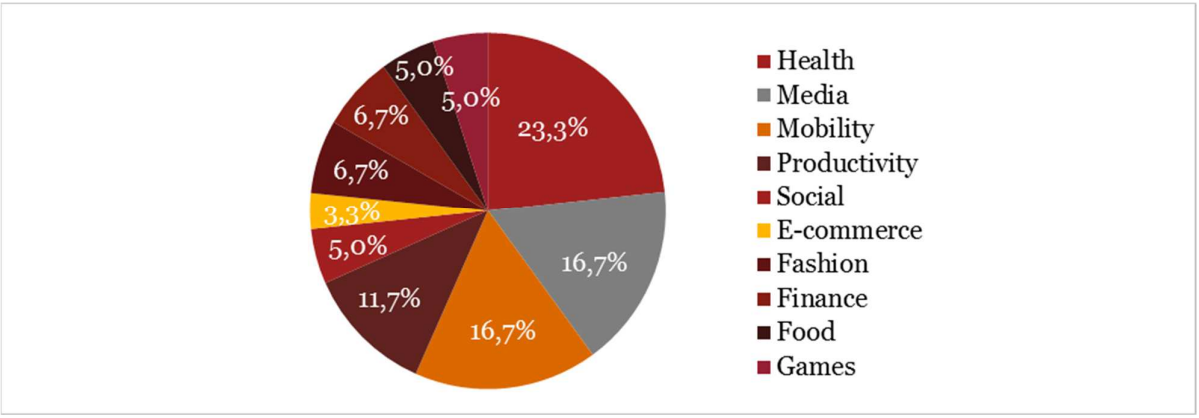
Source: PwC, SMEs online survey in Slovenia, 2015

Slovene Start-up companies

Slovenian start-up ecosystem has been experiencing an accelerated growth from 2006 onwards. In 2014, Slovene start-ups were worth approximately 0.5 billion EUR.

Analysis from Silicon Gardens shown that almost 60% of Slovene start-ups is engaged in health, media and mobility industry.

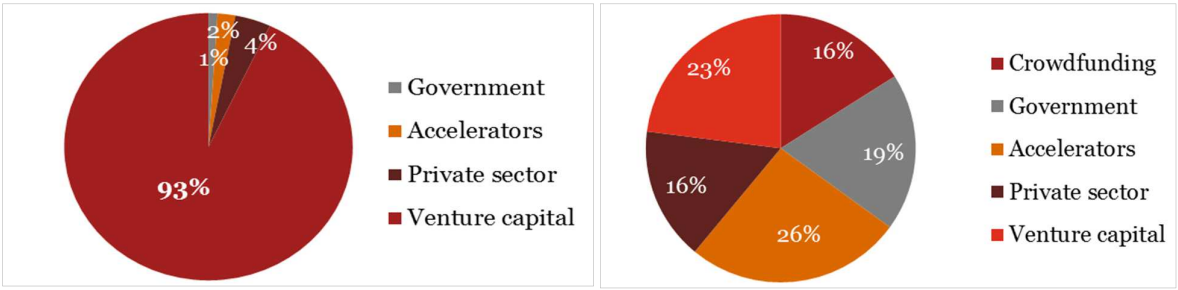
Figure 24: Primary Industry Segment of Slovene Start-up companies



Source: 2014.silicongardens.si

Venture capital sources are dominating in terms of total value, but other sources are similarly equal in terms of number of investments.

Figure 25: Total investment value by type of capital (left) and number of investments by type of capital (right) in Slovene Start-up companies



Source: 2014.silicongardens.si

Based on the interviews with the relevant stakeholders, Slovenian start-ups need for successful start and further operation, besides financial incentives, also mentoring and coaching (i.e. access to an incubator facilities and coaching by an experienced entrepreneur, support in conducting market research, feasibility studies and "market testing" as well as information on other existing mechanisms for the development of innovation and/or entrepreneurship in general) that provide guidance over different stages of the start-up development. Slovene Enterprise Fund has been adapting the tendering process for obtaining grants for start-ups, through the years, to achieve the best possible results. Projects of start-up companies need to have a clear, attractive and feasible business plans and are evaluated from representatives from SEF as well as from successful entrepreneurs.

Private investors were actively engaged before the crisis. After the crisis and until the end of 2014, there was a standstill and only low investment amounts have been provided.

Approximately 40 start-ups in Slovenia yearly receive a non-repayable financial incentive for starting their business. This number is according to the representatives of the Slovenian Start-up initiative[54] sufficient for Slovenia. The most important challenge that Slovenia is currently faced with is how to establish an overall connected and efficient start-up national ecosystem and also to effectively connect across the border.

[54] http://www.startup.si/

SMEs in agriculture

Similar to the demand side analysis per size category, a specific analysis is conducted for SMEs operating in the agriculture sector in Slovenia. This section will focus on the financial needs of SMEs active in this sector, as well as on general macroeconomic overview.

The analysed population in this section covers SMEs identified by the Code A of the NACE rev.2 nomenclature for companies operating in "Agriculture, Forestry and Fishing". In 2013, SMEs in agriculture employed 6,019 people and generated EUR 667.4 million of added value[55]. According to the Eurostat, it accounted for 1.8% of GDP in the first quarter 2015, which is higher than the EU average (1.2%)[56].

There were 2,763 SMEs, which operated in the agriculture sector in Slovenia, representing less than 2% of the total SME population. With regard to the distribution by enterprise size, the agriculture sector is clearly dominated by micro-enterprises (nearly 97.2%), and more particularly by 0—1 employee enterprises. This data indicates that the enterprises active in agriculture in Slovenia consist of small family-owned structures having a particular business model and financial needs.

Table 22: Absolute number of SMEs in the agriculture, forestry and fishing sector in Slovenia, distributed by size

	2010		2011		2012		2013		
	No. of companies	% of Size	No. of companies	% of Size	No. of companies	% of Size	No. of companies	% of Size	% of Total SMEs
Micro (0 - 1)	1,685	80.5%	1,714	81.3%	1,926	81.5%	2,355	85.2%	*1.5%*
Micro (0-9)	2,010	96.0%	2,025	96.1%	2,279	96.5%	2,686	97.2%	*1.5%*
Small (10-49)	64	3.1%	65	3.1%	64	2.7%	60	2.2%	*0.0%*
Medium (50-249)	20	1.0%	18	0.9%	19	0.8%	17	0.6%	*0.0%*
Total SME	2,094	100.0%	2,108	100.0%	2,362	100.0%	2,763	100.0%	*1.5%*

Source: SI-STAT, 2015

It is important to note that companies identified by the above-mentioned definition represent a very small percent of farms and agriculture activity in Slovenia. More structural characteristics derive from agricultural holdings. Agricultural holding is an economic unit of agricultural production under single management, comprising all livestock kept and all land used wholly or partly for agricultural production purposes, without regard to title, legal form, or size[57].

According to European Union Farm structure survey (FSS), there were 74,650 agriculture holdings in Slovenia in 2010, which is a 13.7% decrease from 2000. Furthermore, the agricultural area decreased by about 3,200 hectares (-0.7 %) within the period under analysis, suggesting that the bigger holdings took over the agricultural land of the small ones that closed down. This tendency, also observed in many Member States throughout the EU, led to an increase of the average area per holding, which grew by 15.1 %, from 5.6 hectares per farm in 2000 to 6.5 ha per holding in 2010. Nonetheless, Slovenia was among the EU Member States with the lowest average area per farm in 2010. The number of persons regularly working in agriculture dropped by 19.6 %. In absolute terms, 259,420 persons were regularly working on Slovenian farms in 2000 whereas 208,490 were left in 2010. However, in 2010 the agricultural labour force still represented 20.0 % of the Slovenian active population, one of the highest shares within the EU-27[58].

The study shows that key indicators (number of holdings, total used agriculture area, livestock population and number of persons working on farm) are significantly higher in East Slovenia. It accounted for about 70% of the value of the whole country, while West Slovenia contributed the remaining 30%. This is consistent with the 2013 data from Slovenian database, as shown in the table below.

[55] SI-STAT, 2015
[56] http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=teina406_r2&plugin=1
[57] http://faostat.fao.org/site/375/default.aspx
[58] http://ec.europa.eu/eurost11at/statistics-explained/index.php/Agricultural_census_in_Slovenia

Table 23: Key indicators of agriculture holdings in cohesion regions in Slovenia, 2013

	Number of agricultural holdings	Economic size (in 1000 EUR)	Utilised agricultural area	Livestock size units	Annual working units
Total	72,377	1,009,230	477,023	399,349	82,746
East Slovenia	50,580	714,437	336,508	277,048	58,963
West Slovenia	21,798	294,793	140,515	122,301	23,783

Source: SI-STAT, 2015

Complementary on-farm activities

Complementary on-farm activities allow farmers to use the production capacity and work force more efficiently, as well as the potential improvement of the farmers' income situation and the possibility of creating new jobs in rural areas.

Complementary activities are carried out by more than 4,800 Slovene farms, which have licenses to perform more than 15,000 types of complementary activities (an average of 3.2 activity per farm). Services with agricultural and forestry machinery, different types of processing and rural tourism prevail[59].

Complementary on-farm activities also include activities, which are traditionally carried out on farms and are handed down from generation to generation. In this respect knowledge on farms is maintained, which contributes to the enrichment of Slovene rural areas, since crops are generally of higher quality and products are made in a traditional manner.

In mid-august 2015 a new Regulation on complementary on-farm activities entered into force, which brings some innovations in carrying out complementary activities, inter alia, relevant administrative simplifications. A novelty in this regulation is also represented by activities from the field of adult and senior full-time and day service facilities[60].

Analysis of the 2007-2013 programming period

In the programing period 2014—2020, the Ministry of Agriculture has been planning the implementation of Financial Instruments for the first time.

Based on the Rural Development programme for 2014—2020 they plan to use the funds from the EARDF in three areas:

- Support for investments in processing /marketing and/or development of agricultural products;
- Support for investments in establishing and developing non-agricultural activities;
- Support for investments in forestry technology and processing, mobilisation and marketing of forest products.

Funds have already been dedicated to the above-mentioned areas in the previous programming period, but, under the Rural development programme 2007—2013, financed only via grants.

The below analysis is based on the data, received from the Ministry of Agriculture, Forestry and Food from 31 December 2014.

- Under the measure **Diversification into non-agricultural activities** (no. 311 under 07—13 Rural Development Programme):
  - 335 applications have been approved under 6 executed tenders. The average proportion of applications approved per tender was 14.4%;

[59] http://www.mkgp.gov.si/fileadmin/mkgp.gov.si/pageuploads/podrocja/Kmetijstvo/Dopolnilne_dejavnosti/delavnica_9_10_okt14_simoncic_novosti.pdf

[60] http://www.program-podezelja.si/sl/infoteka/sporocila-za-javnost/462-18-8-2015-sprejeta-nova-uredba-o-dopolnilnih-dejavnostih-na-kmetiji

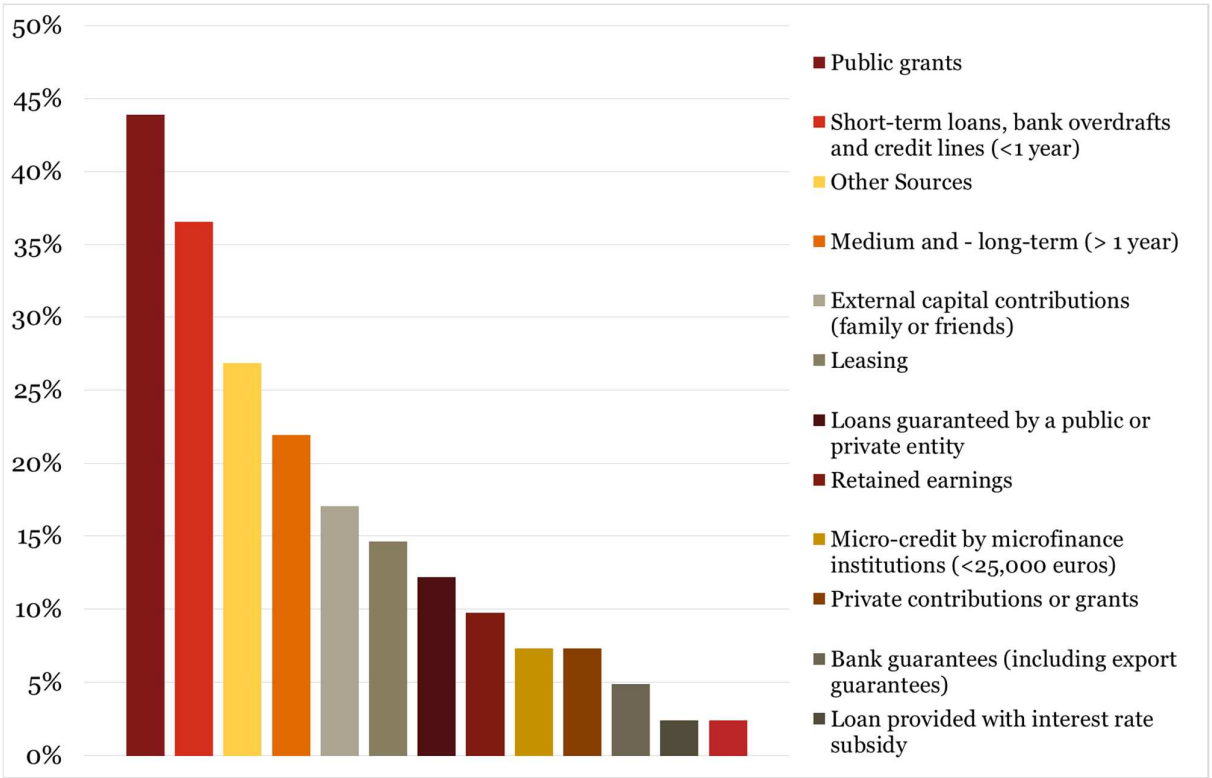
- 85% of the funds has been distributed investments for renewable energy sources and tourism activities. The amount of funds approved has been **almost EUR 33 million**, total investment project values accounted for almost EUR 76 million;
- 64% of all the applications approved were for natural persons that have registered supplementary activity on the farm. Other beneficiaries were natural persons (sole proprietors) and companies.

- Much higher funds have been dedicated for the measure **Support of establishing and developing micro enterprises** (number 312 under 07—13 PRD):
  - Under 6 tenders, 479 applications have been approved, on average 16.7% per tender;
  - Almost EUR 53 million of funds have been confirmed for more than 120 million of investments;
  - A little bit more than half of the funds were distributed among companies (54%), while the rest of the funds was dedicated to sole proprietors.
- Under the measure **Adding value to agricultural and forestry products** (number 123 in 07—13 PRD):
  - more than 600 applications have been approved and around EUR 112 million of grants;
  - Almost 70% of the funds were distributed among companies that accounted for 41% of applications approved.

Analysis of the online survey results

The online survey indicates that 43.9% of the respondents used public grants as source of financing from 2012—2014. The use of grants is significantly higher than for the whole SME population (25.3% of all the SMEs used it over 2012—2014), as shown in Figure 26. The use of public grants is followed by the use of short-term loans (37%) and other source of funding (27%). Moreover, medium and long-term loans accounted for 22%, which is 12 percentage points less that for the whole SME population.

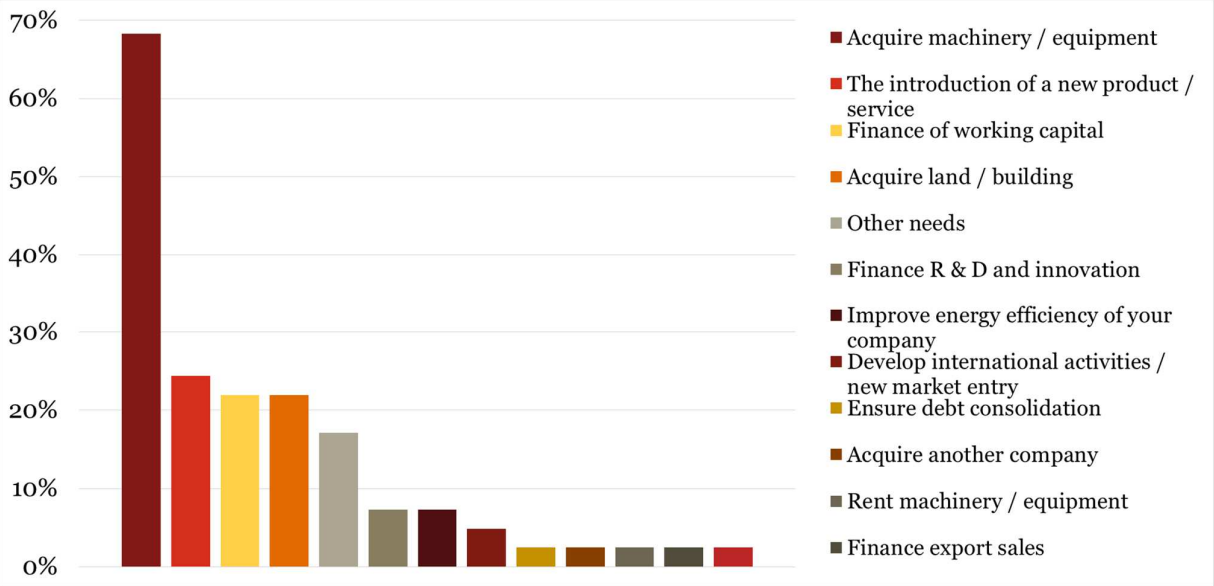
Figure 26: Financial products used by SMEs in the agriculture in Slovenia over 2012—2014



Source: PwC, SMEs online survey in Slovenia, 2015

In terms of use of financing, SMEs operating in the agriculture, display a marked preference to invest their received funding for the acquisition of machinery or equipment (for 68.3%), as illustrated in Figure 27. This makes investments the primary use of financing. The above proportion is much higher than in the total SME population (25.3% of the SMEs), illustrating that agricultural SMEs invest more, likely due to high cost of their means of production, like land, infrastructure, machinery and equipment. Furthermore, as they have had a strong support via grants, larger investments are more feasible as certain share of an investment is covered. Covering the working capital of the SME is the third use of funding by agricultural SMEs (22% of them), while it is the first use of funding for the total SME population in the country (45.4% of the SMEs).

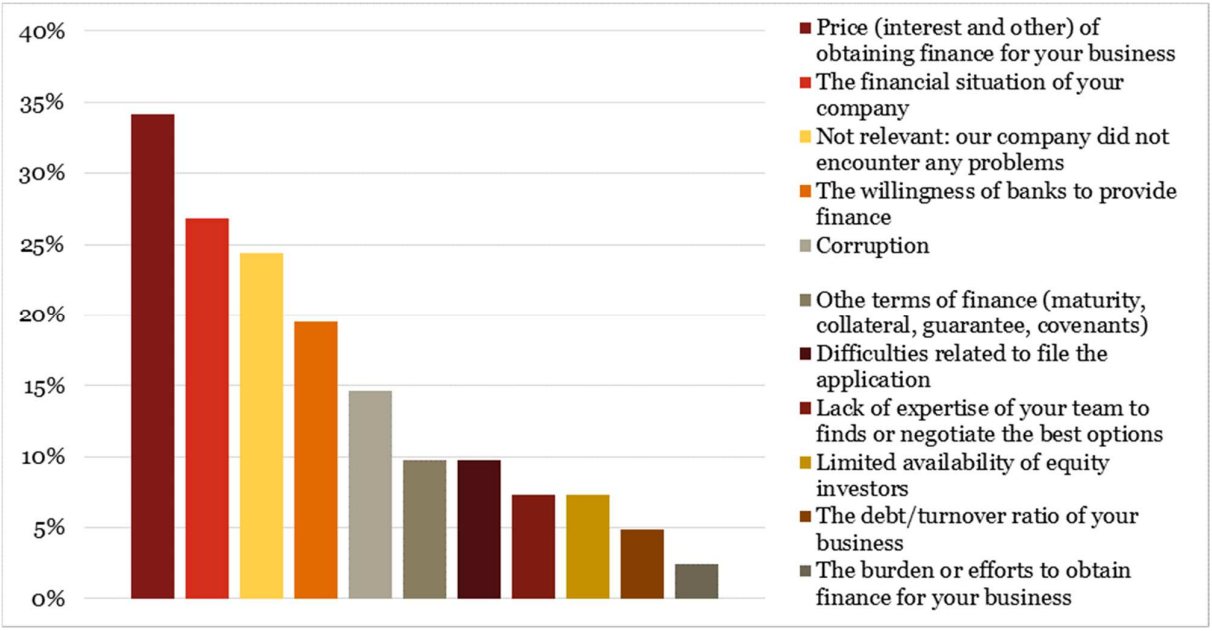
Figure 27: Use of funding by SMEs in the agriculture in Slovenia over 2012—2014



Source: PwC, SMEs online survey in Slovenia, 2015

When asked about the reasons why SMEs had difficulties accessing finance over the past few years, SMEs in the agriculture provide different answers to the total SME population in Slovenia. According to the agricultural SMEs, the main reason behind their difficulties is the cost of obtaining finance for their business (34.1%) compared to (23.7%) of all SMEs (it is fourth reason for the whole SME population). The second main reason is linked to the financial situation of the company (26.8% of the SMEs in the agriculture compared to 25.3% of all SMEs). Finally, 24.4% of the SMEs in the agriculture sectors claim not to have faced any issues, compared to 27.8% for the entire SME population Slovenia.

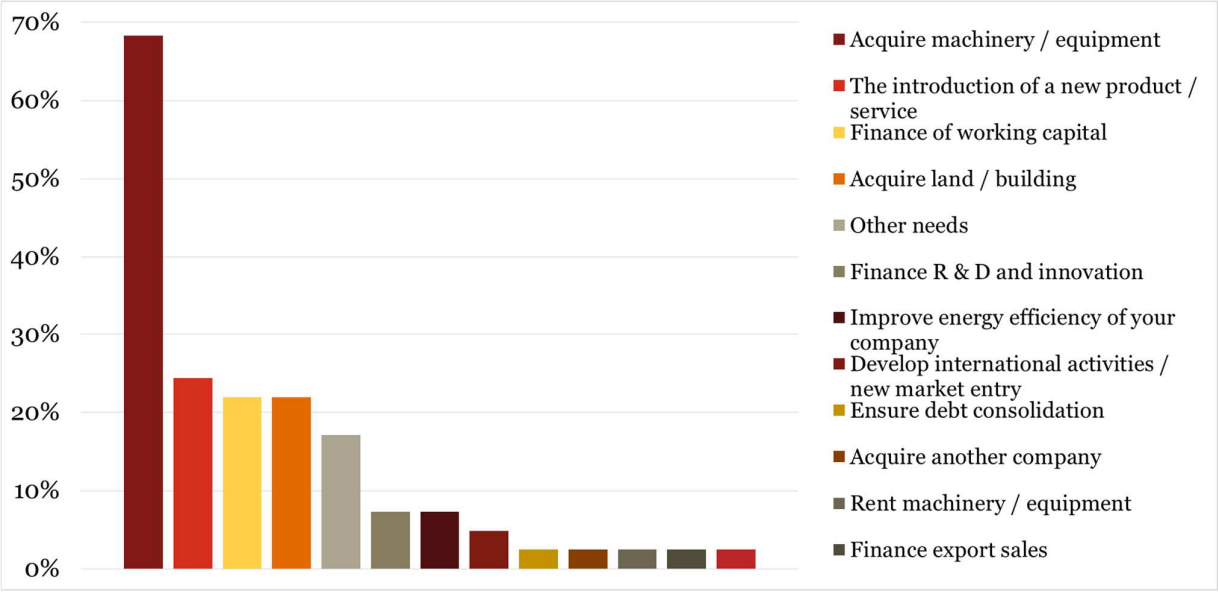
Figure 28: Perceived reasons behind difficulties for SMEs in agriculture in Slovenia between 2012—2014



Source: PwC, SMEs online survey in Slovenia, 2015

In terms of financial products to be sought in 2015 (Figure 29) shows, that agricultural SMEs are expected to use proportionately more grants than the entire SME population in Slovenia. According to the survey, 45.8% of the SMEs in agriculture intend to use public grants. The respective percentage for the total SME population is 15.6%. The supply of these grants however has tended to diminish over the past years because of reduced public funding available to finance them. Furthermore, the use of financial instruments has been encouraged in the programming period 2014—2020 and the initiative is expected to increase in future years.

Figure 29: Financial products to be sought by SMEs in the agriculture in Slovenia for year 2015



Source: PwC, SMEs online survey in Slovenia, 2015

In order to finance their future investment in 2015, SMEs in the agriculture in Slovenia would mostly need:

- Short-term loans to (1) compensate their exhausted and limited self-financing capacities, (2) cover their cash-flow needs, and (3) cover their working capital needs, especially in terms of stocks. Microfinance products and short-term loans with reduced interest rates may also be envisaged to support them in that perspective;
- Long-term financing, such as (1) long-term loans with reduced financing costs, (2) support in collateralisation through guarantee instruments for long-term financing (with loan maturities of up to 7 to 10 years), and (3) support for export and international development.

In parallel, current grant programs are still needed by the SMEs in the agriculture, since they provide them with additional financing and may trigger debt financing.

Concerning working capital needs, SMEs may need short-term debt financing, and some might also need microfinance. This is similar to the needs of all SMEs in the country. However, SMEs in these sectors may not know the stakeholders or the financial products available to them. As for all SMEs in Slovenia, facilitated communication between the SMEs and the stakeholders providing financing to all SMEs (not only banks), which would include SMEs in the agriculture sector, could be to the benefit of the latter.

Indeed, these SMEs would benefit from a facilitated access to debt financing (for both short-term loans and medium and long-term loans) and would also benefit from an increased access to microfinance and to equity financing (as well as an improved awareness of the objectives as well as use of such financing) in order to develop and expand.

Social entrepreneurship in Slovenia

General Information

Slovenia introduced the concept of social enterprise for the first time in 2009 in the context of ESF-funded pilot project to support the development of social enterprises. In 2011, it passed an **Act on Social Entrepreneurship**, which provides a definition of a social enterprise that is largely in line with the EU definition. Moreover, the Act enables institutions to register and obtain social enterprise status. This voluntary registration of social enterprises is currently the only certification system available in Slovenia. Registered social enterprises include associations, institutions, foundations, private limited companies cooperatives and NGO.

Although the concept of social enterprise is new to Slovenia, interest and activity in the social enterprise "space" has grown. Part of this interest comes from the economic crisis and disappointing economic system, resulting in the emergence of movements advocating new ways of organising the economy. In addition, the Slovene Government is increasingly interested in using work integration social enterprises (WISE) as a tool for tackling high levels of structural unemployment.

There are two types of social enterprises, divided based on the purpose:

- Type A: permanent activity of social entrepreneurship with employing at least one employee in the first year and at least two employees in the subsequent years of operations;
- Type B: permanent employment of the most vulnerable working force in the labour market.

Based on the information provided in the interviews, the next step will be to combine those two groups, with amendment of the existing law.

There are 81 organizations officially registered as social enterprises (based on data obtained on 2 June 2015[61]). However, current register is comprised of those holding the status of social enterprising according to the Act (2011) and does not represent the actual number of social enterprises by EU operational definition in Slovenia. This means that there are companies, which meet the EU requirements of a social enterprise, but are not registered as one. Data on how many of the 23,075 Slovenian NGOs fall under the EU or Slovenian definition of a social enterprise was not possible to obtain.

[61] http://www.mgrt.gov.si/si/delovna_podrocja/regionalni_razvoj/socialno_podjetnistvo/evidenca_so_p/

According to the survey carried out for the purpose of the report *"A map of social enterprises and their eco-systems in Europe"* in 2014, the reasons for low number of registrations are in majority **lack of financial or tax incentives, high administration burden, lengthy and discouraging registration process or lack of knowledge to recognize their operations as a social purpose.**

Registered social enterprises are mainly involved in the work integration programmes to help disadvantaged workers enter the labour market (WISE), including people with disabilities, long-term unemployed, young unemployed, homeless, drug addicts, elderly and other. They mostly operate in environmental area, education, agriculture, retail, catering, health or culture and arts.

SE have three main sources of income. Grants for projects, subsidies for reintegration of disadvantaged groups into the labour market and income from market generating activities.[62]

Table 24: Breakdown by source of funding to meet the social entrepreneurship objectives as set out in the Slovenian Programme of Measures 2014—2015

		EU	
	National	ESF	EAFRD
Share of funding	44%	42%	13%
Total funding (EUR)	5,644,000	5,375,000	1,700,000

Source: Programme of Measures, ICF calculations, 2014

Perception of the social entrepreneurs in Slovenia

With an intention to capture the current climate among existing social enterprises, we have executed a short survey with the social enterprises that responded to our request. Out of 30 social enterprises, contacted during the 15 June 2015 until 22 June 2015, 5 of them replied. Further information and questionnaire can be find in Appendix L. -.

Our main objectives were to understand the main problems of social enterprises when trying to obtain finance, what are possible public interventions, what type of financing would they need for efficient operations and what are their general considerations about social entrepreneurship in Slovenia.

On general, the respondents have agreed that currently there is **lack of financing** in the area of social entrepreneurship. They do not receive sufficient support via commercial banks or other financial institutions as social enterprises in majority do not obtain an adequate credit rating rates.

Financing through public funding exists, but has been mostly based on **project financing** which has been too short for the majority of our respondents. Some also expressed an issue that there are no systemic solutions after the projects are finished, which in many cases led into the end of the projects as well as the enterprise.

Some of the respondents exposed the fact that in many cases, **administration burden to fulfil the requirements to obtain financing** have been to too demanding and consequently discourages the enterprises of applying.

Social entrepreneurs agreed on the fact that the founders often **lack professional and managerial skills**, which would be needed to shift from the project based funding to income generating activities on the market. A need for additional educating activities for social enterprises has been mentioned several times by the respondents.

The most preferred forms of financing mentioned by our respondents were **subsidies and grants**. The most common use of subsidies would be to cover the current costs (wages of risk groups), while grants would be intended for the expansion of activities. Other types of financing, suggested by respondents were also subsidy of interest rate and more intensive relationship with public authorities.

[62] A map of social enterprises and their eco-systems in Europe; Country Report: Slovenia, 2014

Many of the respondents replied that a **misconception of social enterprises exist**. Society sees social enterprises as "social or poor" companies that do not contribute to the economy or in some cases that they should provide their services for free. The respondents believe that the reason is lack of promotion of social entrepreneurship and lack of general awareness of how it could be beneficial for Slovenia.

Current education programmes and trainings are not sufficient as they **lack practical experience**. Similarly, estimations were made for the current support network for social entrepreneurship. On general, the respondent expressed a wish to improve functioning in those two areas.

Social Entrepreneurship at the EU level

At the EU level, **the Employment and Social Innovation (EaSI) programme** is a financing instrument that promotes high level of quality and sustainable employment, guaranteeing adequate and decent social protection, combating social exclusion and poverty and improving working conditions. EaSI is managed directly by the European Commission[63]. As of January 2014, three programmes form the three axes of EaSI programme. One of the axis enables **access to micro-finance and social entrepreneurship** (Microfinance and Social Entrepreneurship axis – MF/SE) and represent 21% of the total EaSI budget.

The EaSI Guarantee Financial Instrument, funded from the EaSI Programme is specifically dedicated for microfinance and social entrepreneurship finance, pursuing the increase of availability and accessibility of microfinance for vulnerable groups and micro-enterprises, and increase in access to finance for social enterprises. The breakdown between the thematic sections is 43% for Microfinance and Social Entrepreneurship and 14% for crosscutting issues[64].

The Commission has selected the European Investment Fund as its entrusted entity to implement the EaSI Guarantee. EIF does not provide any type of finance to micro-entrepreneurs or social enterprises directly, but offers guarantees and counter-guarantees to financial intermediaries which are selected after an application under a Call for Expression of Interest, followed by a due diligence process. Once selected by EIF, these partners act as EaSI financial intermediaries.

Following discussions with the relevant stakeholders, OP-ECP funds intended for financial instruments for social entrepreneurship may be allocated to the above-mentioned instruments EIF, which would allow efficient allocation of funds and increase of the financial leverage. Slovenia would also rely on the good practices of other Member States, which use /will use a similar system of financing for social enterprises.

Computing methodologies and gaps for SME financing

Demand for financial products is analysed across two size categories of SMEs in the following way:

- Micro-enterprises. The analysis is made for three financial products: short-term loans, medium and long-term loans and microfinance.
- Small and medium-sized enterprises taken together. Two financial products are considered: short-term loans, medium and long-term loans.

The demand analysis for equity financing has been computed differently and is carried out for the entire SME population.

Please find in detailed the methodology and quantification of the demand in Appendix E.1.

Furthermore, analysis of the supply has been done also for two size categories and for all the financial products mentioned above. Please find the methodology and quantification of supply in detail in Appendix E.1.

In order to provide a greater perspective of the SMEs' needs in Slovenia, two different methodologies have been used to define the financing gaps: one that provides the total amount that SMEs would ideally like to seek, compared to the total supply, and the other one which takes into account the pressing issue of viable,

[63] http://ec.europa.eu/social/main.jsp?catId=1084&langId=en
[64] European Union Programme for Employment and Social Innovation Work Programme. Funding priorities for 2015

growing SMEs that have difficulties obtaining financing. Please find attached detailed methodologies in Appendix E.1.

As mentioned above, to give the analysis of financing gaps a more operational focus for the design of Financial Instruments, the report provides besides the operational gaps also "*viable*" financing gaps (VFGs). These gaps express a more targeted approach for identifying the needs of SMEs, which experience growth but do not have access to finance. Nevertheless, it has to be taken into account that these needs do not necessarily reflect a realistic view of the market, but only a minimum existing gap for the following reasons:

- The definition of a viable company (described in Appendix E.1) is a limiting factor, especially under the current market conditions. SMEs, which have deteriorating financial standings due to external reasons, are not taken into account, nor are newly created SMEs, which should be a target of Financial Instruments.
- SMEs, which are viable and have access to financing could be in a process of experience financing constraints which do not allow for further development of their activities or for their expansion to international markets. These SMEs create important added value and should be taken into account when analysing financing gaps.
- SMEs which have difficulties restructuring their existing debt are also not included. These companies could become viable if supported in their process to renegotiate their terms of existing loans, and consequently if their access to finance is supported by Financial Instruments. However, the impact of these companies on financing demand may hardly be estimated.
- Potential financing demand of SMEs that do not yet exist is not taken into account (due to lack of data availability).
- Some companies not included in this group will received funding, but less than they sought out to obtain.

Both of the above-mentioned methodological approaches to calculate financing gaps provide useful information to policy makers. They define maximum needs from the potential demand and minimum needs from the viable financing gaps. These elements can define a context on which future public help can focus. The objectives of this help may be, on the one hand, to ease the solvency constrains of the financial sector, and on the other hand, to improve business owners' competences.

This section of the report provides the calculations of the financing gaps per company size and per financial product in order to draw conclusions and present recommendations to be used for the development of a future investment strategy for the use of Financial Instruments in Slovenia.

Financing gaps based on both potential demand and unmet demand from "*viable* SMEs" are presented and analysed. The analysis is carried out by SME size category and by financial product.

Financing gaps

The analysis in this section, presents the financing gaps computed according to the potential demand for financial products as well as the viable financing gaps (VFGs) based on the viable demand.

Financing gaps for micro-enterprises

Financing gaps for microfinance

The quantitative estimate of the financing gap for microfinance is considered for 2015 and includes microfinance for financial inclusion purposes and for existing social enterprises as well. It is indicated in the Table 25 below.

The first column presents the financing gap based on the potential demand for microfinance products from existing micro-enterprises in Slovenia. The second column presents the financing gap including demand for financial inclusion. The growth corresponds to the financing amount of microfinance that would be needed by new business creators who currently face social exclusion and may be willing to initiate a business if they were better supported in their access to finance, and especially microfinance. The last column includes also the gap for existing social enterprises, which would obtain microfinance for continuing their business.

Table 25: Potential financing gap for microfinance for micro-enterprises in 2015, including financial inclusion and existing social enterprises (EUR mil)

	Financing gap for existing micro-enterprises	Financing gap including financial inclusion	Financing gap including financial inclusion and social entrepreneurship
Microfinance	**1,105—1,227**	**1,137—1,260**	**1,138—1,260**

Source: PwC analysis, 2015

The total financing gap for microfinance ranges between EUR 1,138-1,260 million. This need is particularly expressed by newly created enterprises and 0—1 employee companies in the country. It illustrates that these very small companies have currently very difficult access to microfinance in the country. This financing gap also indicates that microfinance is expected to be more in demand and used in the future by micro-enterprises, while institutions that provide microfinance might have difficulties to cope with this increase.

Micro-enterprises usually consider using long-term loans in order to update their equipment and machinery. However, they are also willing to secure their financing over the next few years, especially for working capital purposes. In fact, micro-enterprises seem not to clearly distinguish the purpose of loans depending on different maturity periods when looking for financing. The sense that Slovene micro-enterprises may not make a clear distinction between the uses of loans with various maturities illustrates the extent to which microfinance products are not clearly defined neither by micro-enterprises, nor by financial services providers in the country.

A Financial Instrument supporting microfinance supply would consequently benefit micro-enterprises (and more specifically newly created enterprises and 0—1 employee companies), while enabling institutions to answer on an increasing demand.

Financing gaps for loans

The quantitative estimate of the financing gaps based on potential demand for micro-enterprises Slovenia is summarised in the Table 26 below for 2015.

Table 26: Potential financing gap per financial product for micro-enterprises in 2015 (EUR mil)

	Range of potential demand	Estimated supply	Potential financing gap
Short-term loans, bank overdrafts and credit lines	448-495	285 - 315	163 - 181
Medium and long-term loans	1,068-1,181	424 – 469	644 - 712
Total	**1,516-1,676**	**709 - 784**	**808 - 893**

Source: PwC analysis, 2015

Overall, micro-enterprises' problems in accessing debt financing may also be explained by their difficulties in defining their needs and formulating a clear business plan for the future. This factor, highlighted during the interviews with financial institutions and the supporting entities for innovative companies, is probably exposed due to the lack of managerial skills that entrepreneurs have when launching their activity. It also reinforces the need for improved support when micro-enterprises develop after three or four years of existence, since this growth implies new and different difficulties. In order to cope with these challenges, business owners may need support in order to define the most appropriate financing sources and products for their development.

In order to provide a more targeted view of the financing gaps, the present study has also calculated a viable financing gap for loan products (short-term loans, overdrafts and credit lines, as well as medium and long-term loans) based on the viable demand. This viable financing gap is presented in the Table 27 below for 2015.

Table 27: Viable financing gap concerning loan products for micro-enterprises in 2015 (EUR mil)

	Viable financing gap
Short-term loans, bank overdrafts and credit line	130 - 144
Medium and long-term loans	311 - 344
Total	**441 - 488**

Source: PwC analysis, 2015

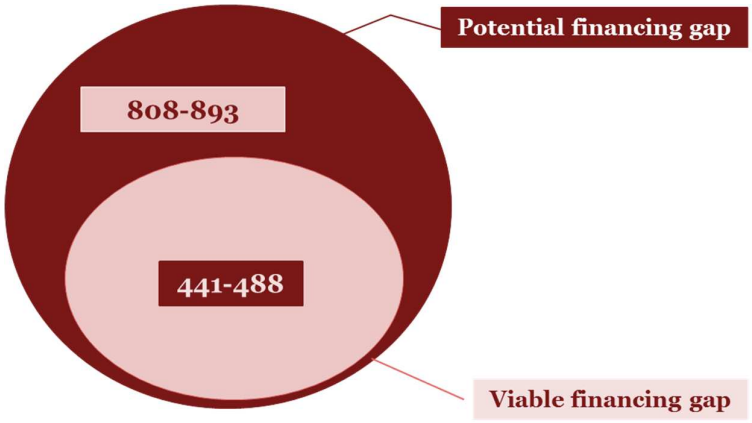
For 2015, the calculation has identified a viable financing gap for short-term loans for micro-enterprises ranging between EUR 130—144 million. For long-term loans, the viable financing gap ranges between EUR 311—344 million. These viable financing gaps refer to financing needs of micro-enterprises, which are viable but still have problems when obtaining financing. These enterprises should become a policy priority for future public assistance, since improving their access to finance would create strong benefits.

For 2015, the total viable gap for loan products for micro-enterprises is ranging between EUR 441—488 million. There is an indication that the obstacles for the financing of micro-enterprises are not only linked to the viability of the micro-enterprises, but also to other constraints, such as lack of funding at the launch of the business, structure of capital that may be too weak, lack of financial knowledge, lack of experience with financial institutions (often leading to discouragement to seek finance) and lack of collateral. It also illustrates a tightening of bank credit resulting from new regulation on banking risk management (rules edited by Basel II and III) that may lead to a reduction of debt lending and smaller amounts provided to high risk companies, i.e. micro-enterprises.

In that context, the reinforcement and further development of guarantee products in the country and/or funding products that would better incentivise the banking sector to support micro-enterprises would improve their access to debt financing. This would also avoid the particularly difficult period that micro-enterprises experience after three to four years of existence if they have no credit history and lack experience with the banking sector when they need to invest and grow. After three or four years of existence, micro-enterprises may have already collateralised their corporate assets or provided personal guarantees or guarantees from family and friends. They may consequently have difficulty to provide more collateral to receive loan financing for their development and growth.

The potential financing gap and the viable financing gap for micro-enterprises in Slovenia are both illustrated in the following figure for 2015.

Figure 30: Potential financing gap and viable financing gap for micro-enterprises in Slovenia for 2015



Source: PwC analysis, 2015

Financing gaps for small and medium-sized companies

The quantitative estimate of the financing gap for small and medium-sized enterprises based on the potential demand in Slovenia is summarised in the Table 28 below for 2015.

Table 28: Potential financing gap per financial product for small and medium-sized enterprises in 2015 (EUR mil)

	Range of potential demand	Estimated supply	Potential financing gap
Short-term loans, bank overdrafts and credit lines	1,642 – 1,815	855 - 945	787 - 870
Medium and long-term loans	2,424 – 2,680	1,272 – 1,406	1,152 – 1,274
Total	**4,066 – 4,494**	**2,127 – 2,351**	**1,939 – 2,144**

Source: PwC analysis, 2015

In order to provide a more targeted view of the needs of small and medium-sized enterprises in Slovenia, it is necessary to consider the viable financing gap for loan products (short-term loans, overdrafts and credit lines, as well as medium and long-term loans). This gap is based on the viable demand as defined in Appendix E.1. It is presented in the Table 29 below for 2015.

Table 29: Viable financing gap concerning loan products for small and medium-sized enterprises in 2015 (EUR mil)

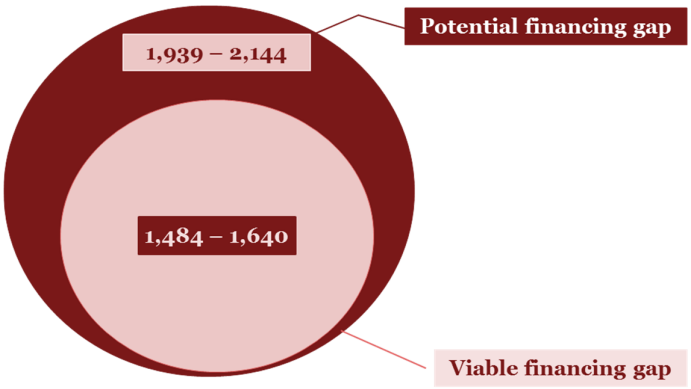
	Viable financing gap
Short-term loans, bank overdrafts and credit line	599 – 662
Medium and long-term loans	885 – 978
Total	**1,484 – 1,640**

Source: PwC Analysis, 2015

For 2015, the calculation reveals viable financing gaps ranging between EUR 599—662 million for short-term loans and between EUR 885—978 million for long-term loans. These gaps represent the financing needs of small and medium-sized enterprises that are viable but still have difficulties obtaining financing.

Similar to micro-enterprises, the potential financing gap and the viable financing gap are both illustrated in the following figure for 2015.

Figure 31: Potential financing gaps and viable financing gaps for small and medium-sized enterprises in Slovenia for 2015



Source: PwC analysis, 2015

In that context, the fact that viable small and medium-sized enterprises do experience difficulties when seeking debt financing confirms that banks are reluctant to provide loans or offer loans under unacceptable conditions, for all size categories of SMEs, including the larger ones. It also indicates the relevance of Financial Instruments designed to improve access of small and medium-sized enterprises to debt financing, in view of covering both working capital and investment/long-term financing needs.

Financing gaps for equity financing

In line with the growth strategies planned by all sizes of SMEs, the equity market could be more developed in the country. When considering the potential demand and estimated supply for equity financing in Slovenia, a financing gap emerges. The quantitative estimate of the financing gap is provided in the Table 30 below for 2015.

Table 30: Potential financing gap for equity financing for all SMEs in 2015 (EUR mil)

	Range of potential demand	Estimated supply	Financing gap
Equity financing	19 - 97	5 – 5.3	**14 - 92**

Source: PwC analysis, 2015

For 2015, the calculation reveals a potential financing gap ranging between EUR 14 million and EUR 92 million for equity financing for all SMEs in Slovenia This financing gap is, however, mainly indicative because:

- The amounts provided by SMEs in the online survey express intentions and expectations that may not translate into action. If SMEs perceive a need to (re)capitalise their enterprises, they might not start the process of seeking equity financing.
- The intentions expressed by the SMEs may be diverse: some SMEs intend to look for equity financing because they need to be more capitalised in order to improve their access to debt financing, while other SMEs may do so because their growth strategies require high equity amounts. In that process, SMEs may overestimate their needs for equity financing.
- The intentions expressed by SMEs may not materialise in 2015 but later on. SMEs generally find it difficult to plan ahead of one or two years. They consequently express an intention to seek equity financing in the future but this intention may materialise later.
- The equity market is before all based on the capacity of supply to meet demand. This requires appropriate financial knowledge of SMEs' owners and managers, their capacity to develop good business plans, and the willingness of investors to invest.

In that context, a Financial Instrument that would reinforce the existing equity funds in Slovenia as well as attract new investors would support the development of SMEs in the country, whether there are innovative micro-enterprises at an early stage of development or non-innovative mature small and medium-sized enterprises in a traditional sector.

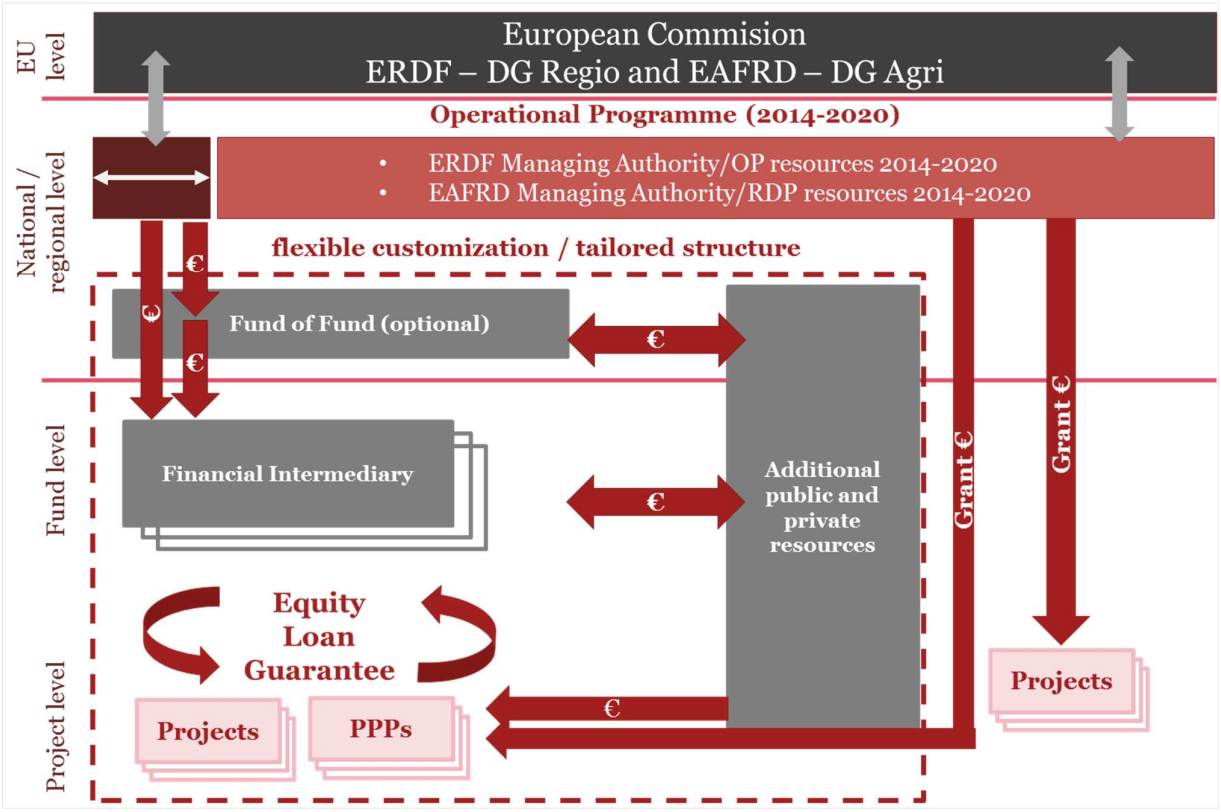
7.1.2. Value added of potential future Financial Instruments

Given the market failures identified in the relevant chapter, the qualitative value added of financial instruments is significant in many respects, including:

- A more responsible approach, better performance and financial discipline at final recipient level in the case of financial instruments ("revolving nature") compared to non-reimbursable assistance;
- Simplicity in obtaining assistance: the financial intermediary, such as a bank implementing a portfolio guarantee instrument as an example, is fully delegated to provide the instrument at SME level, without the need to obtain any further approval from the guarantee fund or FoF;
- Stimulation of a new generation of entrepreneurs in the innovative sector through the accelerator, seed funds and/or technology transfer instruments;
- Introduction of wholly new instruments, as for example the accelerator/technology transfer or the microcredit instruments (guarantees and interest subsidies) and the socially-oriented instruments;
- Supporting the build-up and modernisation of the financial system, including also the non-banking financial institutions previously not used as intermediaries, by using new instruments and gaining new SME customers;
- Creating competition among banks, fund managers, and other intermediaries which, as it has been shown in the past, usually leads to better terms for the final beneficiaries;
- The mathematical leverage effect is supplemented by the stimulation of greater interest of private investors in a country or sector they would not have considered otherwise, potentially leading to further investments undertaken by them in the future.

7.1.3. Estimate of additional public and private resources

Figure 32: Flow of funds and level of additional public and private resources to leverage the FI



Source: PwC analysis, 2015 based on JESSICA Holding Fund Handbook

The table below illustrates the source of financing available in Slovenia for SMEs interventions that could constitute additional public and private resources, presenting their characteristics (e.g. loans, guarantee, etc.). The list has been drawn based on the information presented in the supply side analysis, and it has to be considered indicative to the extent that it has been developed on the basis of the information collected during the report.

Table 31: Potential additional public and private resources to consider

	Product						
	TA as Grant	Inv. resources as grant	Loans	Guarantee	Equity	Mezzanine	Microfinance
Commercial banks			x				x
Slovene Enterprise Fund		x	x	x	x	x	x
SID Bank			x			x	
HORIZON 2020		x	x	x			
COSME		x	x	x			
SME Initiative				x			
Cultural Creative Sector Guarantee Facility				x			
EaSI			x	x			x
Venture Capital Companies					x		
Companies providing Seed Capital					x		
Business Angels					x		
Microfinance institutions							x

Source: PwC analysis, based on the materials collected in the supply side section

The SME Initiative is a joint instrument blending EU funds available under COSME, Horizon 2020 and ESI Funds resources in cooperation with the EIB and the EIF. A single ex-ante assessment has already been prepared by the EIB Group and issued by the EC on this initiative. It overall contemplates the implementation of two products: an uncapped portfolio guarantee instrument and a securitisation instrument.

It is understood that using ESI Funds under the umbrella of the SME initiative is an appropriate choice when (i) the technical capacity and/or the expertise of the MA is considered insufficient and/or (ii) where the critical mass for establishing an FI has not been reached on a specific territory and/or (iii) where the existing EU-level instruments are well aligned with the Programme objectives of the MA. This option avoids duplicating FIs at lower levels and gives assurance to MAs that resources will be used through tested vehicles and experienced teams (i.e. EIB and EIF representatives with knowledge of the MAs' markets).

Based on the lessons learnt to date in the country, Slovenia has sufficient level of experience with Financial Instruments (including FIs using Structural Funds) to act independently and to manage the specific needs of final beneficiaries in various sectors (and more specifically the four sectors covered by the present ex-ante assessment: SMEs, RDI, EE/RE and UTD). Consequently, tailor-made instruments appear to be a more suitable solution for the use of ESI Funds under FIs than the SME initiative.

7.1.4. Review of lessons learnt from past and existing Financial Instruments in other EU Member States

Clear, market-oriented and flexible eligibility rules

The implementation of the financial instruments at the very outset of the previous programming period has been impeded by the lack of clear regulatory provisions related to the implementation of financial instruments under Structural Funds. The publication of a comprehensive COCOF guidance note on the implementation of financial instruments in 2011 clarified the majority of questions relating to the eligibility of expenditure. It was later amended (in 2012) to address the urgent need for financing on working capital, which for instance continues to remain the bulk of demand in the current economic context. The new regulatory framework generally represents an acceptable basis for the future implementation of decentralised financial instruments.

Flexibility

Given that eligibility and state aid rules already hamper final beneficiaries in benefitting from FIs, it is important to limit the eligibility rules only to the strictly necessary ones, and to try and preserve for the instruments as much flexibility in meeting demand as possible. It is also important to allow for an easy re-allocation of resources from the non-performing to performing instruments, by grouping them under a Fund-of-Funds at national level.

Suitability of the selected FIs

The role of the FIs in the deployment of funds is crucial to maximise such benefits of instruments portfolio as: utilisation of public resources, gearing of private resources and investors, deployment of the instrument in accordance with the contractual obligations to the HF manager to ensure transfer of benefits to the beneficiaries with transparency, accountability and compliance with national legislation and EU regulations. The selection of the FIs should be carried out in the framework of all the above with full impartiality, and on the basis of a thorough assessment that includes technical expertise and know-how.

Availability of funds

During the previous programming period, all funds were available at the beginning of the operations. This ensured that the HF manager could enter into agreements and deploy financial instruments of varying risk profiles and of duration exceeding the programming period. This could be achieved without any additional conditions that could reduce the benefits transferred to the final beneficiaries, diverge from market practice, or trigger additional legal provisions.

Combination with grants

As the new regulations allow to combine grants with financial instruments, it is up to the implementing bodies to decide if grants and instruments should work as an embedded product (and be managed by the financial instruments manager), or if the grant element would better work as an external component to be managed separately (perhaps in collaboration with a grant focussed authority).

Appropriate evaluation of financial results

An accurate evaluation of the results of financial instruments can only be made after the instruments have been wound down, the losses of debt instruments have incurred, and the equity funds have closed. It is well known that such instruments have a slow start and most equity gains or guarantee portfolio losses occur towards the end of their lives. Furthermore, the indicators used in the FIs evaluation must be different from those used in grant evaluation.

Lessons learnt in debt instruments (guarantees and loans)

Capital Relief

In the course of implementation of debt instruments under the previous programming period, the intermediaries expressed interest in the applicability of regulatory capital relief under guarantee and debt

products. The provision of regulatory capital relief should be carried out in a way that is compatible with national legislation and capital markets regulatory framework in close connection with legal experts and the national regulator, respectively.

It is expected that the provision of regulatory capital relief will remain a key element for the future implementation of debt products under ESIF and for that reason it should be considered at the stage of Funding Agreement negotiation whether its provisions would be compatible with this objective.

In accordance with the Basel regulatory framework, the benefit of the capital relief can be fully utilised when the entity providing the guarantee enjoys the maximum credit rating.

Transfer of benefits

Most of the instruments that are deployed through banks as FIs incorporate an element of support that is directed at the final beneficiaries. Continuous monitoring and sophisticated reporting through contractual arrangements with the FIs are required to ensure that the full benefit is transferred to the SMEs in a transparent and uninterrupted manner.

Lessons learnt in equity instruments

Fundraising

Country-specific equity funds, especially in smaller and less attractive economies, usually experience fundraising problems. It is, therefore, important to consider whether local institutional investors will be able to invest in such equity funds. If not, tailor-made equity instruments need to be considered and additional financial incentives for investors may be needed (e.g. capped returns of public investors, fixed return vs hurdle, first-loss coverage for seed investments, etc.).

Market practice vs. ESIF rules

Whilst the new EC regulations allow for much closer alignment with market practice, the “absorption” rules and requirements, including timing, will always be key under ESIF instruments. Thus, it would be only natural that such instruments place substantial weight on the absorption potential together with the commercial outcome. To this end, it is important that solutions are devised to make the instruments appear as “business as usual” to market players, whilst ensuring compliance with the ESIF regulations.

Developmental aspect

ESIF resources by definition should address suboptimal market conditions. Thus, it is inherent that instruments designed with ESIF resources may be embedded with provisions which are not fully aligned with market dynamics such as investing in asset classes with higher risk level, retaining fund managers that are not of the quality expected in developed markets or introducing non-market features in light of mobilizing private capital.

Attracting quality fund managers

Small country-specific funds rarely manage to attract top talent, as far as concerns fund managers, due to their size. To counterbalance that, equity instruments could offer an attractive fee/carry ratio. This approach would require a careful balancing act between the interests of fund managers and private investors, and must in any case retain the alignment of interest principle. A more attractive carry might make investors less interested, and so such incentives might only be possible with regard to public participation in the fund.

Local and committed teams

Strong local teams, or international teams with substantial capacity on the ground, have been shown to help an equity instrument achieve the impact sought by ESIF funding, especially from the developmental perspective.

7.2. Research, Development and Innovation

7.2.1. Analysis of market failures, suboptimal investment situations and investment needs

In this sub-chapter we have focused on the review of necessary RDI investments of private business sector in Slovenia. We focused mainly on TO1, more precisely on the priority axis 1b of the Operational Programme for the Implementation of the EU Cohesion Policy (OP-ECP), which covers promotion of investments in research and innovation, as well as establishment of links and synergies between companies, centres for research and development and higher education centres, particularly by promoting investments on the field of development of goods and services, technology transfer, social and eco-innovations, public service applications, stimulation of demand, networking, clusters and open innovations through smart specialization and the promotion of technological and applied research, pilot lines, measures fort the evaluation of products, advanced production capacity and first production, particularly on the field of key enabling technologies as well as the dissemination of technologies for general use.

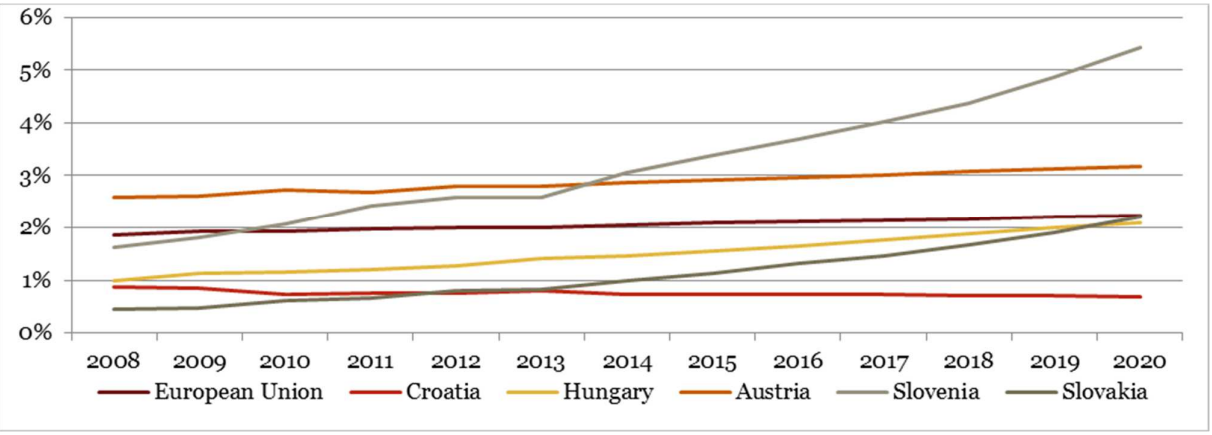
Investments in research and technological development present one of the key factors, which have an effect on competitiveness and can increase the possibility of the establishment of the country's innovative environment. The increase of the innovation capacity is important for achieving greater efficiency, quality and better accessibility of public services.

Overview of the RDI market in Slovenia

Investment in research and development in Slovenia is **vital for the development of companies in Slovenia. The intensity of investments** in research and development in Slovenia, which relates to the gross expenditure for development and research, has increased in the past decade, despite some fluctuations. From 2002—2011 the intensity has increased from 1.44% to 2.47% and reached **2.6%** in 2013**,** which is above the European average (2.01%)[65] and situates Slovenia at the top of EU. This also fulfils the goal of 3% intensity of investments in research and development by 2020.

According to the forecasts of the European Commission, the level of intensity will exceed the target in 2020, since the projected rate (under the assumption that an identical growth is to be recorded as in years 2008—2012) amounts to 5.5%. Further incentives, use of public and private resources (human, financial and infrastructure) as well as the provision of smooth achievements of technological innovations will be necessary realization of this goal. The major challenge for Slovene research and development is **to improve effectiveness and efficiency of available resources**.

Figure 33: Slovenia and selected Member States – forecast of R&D intensity till 2020, according to growth in the years from 2008 till 2012 (in %)



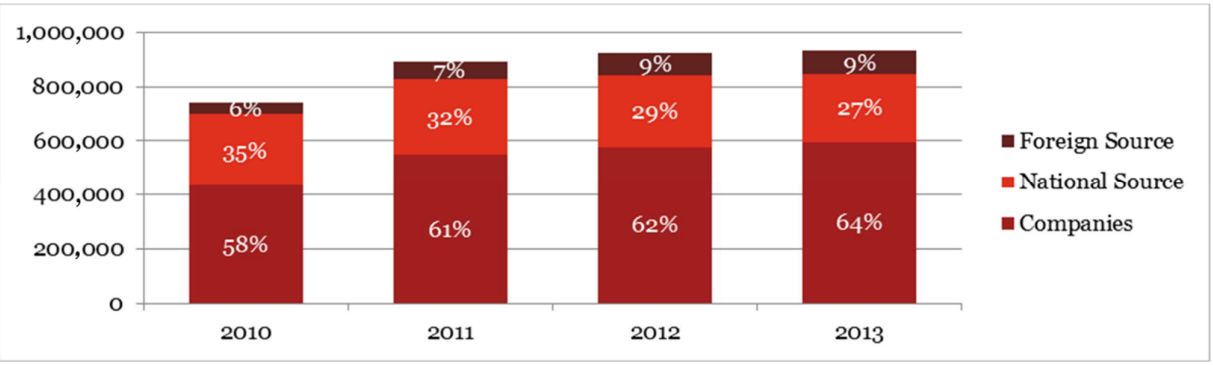
[65] Eurostat: http://ec.europa.eu/eurostat/web/products-datasets/-/tsc00001

Source: European Commission, 2015

The greatest share for the implementation of R&D activities in gross domestic expenditure is made by business sector. Their contribution has been annually increasing (observation period 2010-2013) and amounted to EUR 597 million in year 2013, which is approximately 64% of the total gross domestic expenditure. While the proportion of funding that the business sector allocates for its own R&D has been increasing, the proportion of funds the business sectors dedicates to the public sector is decreasing[66].

State sources are the second biggest contributor for the R&D, but their share is slowly decreasing. Foreign sources still present less than a 10% share and have contributed EUR 83 million in 2013. These include funds from the European Commission, international organizations, company, university and foreign private non-profit organization resources as well as foreign government resources[67]. **Slovenia's attractiveness for investments of foreign companies in research and development is not achieving the desired results,** which is indicated by the fact that the share of expenditures on research and development is lower than the EU average[68]. Resources, contributed by higher education and private non-profit organizations are negligible, since they present less than 1% of total expenditure.

Figure 34: Gross domestic expenditure on R&D activities according to the sector (EUR mil)



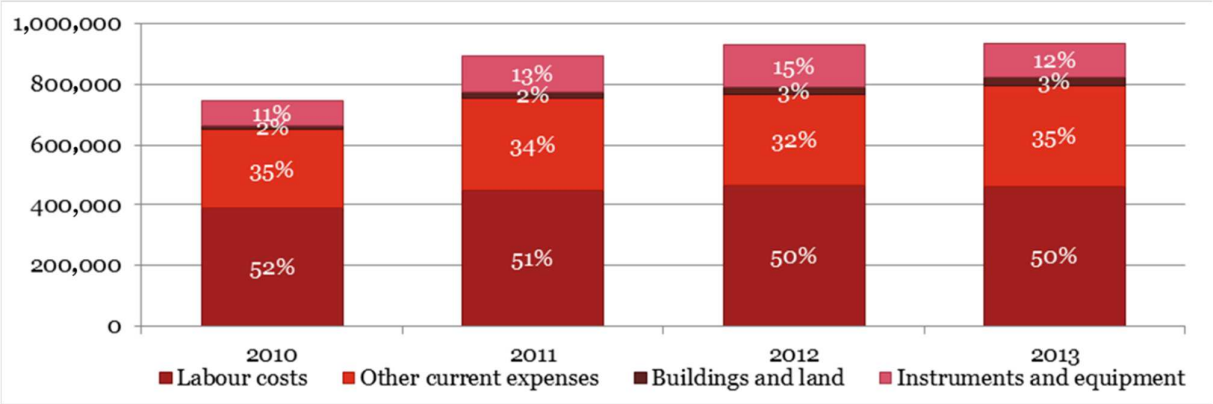
Source: SI-STAT, 2015

More than 80% of total expenditure on development and research is given to recurring costs, including **labour costs and other recurring costs**, which have increased during the observed programming period 2010—2013. In 2013, there were 21,272 people, employed in R&D, 12,743 of which were employed in the business sector, 3,000 in the government sector, almost 5,500 in the higher education sector and 17 in the private non-profit sector. Among all the employees, the biggest share of female and male researchers was recorded in the higher education sector (78%) with 72% in the government sector and 44% in the business sector. The rate of new PhD graduates in Slovenia is equal to the EU average, while the rate of the population with a university degree is higher than in the Europe. The employment rate of researchers in companies and knowledge-based activities is high as well, which means that highly qualified graduates do not have trouble with integration into the Slovene economy. Despite good achievements, Slovenia does not seem attractive enough for foreign students of the doctoral studies[69].

Less than 20% of the remaining expenses represent **investment costs**, which are divided into buildings and land and into instruments and equipment.

[66] http://ec.europa.eu/research/innovation-union/pdf/state-of-the-union/2014/iuc_progress_report_2014.pdf
[67] http://www.umar.gov.si/fileadmin/user_upload/publikacije/pr/2014/POR_2014.pdf
[68] http://ec.europa.eu/research/innovation-union/pdf/state-of-the-union/2014/iuc_progress_report_2014.pdf
[69] Smart Specialization Strategy in Slovenia;
http://media.wix.com/ugd/dd8643_d0428cb1ef474b1a859718eebf56fd10.pdf

Figure 35: Gross domestic expenditure on R&D activities, according to the type of expense (EUR ths)



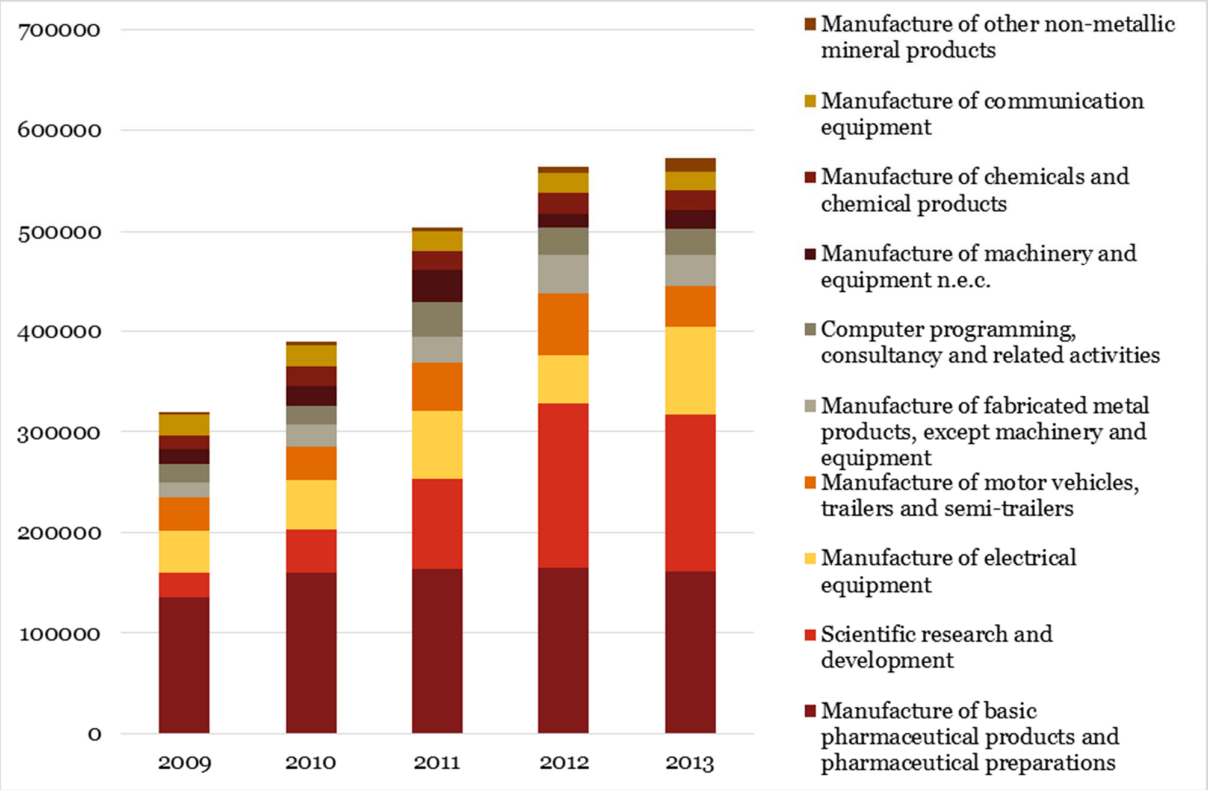
Source: SI-STAT, 2015

Business sector

In spite of the economic crisis, the share of R&D financed by business sector has been higher than the EU average since 2007[70]. This is reflected by the updates production structures, offering new products, services and technological processes, which have strengthen the international competitiveness in the long term. In recent years the proportion of expenditure has increased significantly for companies, which are active in **R&D activities** (from 2009 until 2013 the share increased for more than 15%). The companies that invest the most in R&D are companies, which produce **pharmaceutical raw materials and preparations**, which represent 22.5% of total R&D expenditures in the business sector. Companies, active in the manufacturing of electronic devices and motor vehicles, represent an important part as well.

[70] Research and Innovation performance in Slovenia, Country Profile 2013

Figure 36: Proportion of the highest intramural R&D expenditure in the business sector, according to the SKD in Slovenia, 2009 – 2013 (EUR ths)



Source: SI-STAT, 2015

A vital role in encouraging innovation-driven economy is presented also by the expenditure of the business sector for **R&D of information activities, manufacture of ICT equipment**, **telecommunication and information services**, in which Slovenia lags behind the EU average (the comparison was performed for the period 2008-2011)[71].

Figure 37: Business R&D expenditure according to the companies' size (EUR ths)

	2010		2011		2012		2013	
	BERD	%	BERD	%	BERD	%	BERD	%
Micro	11,824	3%	24,783	5%	19,397	3%	19,174	3%
Small	28,888	7%	66,602	13%	95,235	17%	85,314	15%
Medium	82,248	20%	111,892	21%	96,321	17%	125,045	22%
Large	282,085	70%	321,847	61%	344,628	62%	346,986	60%
Total	**405,045**	**100%**	**525,124**	**100%**	**555,581**	**100%**	**576,519**	**100%**

Source: SI-STAT, 2015

Small and medium-sized enterprises (SMEs)

As indicated in the above table, Slovene SMEs represent less than half of all business R&D expenditure. The above-average investments and trend of increasing investments in R&D in the private sector are still limited only to some sectors of activity and a smaller group of companies.

[71] http://www.umar.gov.si/fileadmin/user_upload/publikacije/pr/2014/POR_2014.pdf

Financial incentives positively affect investments in development; however, these sources are limited and are not sufficient to cover the actual needs. One of the biggest shortcomings presents the provision of access to reimbursable grants for projects with higher risk, which mostly refers to small and medium-sized companies and is not accepted by the financial market.

Despite its progress in the last years, Slovene environment still does not promote enough risk taking, entrepreneurship and responsibility to achieve undertakings. Therefore, the operation and development of small and medium-sized high-tech enterprises is very weak (e.g. in pharmacy, bioscience and nanotechnology). Relatively large initial contributions in high technology hinder the establishment of new innovative companies. Due to the lack of incentives and insufficiently transparent and regulated environment, researchers and other individuals or groups do not assume risks and do not establish high-tech companies. In addition, public research organizations that lack sufficient incentives for commercialization of the results of their research and active management of intellectual property rights, contribute passively to it[72].

Large enterprises

In the programming period 2007—2013, large companies were supported by grants through tenders, executed by the Ministry of Economic Development and Technology and agency SPIRIT. Large Slovenian companies received, on the basis of executed tenders, over 70 mil EUR of direct subsidies for the joint development and investment projects. More than 5 mil EUR of subsidies were allocated for strengthening the R&D department, over 6 mil EUR was dedicated for purchase of new technological equipment.

Companies were given the opportunity to acquire funds also for co-financing the costs of the interdisciplinary project groups, for co-financing employment of researchers, promoting the mobility of highly qualified personnel and R&D projects in problematic areas with high unemployment. In total, more than EUR 2.5 mil of subsidies were granted.

More than million EUR has been dedicated for funding the construction of technology parks and business incubators in the context of economic-development-logistics centers. In the programming period 2007-2013, more than 125 large companies have been supported via grants.

Large companies still provide a major part of the financing for RDI on its own. Below we present a short analysis of the expenditure of major Slovenian companies in the field of RDI.

In 2013, 60% of all R&D expenditures belonged to large enterprises (more than 250 employees), which operate on international markets and have spent in total EUR 375 million for R&D activities.

In the past three years, Gorenje, one of the larger enterprises, has been increasing its funds for investments in R&D. In 2015, a 10% increase of funds is planned with approximately 3% from their core activity, which roughly means EUR 30—33 million. They provide most of the money with their own resources; only around 5% is received through European and local tenders. The result of these investments is also the increasing number of employees in the development section, with nearly 350 employees. They tend to focus on new technologies in R&D, especially on the field of energy efficiency of household appliances.

As a manufacturer of pharmaceutical products, Krka is a large investor in the research activity and spends almost 10% of total expenditure, which amounted to more than EUR 100 million in 2013. The majority of funds was provided by themselves with the exception of European funds. The result of investments are new pharmaceutical products, which are the main source of marketing and sales. The proportion of new products in Krka sales' structure, including all products, which launched on individual markets in the last 5 years, amounts to more than 45%. There are almost 600 people, taking part in R&D. They are in the midst of developing 175 new medicinal products, which will launch to the market in the following years. In doing so they also cooperate with specialized companies and academic institutions, from which they absorb and use special knowledge and technologies.

In 2013, the other pharmaceutical giant, Lek, allocated 9.4% of income to R&D and even larger amount in 2014. The activity is almost entirely financed by their own funds. More than 20% of all the employees are employed in the R&D division.

[72] http://www.drznaslovenija.mvzt.gov.si/ch02s05.html

Fotona, the leading producer of laser and optic-electronic devices, announced that 9% of net income would be allocated to R&D in 2015 (approximately EUR 3 million). Unlike other mentioned companies, Fotona realized a substantial part of its development with the help of European funds in the past, but have changed their plans last year[73].

Besides Krka, Helios also ranked among the top 1,000 ranked companies in the EU, according to investments in R&D in 2014, by taking the 909th place. In 2013, the company dedicated EUR 7.2 million to R&D[74].

Tax Incentives

Higher tax relief in 2012 encouraged business sector's additional investments in R&D[75]. In 2006, **the tax relief rate was low (only 20 percent),** but its gradual increase led to **100% tax relief in 2012.** The extent of tax relief for R&D, used by companies for this purpose, has increased from EUR 100 million in 2011 to EUR 184 million in 2012, but their level of concentration on certain activities remains very high and changes very little during the years. The **manufacturers of pharmaceutical raw materials and preparations (C.21)** use **more than a third of the entire amount** of tax relief and have claimed 56% of all reliefs in 2012 together with professional, research and technical activities (M) and manufacturers of electrical appliances (C.27).

The circle of companies, benefiting from tax relief is expanding very slowly, but the utilization of tax reliefs has been increasing. The extent of reliefs has increased by 84% during 2011 and 2012 and the number of new companies, claiming these reliefs by 11%. This instrument is important for encouraging investments in R&D, since out of 34 OECD members, 27 have used it in 2011. Slovenia falls within countries with the highest overall incentives for R&D, which amounted to 0.32 % of GDP in 2011, but do not exceed 0.2 % GDP in most OECD countries (OECD STI Scoreboard, 2013)[76].

In 2012, manufacturers of pharmaceutical products and preparations (C.21) used more than a third of the total amount of tax relief (in the other years, the proportion varies between 25 and 30%) and, together with professional, scientific and technical activities (M) and manufacturers of electrical appliances (C.27), implemented 56% of all tax reliefs.

Innovations in Slovenia

Slovenia is regarded as an innovation follower. The innovation performance constantly increases with a smaller decline in 2012. Compared to the EU, relative performance increased from 85% to 93% from 2007 until 2013. This increase placed Slovenia on the list of innovation followers (previously listed as »modest« innovator) starting with 2008[77].

In the period 2010—2012 more than 46% of the observed companies engaged in innovation activities[78]. In 2012 there were EUR 536 million allocated to the innovation activity in processing activities and EUR 213 million in service activities.

Most innovation active companies comprised of companies, which employed more than 250 people or 87% with the average for all companies being 47%.

Slovene small and medium-sized enterprises are successful on the field (non-technological) of market and organizational innovations and not so successful in introducing innovative products or processes.[79]

The lack of thematic funding in Slovenia represents one of the problems of the national innovation system. Slovenia currently supports only certain sectors through eight centres of excellence, seven centres of competence and 17 development centres, all co-established by structural funds. In matters of employment of

[73] http://www.delo.si/znanje/znanost/vec-raziskav-prinasa-vec-novih-izdelkov.html
[74] http://www.domzalec.si/helios-med-najboljsimi-1000-v-eu-po-vlaganjih-v-r-r

[75] UMAR, Poročilo o razvoju 2014
[76] http://www.umar.gov.si/fileadmin/user_upload/publikacije/pr/2014/POR_2014.pdf
[77] http://ec.europa.eu/enterprise/policies/innovation/files/ius/ius-2014_en.pdf
[78] Statopis 2014; retrieved on http://www.stat.si/doc/pub/Statopis.pdf
[79] http://ec.europa.eu/research/innovation-union/pdf/state-of-the-union/2014/iuc_progress_report_2014.pdf

scientists and the proportion of medium-high and high-level technological production in the total share of exports, Slovenia is near the EU average; however, it is placed below the EU average on the field of knowledge-based export of services, patents and innovation of fast-growing companies[80].

Key obstacles, identified by companies, dealing with innovation, are access to external sources of funding for the development of products and internationalisation, access to highly qualified personnel, access to market information and the legal system, particularly in terms of patentability and standardization.

R&D demand analysis

Our desktop research and executed interviews have shown that demand for funding of investments in R&D and a recorded business expenditure for R&D varies between the SME segment and the segment of large enterprises. These divergent market conditions, evident from the information on business R&D expenditure, show that the number of large enterprises is lower than 1%, but represent around 60% of total R&D expenditure.

Throughout the analysis, we have identified the following advantages and disadvantages of the Slovene research and innovation system:

- Slovenia has a high share of investments in R&D, particularly in the business sector;
- Access to relative quality research infrastructure (in the last years, major investments have been carried out with the ERDF funds in national research infrastructure within Centres of excellence[81]);
- High quality of human resources and growth of the number of researchers;
- Weak innovation activity of enterprises, underexploited knowledge-based (patents, brands, models) potential of the capital;
- Weak incorporation of Slovene enterprises in global value chains;
- Based on the S4 strategy analysis, the cooperation between knowledge institutions and the business sector is too weak, which is reflected by the gap between research context and companies (joint development, joint appearances on foreign markets), as well as between knowledge institutions themselves (e.g. joint equipment);
- Partiality and incompleteness of the supportive environment and development incentives, which do not address systematically the entire development cycle (through technological grades), are too fragmented, and do not include comprehensive support (infrastructure/equipment/RRI/human resources/ consulting);
- Fragmentation of supporting institutions that do not have sufficient critical mass - the absence of a strategic approach. Focus on the development of products based on the development of technologies (push factor) with too little emphasis on the development of services/experiences (pull factor).

Computing methodologies and gaps for RDI financing

Please note that for the basis of calculation a common approach at the national level is used, since the best option to achieve critical mass and exploit synergies while at the same time take into account the baseline, resulting from historical results of the investments that also reflects the concentration of the research infrastructures, partly also the generated knowledge.

Demand for RDI is based on the percentage of companies that reported in the 2010—2012 to be innovative (any type of innovation, or only technical innovation) and business expenditure for RDI (BERD) in 2013. Please find description of the methodology and quantification for demand in detail in Appendix E.2.

[80] Innovation Union at progress at Country level, 2014; retrieved on http://ec.europa.eu/research/innovation-union/pdf/state-of-the-union/2014/iuc_progress_report_2014.pdf

[81] Smart Specialization Strategy, Slovenia, 2014

Supply for RDI consists of the existing credit line of SID Bank launched in 2015 and new loans of commercial banks dedicated to RDI. Please find description of the methodology and quantification for supply in detail in Appendix E.2.

Table 32: Potential financing gap for RDI for SMEs and total companies in 2015 (EUR)

Supply		Demand		Estimated gap
SMEs	92,580,597	SMEs	43,000,401	0
	97,936,450		112,101,827	**14,165,355**
Total companies	154,767,994	Total companies	86,373,651	0
	166,669,888		413,483,953	**246,814,065**

Source: PwC Analysis, 2015

As stated in the *Ex-ante assessment methodology for financial instruments (Vol. II – RDI)*, it should be recognized that quantification of the financing gap for RDI-focused projects is extremely challenging due to the fact that it requires estimating the potential unmet demand and necessitates the use of quantitative and qualitative proxies. The result of the calculation show that the estimated amount of addition public or private financing will be needed to meet potential demand per year is between EUR 0—14 million for SMEs and between EUR 0—247 million per year for total companies, taking into account that smaller enterprises may spend a smaller proportion of turnover for RDI investment than medium sized. Importantly, despite the variation in range, these results point to a market potential for SMEs wanting to invest in RDI if access to finance market failures are addressed.

It should be emphasized that the gap analysis is only indicative and is presented in order to provide an estimate of whether a gap does indeed exists and importantly, in which market segments it appears most problematic. Based on the results obtained, it does appear that a funding gap does exist in the financing available to Slovenian companies, involved in the RDI.

Both, the General and RDI-specific volumes of the Ex-ante methodology for financial instruments suggest that the analysis to determine whether a market failure exists, (therefore providing rationale for FI intervention) can include the identification of suboptimal investment situation, which are investment gaps between a quantitative EU (or national) objective and the current trend of the selected indicator. In this method, the missing investment amount to achieve the quantitative objective quantifies the suboptimal investment situation.

Insights on market failures and suboptimal investment situations

Following the findings of the literature review, extensive desk research and interviews/workshops held with relevant stakeholders in Slovenia, and combining this with the gap analysis of market supply and demand; we have therefore identified that **market failures and suboptimal investment conditions appear to exist in Slovenia with relation to business investment in RDI** that could justify public intervention through the use of an FI. These market failures appear to be **supply-side driven** and are primarily related to **limited access to finance** which is one of the main obstacles faced by innovative enterprises in their growth and development. Importantly, these access to finance issues appear to be **most acute for the SME market segment in Slovenia** (particularly smaller and younger enterprises) as the larger corporates have not reported major financing difficulties for RDI investments.

However, as indicated by interviewees, availability of finance is not the only factor limiting the possibility of projects to be financed. Among the factors highlighted, the following are the most impacting:

1. High risk aversion among finance providers in Slovenia, potentially limiting the size of envisaged R&D investments;
2. The value of RDI-driven entities and innovative companies is often hard for banks to assess due to the fact that they are often more reliant on intangible assets rather than physical property which is rarely accepted as collateral. In Slovenia, these difficulties have also undoubtedly been heightened by the current economic downturn.

The gap analysis highlighted other qualitative aspects related to the possibility to finance RDI projects in the Slovenian context:

- Incomplete range of financial products and services exacerbated by an immature venture capital and private equity markets. Moreover, due to undeveloped capital market, the main sources of funding for companies in Slovenia are banks, which are averse to risk;
- Rigid regulatory and legal framework dissuading innovative enterprises, as a consequence, RDI-driven projects/entities may not be able to take full advantage of the available financing offer, because they cannot comply with the term and conditions or because the eligibility rules do not ensure a broad coverage of their needs (i.e. RDI-driven projects/entities have difficulties meeting the requirements for collateral to obtain a guarantee or do not have a sufficient regular cash flows to repay a loan and secure their financing);
- Lack of adequate linkages between research institutions and the private sector;
- The on-going effects of the crisis in Slovenia, including the drop in commercial lending to enterprises, have also undoubtedly exacerbated access to finance issues, particularly for SMEs.

7.2.2. Value added of potential future Financial Instruments

Using of FIs provides significant benefits in all the sectors identified in the market analysis, as reported in the table below.

Table 33: Value added ensured by the use of FIs

	Value added of an FI
Incomplete range of financial products and services (particularly early stage finance due to immature venture capital and private equity markets)	FIs can provide a broad range of financial products (e.g. equity, mezzanine, etc.) that can meet the various needs of stakeholders in the RDI sector.
Information asymmetries – lenders have insufficient information on some bankable proposals and tend to extend financing on the basis of the company's profile rather than on the project potential	FIs provide TA in the form of grants that can support financial intermediary to carry out the due diligence of projects, allowing them to have a better understanding of them and to eventually extend lending also on the basis of the project potential, and not only on the company's profile.
Rigid regulatory and legal framework dissuading innovative enterprises (e.g. difficulties for companies to comply with the terms and conditions)	FIs do not have require long and sometimes complex tendering procedures as grants, and once they are set-up, they can immediately start supporting companies requiring financing.
Lack of adequate linkages between research institutions and the private sector	FIs provide TA in the form of grants that can create the necessary links between the two supporting awareness raising campaigns, also acting as a bundle of projects that later on can be supported by the FI.

Source: PwC Analysis, 2015

Furthermore, other aspects to be considered are the typical characteristics of FIs, namely their revolving nature, the leverage creation and the fact that they encourage efficiency among final beneficiaries. These and other aspects are presented in detail in the table below, showing the value added of an FI over grants.

Table 34: Value added of an FI as compared to grants

	Value added of an FI compared to grants
Leverage creation	FI enables additional support to be channelled to enterprises, public administrations and more generally final beneficiaries, with a potentially greater financial impact than grants, due

	to the ability to attract additional public and private sector resources, thus multiplying the effects of ESI funds and national/regional contributions (e.g. each euro invested by the OP-ECP creates a multiplying effect which increases resources available to final beneficiaries). According to published research[82], such leverage effect is even more prominent for small countries like Slovenia traditionally less attractive for international investments. As for the RDI sector, this means that, as the investment generated by an FI are higher than those generated by a grant scheme, the quantitative value added of an FI as compared to a grant scheme could be measured in the achievement of: • **Higher enhancement of competitiveness and exports** for enterprises involved in RDI activities (higher exports are also linked to productivity gains which should lead to wage increases); • **Higher economic growth**, as an instrument that increases business R&D investment in Slovenia, leading to a greater overall national investment, is likely to raise GDP levels[83]; • **Higher number of jobs created** due to the higher number of building renewed.
Revolving nature	As these monies are repaid to the fund over the life of the project, they become available to finance additional projects. In such a way, the use of FIs can promote the long-term recycling of public funds and they potentially enable the reinvestment of ESI funds at the level of the country beyond the end of the programming period, helping achieve better value for public money.
Encourage efficiency	FI can encourage efficiency among final beneficiaries through greater financial discipline through the heightened awareness of the need to repay loans (unlike grants). This factor emerges also as an 'assurance of quality' of the project. In other words, FIs encourage companies to grow and become more competitive.
Create capacity building	FIs use can help build institutional capacity through partnerships between the public and private sectors, can broaden the involvement of financial intermediaries/institutions in implementing EU regional policy and can encourage pooling of expertise and know-how, for example to improve the quality of projects. Additionally, the creation of public-private synergies ultimately results in an alignment of interests between public and private actors, taking the best out of both. On the one hand, they enable the pursuit of public policy objectives, which characterises public institutions, and on the other hand, they bring in the commercial market mechanisms accompanying private investors.
Ensure better technical assessment of projects	The TA assistance to be financed out of an FI could ensure a better technical assessment of projects as to ensure that oversized and/or unsuitable projects are excluded from support.
Create confidence in the market	The use of FIs may encourage investors to invest (more) in projects which are not attractive without public intervention, since such types of investments are considered too risky from normal private financial institutions. This is particularly important for relatively small start-ups active in high-risk sectors (e.g. high tech, ICT) which, especially in the context where private investors are reluctant to take any risks, would not have access to finance for their low disposable collateralisation.

Source: PwC Analysis, 2015

Finally, an interesting example that can present concretely the value added of an FI in the RDI sector is the construction of a research centre for biotechnologies and biomedicine. The table below provides a summary of the main elements of the project, presenting the value added brought by the FI.

Table 35: Value added of an FI in the RDI sector

	Description
Beneficiary	RiMED

[82] European Parliament (2013) Financial Engineering Instruments in Cohesion Policy.

[83] World Bank study which compares the impact of five Lisbon Agenda targets on GDP and exports in Slovenia and other EU countries - shows that increasing aggregate R&D to 3 percent of GDP (with 2 percent coming from the private sector, the Lisbon target for R&D) would raise GDP by 6.9 percent and exports by 10.5 percent above their baseline by 2025

Location	Carini (Palermo), Sicily, Italy
Description	The project encompasses the construction of a research centre for biotechnologies and biomedicine, aimed at developing new medicines, vaccines and medical devices and implementing new approaches to regeneration medicine and therapies for mental and behavioural disturbs.
Product	JESSICA loan of EUR 40.0 million (part of a financing package, including equity from promoter, totalling EUR 210.0 million).
Value Added	• The centre will incentivise the development and spread of scientific knowledge, with positive effects on Sicilian and Southern Italian economies. • It will employ ca. 600 people and as many could find jobs in the connected business activities. • The project will also achieve an urban regeneration of the area.

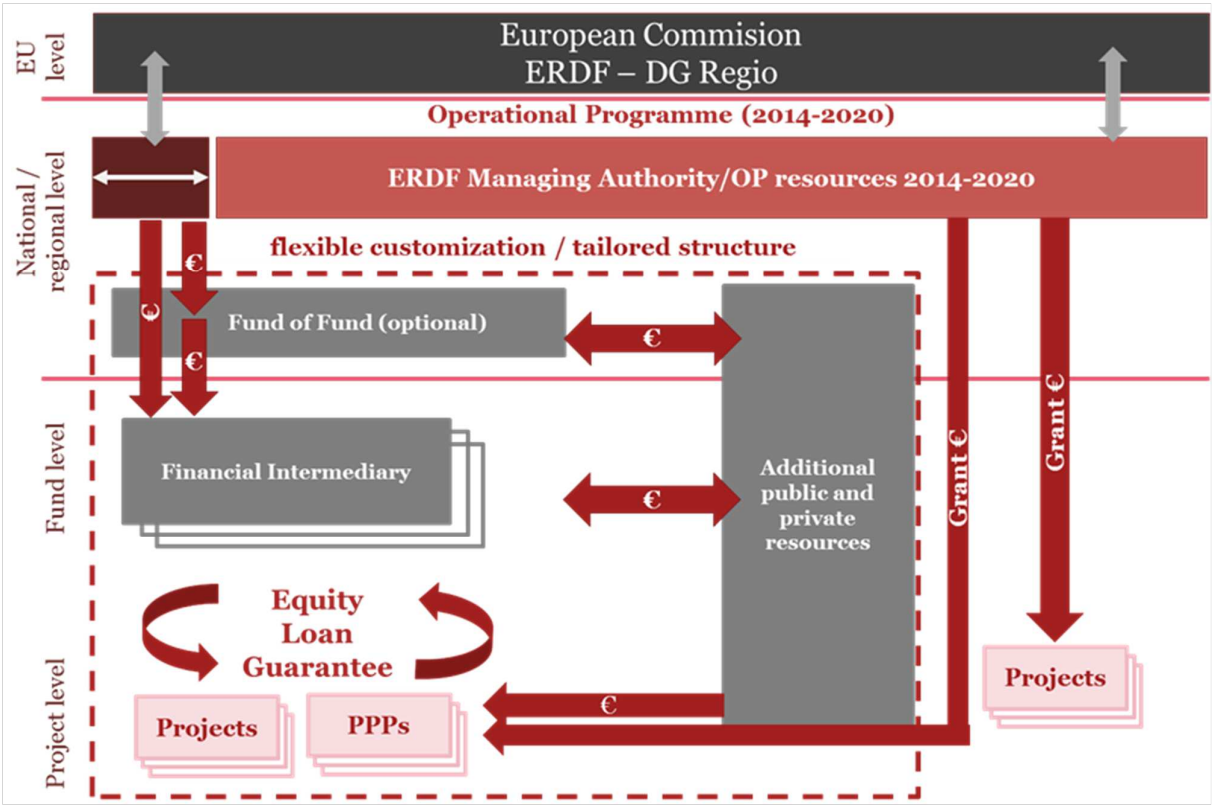
Source: PwC Analysis, 2015

7.2.3. Estimate of additional public and private resources

The financial instrument offers the possibly to channel additional investments into the FI levering the initial resources provided by the OP-ECP.

The figure below illustrates the mechanism allowing the creation of leverage.

Figure 38: Flow of funds and level of additional public and private resources to leverage the FI



Source: PwC analysis, 2015 based on JESSICA Holding Fund Handbook

The table below illustrates the source of financing available in Slovenia for RDI interventions that could constitute additional public and private resources, presenting their characteristics (e.g. loans, guarantee, etc.). The list has been drawn based on the information presented in the supply side analysis, and it has to be considered indicative to the extent that it has been developed on the basis of the information collected during the report.

Table 36: Potential additional public and private resources to consider

	Product					
	TA as Grant	Inv. resources as grant	Loans	Guarantee	Equity	Mezzanine
Commercial banks			x			
Slovene Enterprise Fund		x	x	x	x	x
SID Bank			x			x
HORIZON 2020		x	x	x		
COSME		x				
InnovFin (EIB)			x	x	x	x
Venture Capital Companies					x	
Business Angels					x	

Source: PwC analysis, based on the materials collected in the supply side section

As recommended in the *ex-ante assessment methodology*, after consideration of the value added, it is important to ensure consistency with other forms of state interventions aimed at promoting business investment in R&D, including grants and interventions at other political levels. The underlying principle is that FIs should not be created if these are going to duplicate the efforts of existing public support, and while overlap might occur, it should be avoided where possible.

At national level the implementation of FI promoting business expenditure in R&D should be coherent with the Slovenian S3 Strategy, which calls for the introduction of FIs to stimulate innovative activities, support bankable RDI projects and increase the impact of private funding – particularly for the SME market segment.

The existence of support for RDI investments through EU and regional level instruments such as Horizon 2020, InnovFin and COSME should also be considered and communicated with in order to avoid duplication of investment efforts and maximise complementarity.

Moreover, the MA needs to consider the possibility to combine FIs with grant schemes including. Grants are likely to still be needed to support business investment in R&D, and can be particularly useful when used to provide technical support (i.e. preparation of sound business plans) and capacity building for potential final beneficiaries of an FI.

Potential co-investors to consider

At this stage of the study, it is also important to consider potential co-investors that could help support RDI initiatives under the OP-ECP. The following stakeholders have been identified as having the potential to be involved:

Private resources

Co-financing could come from private-sector stakeholders that have already been involved either as contributors or as financial intermediaries with public initiatives. Possible stakeholders need to be stable credit institutions with experience in funding public projects and realizing such FIs for regional development. In Slovenia, commercial banks have been cooperating with Slovene Enterprise Fund through guarantees and subsidies of interest rate dedicated for fostering the development of technological solutions in the enterprises.

Public resources

Slovene Enterprise Fund is the main hub for provision of R&D support programmes to technology and knowledge-based SMEs, and it would be essential to mobilise their resources, in addition to those of SID

Bank focused on innovative SMEs. International institutions with previous experience in Slovenia, such as the EIB Group could reasonably be expected to act as co-financers if one or more FIs were implemented. In addition, national R&D budgets could also be an important source of co-financing from the Slovenian public resources perspective.

7.2.4. Review of lessons learnt from past and existing Financial Instruments in other EU Member States

Selected examples

In order to provide the MA an overview on how FI where implemented in the past and what where the key success factors, selected examples are provided.

Hungarian New Széchenyi[84]

- **Description**
  - The Hungarian New Széchenyi (CMCG) is a combination of micro-credit and grants, which provided microfinance opportunities to micro enterprises who had limited access to financial resources;
  - In Hungary, only 54% of Hungarian SMEs relied on banks for financing (while 79% in EU15) and the relatively high transaction costs prevented the domestic banking system from handling the small credit requirements of micro enterprises;
  - The managing authority allocated EUR 202 million of ERDF (85%) and national (15%) funds into the FI, which finances up to 45% of a project's costs through a grant, up to 45% through a loan, while SMEs finance at least 10% through their own contribution. Final beneficiaries could receive grants up to EUR 66,000 and grants up to EUR 33,000. The interest rate of the financial products was around 7%, which was below the average interest rate of 8 to 10%.
- **Achievements**
  - The MA implemented the FI through a holding fund spreading resources across over 140 financial intermediaries (microfinance institutions, local enterprise development foundations, and saving cooperatives). External consultants helped applicants submit their projects to financial intermediaries for funding. The TA included advisory services on business plans, information about other financial products or filling out documents;
  - As long as the instrument was available, it helped 9,389 final beneficiaries' projects bridge the gap in market finance.
- **Key learnings (for Slovenia)**
  - Success factors include: the one-stop-shop approach towards recipients (the financial intermediary was the only portal through which recipients applied and received the financial products); the holding fund approach which handled a large number of financial intermediaries allowing to penetrate deeply the market;
  - Challenges include: a complex and too broad regulatory framework and the fact that application requirements could be broadly interpreted. Also the loan/grant combination increased the paperwork and legal burden at all levels.

Broader lessons learnt

The following lessons learnt are derived from experiences at EU-level through instruments such as the Risk-Sharing Instrument (RSI) and JEREMIE managed by the EIF as well as smaller programmes implemented at national and regional level across the various EU MS.

[84] The information provided in this paragraph has been drawn from "FI Compass – Combined Micro Credit and grant scheme.

Close collaboration with potential financial intermediaries

The probability of success of an FI is improved if during the design phase, the main features of the FI (including objectives in terms of sectors, precise definition of target innovative SMEs etc.) are tested with potential financial intermediaries, well before the launch of the public tender. Making this conscious effort to understand how financial intermediaries operate and react to changing market conditions in the targeted sector, their risk appetites and any sector-specific "rules" have proven to be key to ensuring better targeted instruments and smoother collaboration with financial intermediaries.

Need for awareness raising

As with the implementation of any new FI, it is essential that an envisaged instrument targeting the support of RDI investment in Slovenia is accompanied by substantial awareness raising activities – both for potential final beneficiaries and financial intermediaries. However, experience shows that this even more important for FI targeting RDI and SMEs due to the heterogeneous nature and smaller size of the targeted recipients. Early efforts to raise awareness have proven to be an important factor in ensuring that the necessary intermediaries are in place on the FI becomes operational and to ensure that the take-up of products occurs in the early phases of the programming period. To achieve this, the body implementing the FI should allocate sufficient resources to ensure a coherent, proactive and joint marketing strategy with financial intermediaries to better target potential clients (final beneficiaries).

7.3. Energy efficiency

This section provides the analysis of the potential use of financial instruments, focusing on energy efficiency (EE) in residential sector, as well as in public and other non-residential sector.

7.3.1. Analysis of market failures, suboptimal investment situations and investment needs

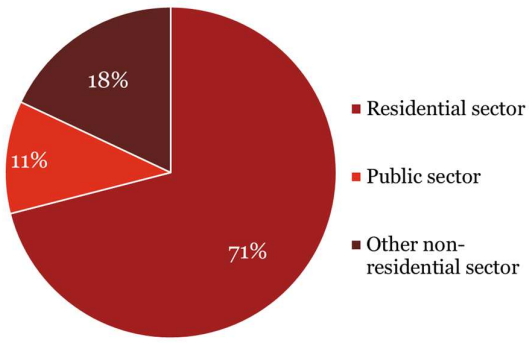
This subsection provides an overview of investment needs in residential, public and other non-residential sector for EE/RES investment areas. More specifically, it sets out the types of projects, which could be supported through FIs, provides market overview, including the main stakeholders, present a sample of the current project plan, and defines the main challenges and needs that this areas are currently facing.

Building stock in Slovenia

In 2012, the full building stock in Slovenia involved 88 million m², which includes only heated buildings. More than 70% of the building stock consists of residential sector, the rest is divided between public and other non-residential sector.

Figure 39: Total area of buildings by individual group (left) and by sector, 2012 (in million m2)

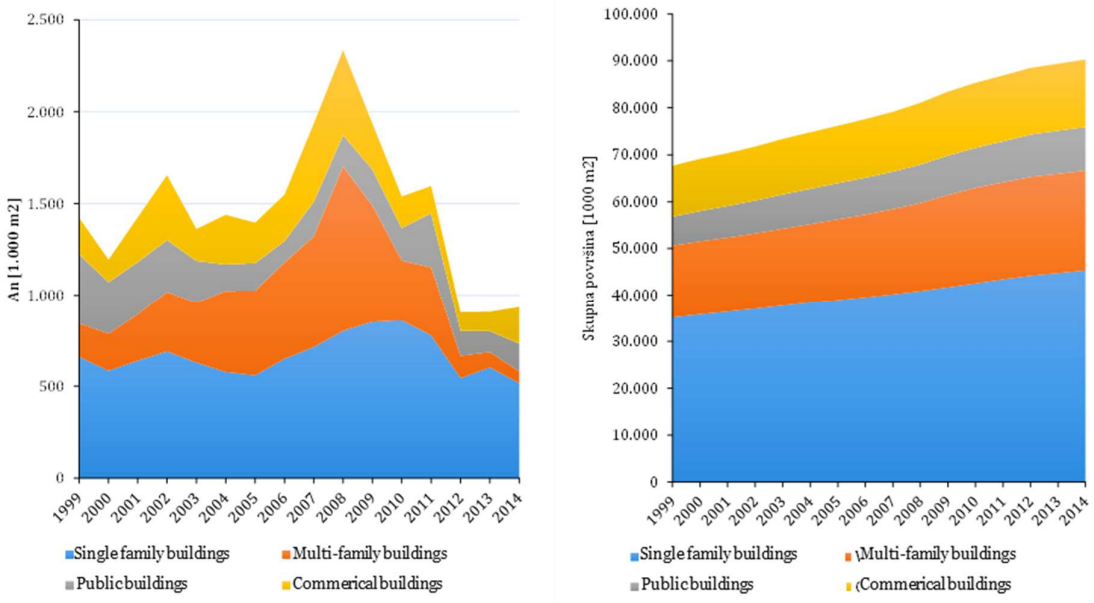
Category	Surface (1000 m2)
Single family buildings	46,146
Multi-family buildings	17,291
Housing unit in a building for special purposes	942
Hotels and similar buildings	2,879
Business and administrative buildings	7,045
Commercial activity and other service activities	6,281
The use for general public interest	7,484



Source: Long-term strategy to promote investments in the energy renewal of buildings, SURS, REN, 2015

As seen in the figure below, after 2007, an intense decline is seen in multi-family buildings and other non-residential sector, while the decline is not so pronounced in single-family buildings and public buildings. Total area of the building stock has been increasing as a result of an increase in new residential buildings and public sector buildings.

Figure 40: Total area of new buildings (left) and the full building stock (right) since 1999 until today

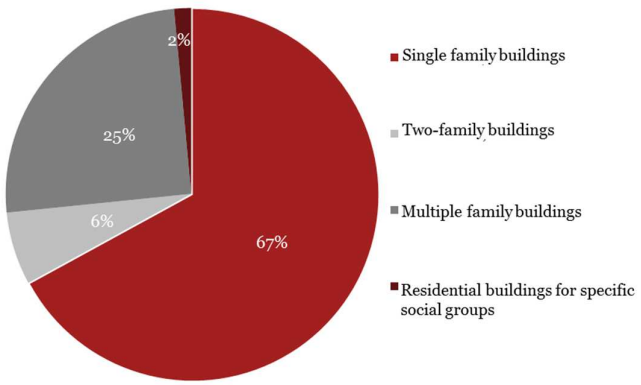


Source: Long-term strategy to promote investments in the energy renewal of buildings, SURS, REN, 2015

Residential sector

Single family buildings prevail in the category Residential sector (e.g. detached houses, holiday houses, garden houses, terraced houses or twin houses with one flat) and represent together 67%.

Figure 41: Categories of residential buildings by area in 2012 (in %)

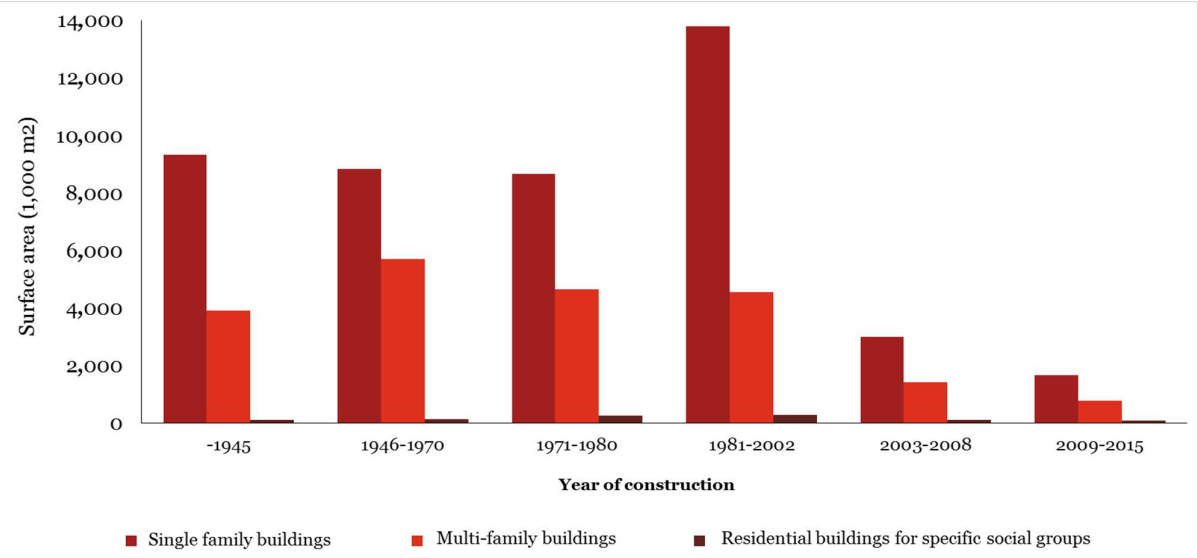


Source: Long-term strategy to promote investments in the energy renewal of buildings, SURS, REN, 2015

Based on the information connected to the structure of the building stock it can be observed that 71% of total residential building areas are buildings built before 1985. All these residential buildings represent potential for renewal, assuming that the lifetime of an individual structural element is around 30 years.

The construction of one-dwelling buildings fell drastically in the last two periods (2003—2008 and 2009—2015). The maximum increase was observed between 1981 and 2012.

Figure 42: Structure of the residential building stock in relation to the year of construction (in 1000 m2)



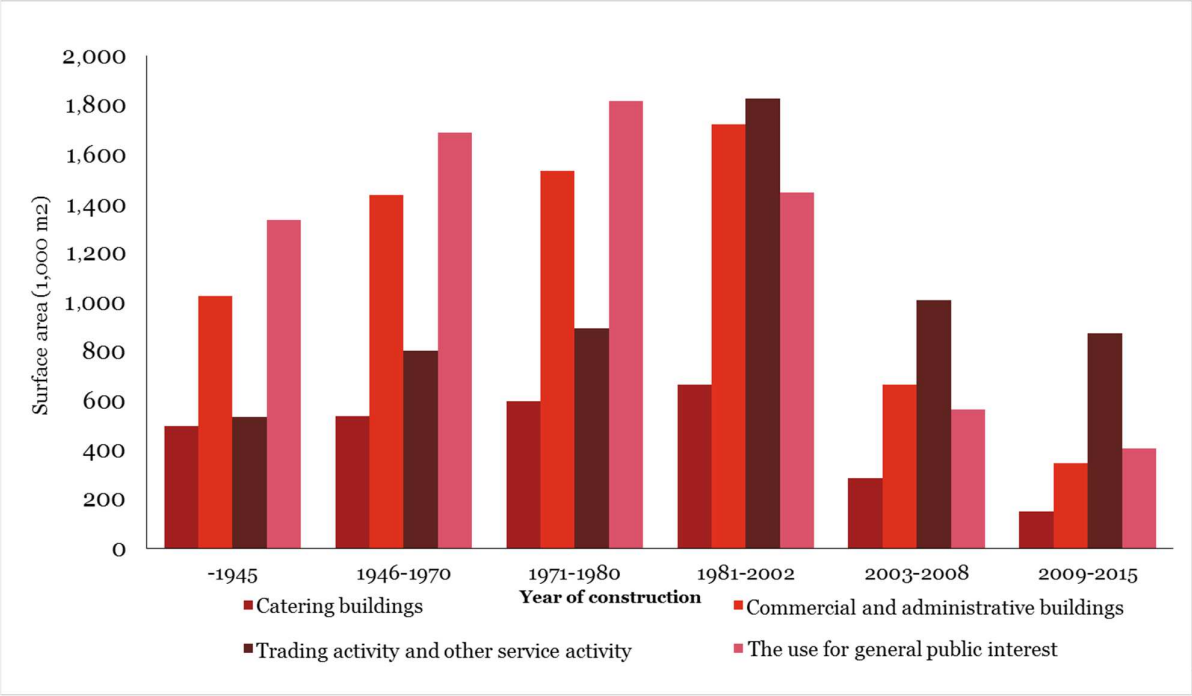
Source: Long-term strategy to promote investments in the energy renewal of buildings, SURS, REN, 2015

Despite the available technology, which allows increased energy efficiency, the progress in the field of increasing energy efficiency in the housing sector remains slow, one of the main obstacles being low level of awareness. There is some awareness of the EE priority measures; however, the low availability of the adequately synthesized information to support households still represents a problem. Unavailability of financial resources that would support the projects and the assessment of the profitability of the energy efficiency projects, which disregards the savings, which show only in the future. Poor financial situation of the owners who cannot guarantee their share and the general internal orientation of consumers are all factors that postponed the decision on the energy renewal and its implementation. Another problem that appears is the principal-agent problem, where the person living in the housing does not bear the costs of the renewal but only the costs of the energy used.

Public and other non-residential sector

Public and other non-residential sector together form the non-residential buildings, which in 2012 included 24.66 million m² of useful floor area. 61% of total non-residential building area was built before 1985 and therefore represents an enormous potential for renewal.

Figure 43: Structure of the non-residential building stock in relation to the year of construction



Source: Long-term strategy to promote investments in the energy renewal of buildings, SURS, REN, 2015

Problems that arise in this group are mainly related to the uncertainty related to the regulative framework, as well as to the lack of knowledge of certain experts, and finally also to the reliability of the available information in the assessment of savings.

Because of the long return period of investments in energy renewal of buildings, the problem arises also when it comes to the confidence of the building-owners who favour investments with shorter return periods, which puts the emphasis on the partial renewals rather than complete renewals.

The structure of our companies does not really help here because almost all of them belong to the SME sector and in most cases do not have adequate personnel who could work on EE.

The more narrowly defined buildings in the ownership and use of persons in limited public sector also belong to this sector. In this group, the procedures are hampered by demanding and complex public procurement process, a major problem here being the lack of financial resources and economic motivation, as well as the limitations and lack of supportive environment for the use of unbudgeted resources. In Slovenia, there is this mistrust present towards Energy Service Companies (ESCO), which could serve as unbudgeted source of finance.

Improvement of industrial production processes

Energy consumption in industry

The industrial sector accounts for approximately a quarter of final energy consumption and 28% of primary energy consumption. It represents almost half of the electricity consumption and nearly 60% of the total natural gas consumption in Slovenia.

After 2008, we see a reduction in final energy consumption in the industry. While in 2008 consumed 1,483 ktoe, in 2012 the consumption was 1,208 ktoe. In the period 2008—2012, the final energy consumption decreased in all sectors, except in the primary metal industry.

Table 37: Industrial branches shares in final energy consumption in 2008 – 2012 in ktoe

	2008	2009	2010	2011	2012
Chemicals	160	158.8	168.9	156.5	148.8
Primary metals	299.1	221.2	241.8	281.6	299.2
Non-metallic mineral products	268.5	188.7	198	186.8	173.3
Paper	193.8	191	178.8	170.4	169.3
Food, beverage and tobacco	79.9	73.7	72.5	67.9	61.6
Textiles	44.7	30.9	34.7	28.4	25
Machinery and equipment	163	123.9	147.5	141.5	140.2
Transport	37.9	34.5	36.8	34.4	34.9
Wood, wood products	63.7	50.8	56	45.5	38
Other Industries	96.2	81.9	85.5	78.7	70
Mining and quarrying	15.4	16.2	16	13.3	13.6
Building	61.1	50.3	36.5	30.8	34.2
Industry - total	**1,483**	**1,222**	**1,273**	**1,236**	**1,208**

Source: SI-STAT, EUROSTAT, IJS-CEU, 2013

Demand for financing from SMEs willing to develop energy efficiency projects

A specific analysis was conducted with the intention to draw a clearer picture on SME's demand for energy efficiency financing.

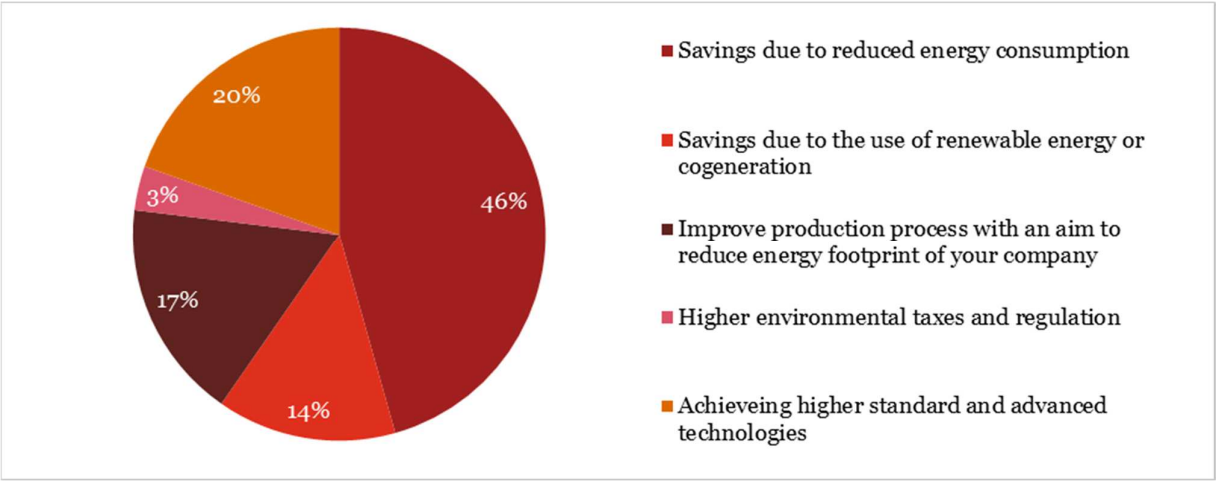
Improvements in energy efficiency would not only reduce overall emission, but also trigger additional investments and create jobs. The Slovenian government has published several reports confirming a clear commitment to improve in this field in line with EU-wide goals and key strategic documents such as Europe 2020, Low-carbon road map 2050, and other relevant European legislation on energy.

The survey, carried out as part of this study, also focused on understanding the needs and perceptions of companies in Slovenia regarding energy efficiency financing. The analysis is based on a group of respondents that disclosed that their company invested in energy efficiency in the 2012—2014. Furthermore, they also disclosed what was the reason behind this investment and what is the reason for future energy efficiency investments. Therefore, our sample represents companies that invest in energy efficiency and will be often compared in this analysis to the sample of SMEs, which we analysed in another chapter.

Micro and small companies (35% and 32%, respectively) dominate companies that invest in energy efficiency. Almost half (43%) of the sampled companies are in maturity stage, followed by development in home market (16%), reorganization (16%) and development in foreign market (14.2%). Very few are in initiation (3%), creation (3%) or post-creation stage (6%), which is not surprising given that energy efficiency, is not a likely priority at this stages. The fact that almost 60% of companies that implemented such investments are in a mature, reorganization or takeover phase, indicates a potential target group for companies willing to invest in improving their energy efficiency. These are companies that are already established in their sector and activity, most probably have already achieved their goals, thus allowing them to focus on other goals and priorities.

Almost half of the undertaken projects focused on the reduction of energy consumption (46%) thus reducing costs. Achieving higher standards and advanced technologies was the second most important factor (20%). Despite the fact that reducing cost is the main motive for such investments, environmental awareness is important as well, since 17% of the companies aim at reducing the energy footprint. Savings due to the use of renewable energy accounts for 14% of the answers. The least important reasons for implementing energy efficiency were higher environmental taxes and regulations. Almost the same percentages were given, when participants of the survey were asked of the reasons for future energy efficiency investments.

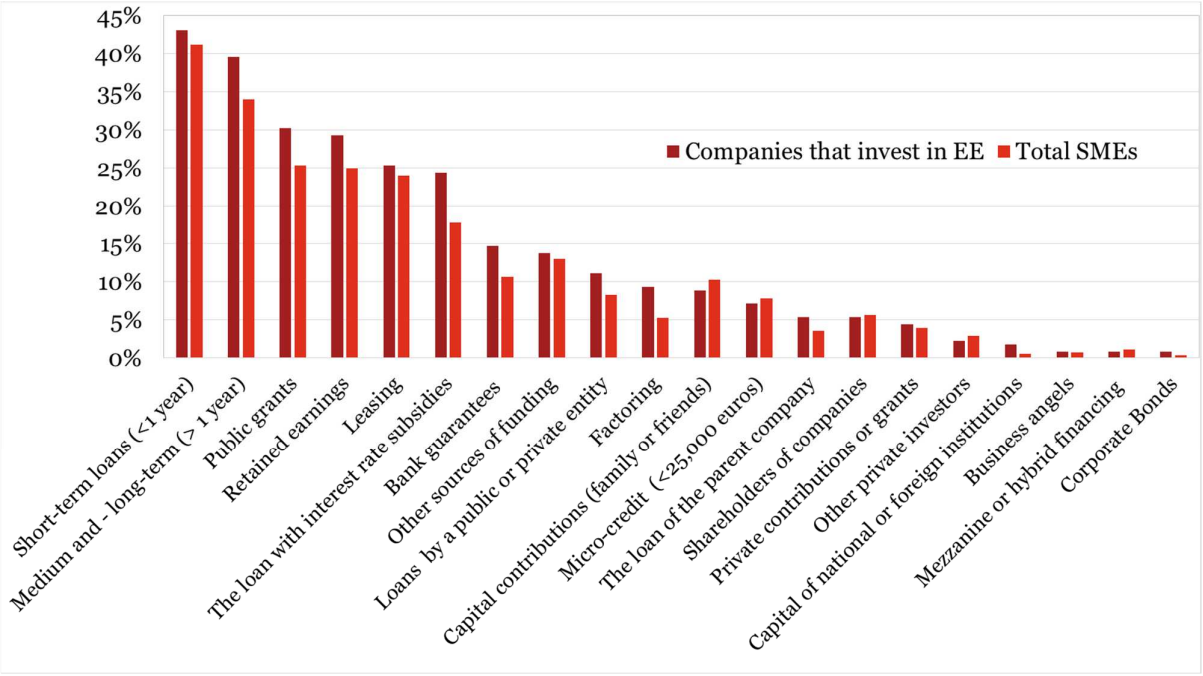
Figure 44: Reasons for implementing energy efficiency projects



Source: PwC, SME online survey in Slovenia, 2015

Companies that invest in the energy efficiency seem to have similar funding sources to the SME population, which we analysed in the *SMEs* chapter. However, small differences exists and are shown in the figure below.

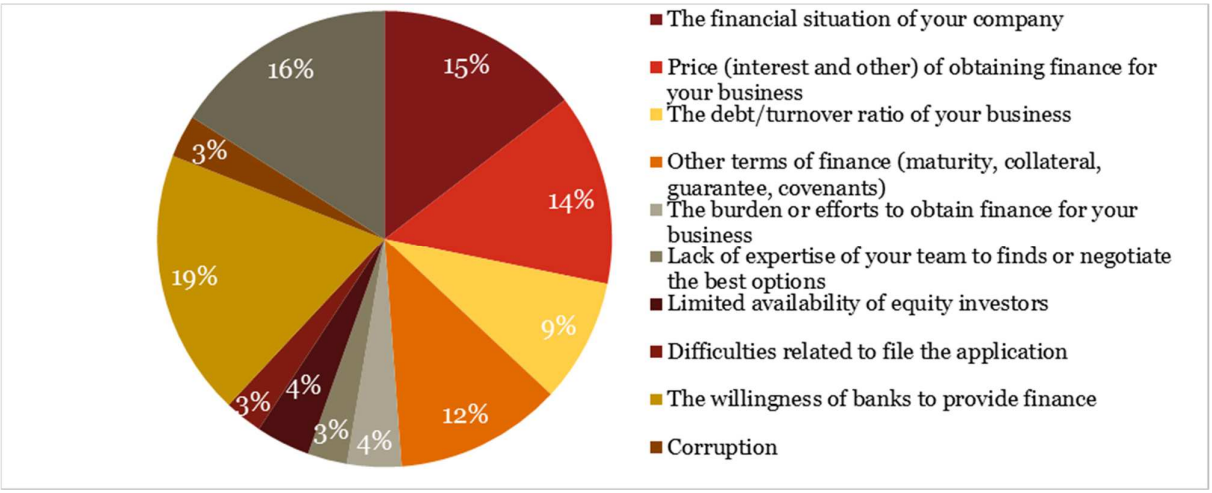
Figure 45: Sources of funding used by enterprises, which invest in energy efficiency



Source: PwC, SME online survey in Slovenia, 2015

These companies also seem to have similar obstacles in accessing finance as the overall SME population. These reasons are mostly related to the willingness of the banks to provide finance (19%) and costs of obtaining funding (14%). Other significant obstacles are other terms of finance (12%) and financial situation of the company (11%).

Figure 46: Reasons referred to as difficulties in receiving financing for companies having implemented energy efficiency projects

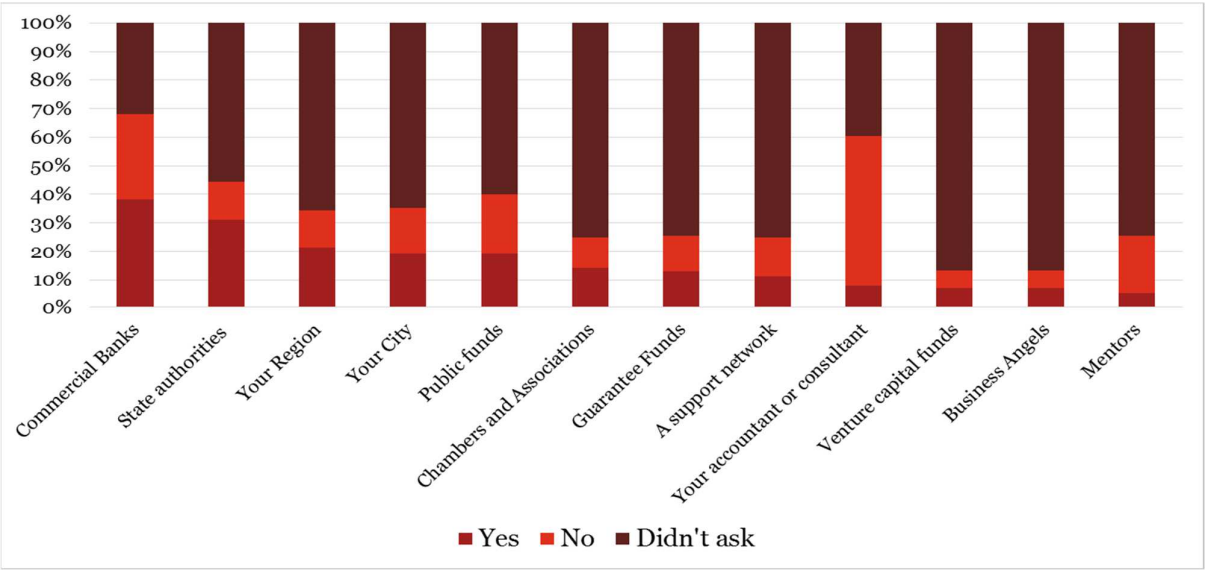


Source: PwC, SME online survey in Slovenia, 2015

While companies that invest in energy efficiency frequently approach commercial banks for financing, 38% still felt unsupported by them. Despite active public initiatives to support energy efficiency in Slovenia, companies that invest, are still unlikely to seek help from public actors and if they do, they tend not to feel support. This is further validated by the figure below showing that among those companies that secured loan finance, only 5% used a guarantee scheme to meet the collateral requirements. The most help participants feel they receive is from their accountants or consultants.

Finally, although SMEs need equity, they generally did not request support from equity providers like Venture Capital funds (87% did not ask them for help) or Business Angels (87%). One reason could be insufficient visibility of these actors.

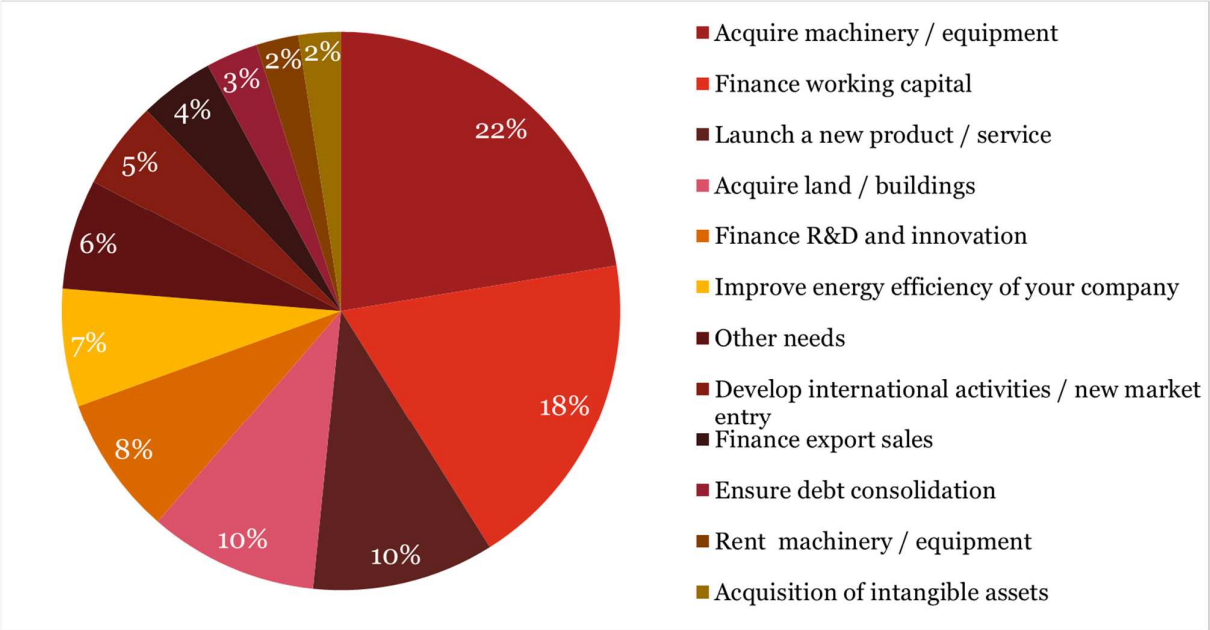
Figure 47: Feeling lack of support from institutions by SMEs having invested in energy efficiency in the last three years



Source: PwC, SME online survey in Slovenia, 2015

Regarding our sampled companies, 22% of them companies intend to seek financing in order to acquire equipment. However, it is important to highlight that 8% of respondent state that they intend to use financing in order to finance R&D and innovation and that 10% are planning to launch new products or services. This is an indication that the support of companies willing to invest in energy efficiency would create positive spill-over effects also for innovation.

Figure 48: Use of funding by companies that invested in energy efficiency project



Source: PwC, SME online survey in Slovenia, 2015

Promoting the production and distribution of energy from renewable sources

In the area of promoting the production and distribution of energy from renewable sources, new investments in the production for heating and cooling as well as in highly efficient co-generation (geothermal heating systems, solar panels, wood biomass boilers in the public sector, service activities and industry, wood biomass district heating systems BDH, heat pump) are envisaged. Investments in the construction of new smaller buildings for the generation of electricity from RES (wind energy, solar energy, biomass and small hydroelectric power plants up to 10 MW) will also be promoted. A part of the projects which constitute the continuation of the programme, promoting the use of wood biomass energy for the production of heat in district heating systems, have to some extent already been prepared.

Smart grids

In the field of smart grids, the inclusion of new users in the advanced measuring until the end of 2023 is desired, which includes the purchase and installation of smart meters. Pilot projects in the areas of energy industry, mobility, safety and e-Health are envisaged; the solutions include different components, platform services, modules and complex systems building blocks which need to be prepared for the integration with complementary solutions, especially in the industrial research phase.

Technological readiness is at the level of a relatively highly mature technology where in the first place, an integration of solutions in comprehensive systems is needed. This systems are then verified in a functioning environment. In all technological fields, reliable industry partners are present and are interested in demonstration and pilot projects and there are also partners in value chains, in most cases also powerful global players. It is estimated for smart grid projects that it still require preparation for the implementation.

Following a review of available documentation and communication with relevant shareholders in the fields of promoting the production and distribution of energy from renewable sources and smart grids, further analysis and gap calculations have not been carried out and as it was not possible to obtain a concrete list of projects which would serve the purpose of determining the extent of demand, as well as the lack of good practices in funding through financial instruments in other Member States in these two areas.

Computing methodologies and gaps for EE/RE financing

The gap analysis compares the available supply of finance in Slovenia against the identified demand for investment taking into account both quantitative and qualitative aspects. It terms of quantification, the analysis compares the expected (theoretical) supply of finance available in Slovenia against the value of project identified both at policy level (theoretical) and specifically for public sector also on the ground (i.e. concrete project pipeline). As for the qualitative aspect, the analysis assesses whether and to what extent the financial products offered so far are a suitable source of finance to support the development of initiatives aimed at improving the EE performance of buildings (public and private). Moreover, the qualitative part of the analysis identify other constraints/barriers, if any, that might hinder the development on the market.

Public sector buildings

The table below summarises the theoretical demand for EE interventions on public buildings as well as the estimated available source of finance, up to 2020.

Table 38: Quantitative results of the gap analysis in public buildings for 2015 – 2020 (EUR mil)

Demand		Supply		
EE/RE interventions on public buildings	273*	Eco Fund	48**	**Potential gap (2015 - 2020)**
		Commercial banks***	93—160	
TOTAL	**273**	**TOTAL**	**141—208**	**65—132**

Source: PwC analysis, 2015

* Total amount of investments identified in the Long-term strategy to promote investments in the energy renewal of buildings, adjusted to the period 2015 – 2020.

**Data from the Eco Fund financial plan for 2015 – loans to municipalities. For further years, we have assumed the same annual amount as for 2015.

*** On the basis of received information from municipalities regarding the allocation of funds for energy efficiency projects an assumption was set that municipalities annually allocate between 7 and 12% of new loans for energy efficiency projects[85]. Assuming that the amount of funding would not be sufficient to cover the planned renovation in terms of energy efficiency projects, it will be necessary to develop a solution, which will enable further implementation of EE projects, while additional borrowing municipalities will not increase the current sovereign debt.

The quantification of the expected (theoretical) supply of financial products takes into account:

- The latest available information of financing EE/RE by Eco Fund;
- The current supply trend of loans product offered by the commercial banking system to the local government (municipalities) assuming that a portion of that will be devoted to EE/RE projects.

The theoretical demand quantification is based on the required investments to achieve objectives from the *Long-term energy balance of Slovenia until 2030*.

Please find the described methodology and quantification in detail in Appendix E.3.

[85] Obtained list of projects from municipalities, the number areas among which municipalities locate their projects and historical data on the borrowing amount

As presented in the table, according to these estimates it is evident that the amount of expected (theoretical) financing would not be available to meet the theoretical demand.

As indicated by relevant stakeholders, available financial products are not sufficient to meet the needs of the market. The result is that finance available in theory is most of the time not "put on the ground", despite viability of business plans. Among the factors highlighted, the following are the most impacting:

1. Limited possibility of borrowing; public entities are not encouraged to start the development of projects if there is little evidence of the possibility to finance the related intervention;
2. Lack of financial knowledge, the lack of experience with and relation to financial institutions (often leading to discouragement to seek finance) and especially the lack of collateral.

Prudent and conservative banking sector resulting from an overall attitude of the banking system toward projects generally perceived as yielding low IRRs, promoted by lowly sophisticated promoters subject to regulations and other administrative burdens.

The gap analysis highlighted other qualitative aspects related to the possibility to finance EE/RE interventions on public buildings in the Slovenian context:

- Limited suitability of available financial products to meet market needs:
  - Due to the average age and maintenance conditions of public assets, EE/RE interventions cannot be limited to minor measures (such as replacing windows, replacing lighting systems, etc.). Most of the buildings shall require deep, capital intensive, renovation interventions. In cases in which the investment is sustainable, the long term, low rate returns make them not to be attractive (hampered by the low cost of energy in Slovenia). Therefore, the involvement of private capital is limited;
  - Furthermore, public buildings classified as cultural heritage will have to be considered under specific treatment as these renovations are not attractive to private investors, due to the special treatment of these buildings;
  - In addition, the possibility to use the ESCO model to overcome some of the financing limitations is hindered by several issues and challenges that are restricting the potential for this type of model to be scaled up.
- Challenges currently faced by ESCOs:
  - Lack of standard contracts and lack of proper baseline;
  - Lack of awareness of commercial banks that ESCO model investments are cost-effective. In fact, commercial banks often perceive ESCO projects as high risk ones requiring high collateral/guarantees. Asset based loans are not applicable to energy saving interventions financed through the ESCO model. Revenues are based on technically conditioned obligations, and banks do not possess sufficient specialist knowledge to conduct an acceptable risk analysis;
  - Expectations of the final user that the ESCO company not only take the technical risk for energy savings to be delivered, but also the financial risk of cash savings to be incurred;
  - Long payback period of the investment (approx. 20-25 years);
  - Shallow market of ESCO services in Slovenia hinders the expansion of energy contracting;
  - Difficulty for owners of public buildings to take loans and related "accounting issue" for long depreciation assets such as building envelope and no possibility for ESCO companies to take this asset in their books.
- Limited awareness and skills:
  - Limited availability of skilled personnel (educational gap) both in the public and private sector to initiate, develop and implement EE/RE projects;
  - Lack of information, specialized to carry out energy renovation of buildings and energy efficiency measures in buildings;
  - Lack of competencies for executing procurement of ESCO projects;

- General lack of energy efficiency financing experience within commercial financial institutions and high perceived end-user credit risk;
- Underestimated EE effects resulting in a lack of interest in energy saving interventions.

Private sector buildings (residential + private commercial buildings)

The table below summarises the theoretical demand for EE/RE interventions on private buildings as well as the estimated available sources of finance, up to 2020.

Table 39: Quantitative results of the gap analysis for private buildings for 2015 – 2020 (EUR mil)

Demand		Supply		
EE/RE interventions on residential buildings	1,584*	Eco Fund - citizens	84**	**Potential gap**
		Eco Fund - companies	60***	
EE/RE interventions on private commercial buildings	375*	Commercial banks – citizens****	15—45	
		Commercial banks – companies******	1,018—1,125	
TOTAL	**1,959**	**TOTAL**	**1,176—1,314**	**645—783**

Source: PwC analysis, 2015

* Total amount of investments identified in the Long-term strategy to promote investments in the energy renewal of buildings, adjusted to the period 2015—2020.
**Data from the Eco Fund financial plan for 2015 – loans to individuals. For further years, we have assumed the same annual amount as for 2015.
***Data from the Eco Fund financial plan for 2015 – loans to companies. For further years, we have assumed the same annual amount as for 2015.
**** Based on the data provided, Eco Fund covers up to 85% of the cost of the investment; we have used an assumption that 15% – 35% of the total investment is then covered by the investors where they get financing from commercial banks.
*****Based on executed survey, 3.3% of the total sample present the companies that dedicated their external financing for EE projects and have been using medium and long term loans in the period 2012—2014 and 5.4% of the total sample present the companies that dedicated their external financing for EE projects have been using any type of loan in the 2012—2014. We made an assumption that in the future years, 4.5% of new long term loans will companies dedicate for EE.

As presented in the table, according to these estimates it is evident that the amount of expected (theoretical) financing would not be available to meet the theoretical demand.

As indicated by interviewees, availability of finance is not the only factor limiting the possibility of projects to be financed. As in the case of public buildings, finance available in theory is most of the time not "put on the ground", despite viability of business plans. Among the factors highlighted, the following are the most impacting:

1. The lack of financial knowledge, the lack of experience with and relation to financial institutions (often leading to discouragement to seek finance) and especially the lack of collateral;
2. A prudent and conservative banking sector resulting from an overall attitude of the banking system toward generally perceived as low IRR projects, promoted by low sophisticated promoters subject to regulations and other administrative burdens.

The gap analysis highlighted other qualitative aspects related to the possibility to finance EE interventions on private buildings in the Slovenian context:

- Limited suitability of available financial products to meet market needs:

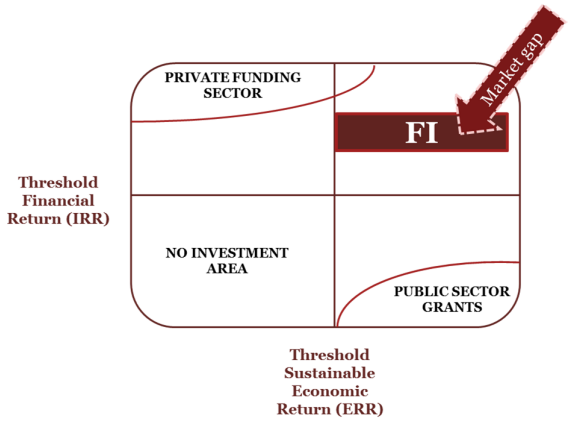
- The average age of the multi-apartment buildings suggests the need for deep EE renovation. However, these require huge investments and are characterised by long term, low profitability;
- Due to the low cost of energy in Slovenia, apartment owners do not see any immediate financial benefit and are not encouraged to undertake the investment;
- Difficulties obtaining financial resources for the renovation of multi-residential buildings (not the appropriate credit instruments or by the law inhibits). The possibility to use the ESCO model to overcome some of the financing limitations is hindered by several issues and challenges that are restricting the potential for this type of model to be scaled up;
- Availability of financial resources to support such projects, and assessing the viability of energy efficiency projects, which does not take account of future savings.

• Limited awareness and skills:

- Still relatively poor informing (mainly on organizational and operative part of the renovation);
- Lack of interest of the owners that sublet their apartments;
- Difficult negotiation in multi-apartment buildings;
- The lack of trust in the managers of multi-apartment buildings;
- Lack of technical skills to estimate energy savings and to plan EE/RE interventions resulting in a lack of interest in energy saving interventions;
- Low energy prices in Slovenia limits the willingness of private owners of apartments/houses to invest in EE improvement interventions;
- In the services sector, many small and medium-sized enterprises which, because of the limited size usually do not have enough staff to be able to deal with the use and exploitation of renewable energy sources and lead projects in this area, although some public funds for incentives exist, are drawn slowly.

There is a **potential financial gap** in the market, created by the lack of suitable financial products to support those projects that show a financial sustainability, but still use grant funding since financial products, offered by the market are not able to match their needs, as shown in the following picture.

Figure 49: Identified potential financial gap



Industrial production processes

The gap analysis compares the available supply of finance in Slovenia against the identified demand for investment taking into account both quantitative and qualitative aspects. In terms of quantification, the analysis compares the expected (theoretical) supply of finance available in Slovenia.

As for the qualitative aspect, the analysis assesses whether and to what extent the financial products offered so far are a suitable source of finance to support the development of initiatives aimed at improving the EE

performance of industrial processes. Moreover, the qualitative part of the analysis identify other constraints/barriers, if any, that might hinder the development of the market.

The table below summarises the demand for industrial production processes as well as the available sources of finance. Demand has been calculated based on the average share of R&D expenditure that EU countries dedicate for energy efficiency projects. Supply has been calculated based on the obtained results of the online survey and included only companies that stated to invest in energy efficiency projects in 2012—2014 period.

Please find the described methodology and quantification in detail in Appendix E.3.

Table 40: Quantitative results of the gap analysis for industrial production processes for 2015—2020 (EUR mil)

Demand		Supply		Potential gap
Improvement of production processes in energy efficiency	979	Commercial banks*	372—411	**568—607**

Source: PwC calculations, 2015
*Based from the data from the online survey, 40% of the companies that invested in energy efficiency projects have been using long term loans. We have assumed that 40% of the identified demand will be covered by the loans from the commercial banks.

As presented in the table, according to these estimates it is evident that the amount of expected (theoretical) financing would not be available to meet the theoretical demand.

In particular, the total potential financing gap amounts to ca. 568—607 million EUR.

The gap analysis highlighted other qualitative aspects related to the possibility to finance EE/RE improvement of industrial processes in the Slovenian context:

- Limited suitability of available financial products to meet market needs:
  - Low cost of energy in Slovenia disincentives interventions in EE;
  - Certain enterprises are facing difficult financial situations due to the on-going effects of the crisis. For these companies, who do not have easy access to bank capital, equity products may be particularly relevant.
- Lack of awareness and skills:
  - Lack of technical skills to estimate energy savings and to plan EE/RE interventions resulting in a lack of interest in energy saving interventions;
  - Lack of pre-determined long-term projects portfolio and lack of sufficiently developed projects (beneficiaries apply according to the EU calls published and not as a consequence of a project that they intend to develop);
  - EE/RES interventions are not the core priority in budgeting for companies.

Concluding remarks on EE intervention on industrial production processes

- The analysis identified a potential financial market gap of ca EUR 568—607 million;
- No project pipeline has been identified;
- The combination of the low profitability of such intervention, the low attractiveness of bank loans and the limited own resources of enterprises, contribute to limit the willingness of companies to adopt EE improvement measures on their productions processes;
- Market failure is identified in the lack of suitable financial products to finance interventions that show a financial sustainability and are limited to attract private resources at the same time;
- Moreover, due to the limited experiences of the bank sector in this kind of projects, risk connected with the operation is perceived to be high, thus limiting the access to finance of those enterprises that are not able to provide sufficient collaterals required for acceding the loans.

7.3.2. Value added of the FI

Using of FIs provides significant benefits in all the sectors identified in the market analysis, as reported in the table below.

Table 41: Value added ensured by the use of FIs

Identified market failure	Public sector	Private sector	Industrial processes
Financial products currently available on the market are not suitable for matching the needs of this kind of investments	FIs can offer financial product ensuring better conditions.		
Limited availability of skilled personnel to initiate, develop and implement EE/RE projects	FIs provide TA in the form of grants to support project promoters.		
Limited participation of the private sector in the investments make it difficult to cover the co-financing required for the available public funds	FIs structure can attract additional public and private capital.		
The amount of finance available in the market is not enough to cover the demand for reaching the National targets	Revolving nature of the FIs ensures availability of funding for a longer period of time and leverage effect increases the amount of resources available.		
Low sustainability of projects	Better market conditions can increase the financial sustainability of the projects.		
High investment cost of deep renovation EE projects vs limited budget availability of Municipalities	FIs can attract private investors or different investment schemes (e.g. ESCO models).		

The aspects to be considered are also the typical characteristics of FIs, namely their revolving nature, the leverage creation, the fact that they encourage efficiency among final beneficiaries, etc.

These and other aspects are presented in detail in the table below, showing the value added of an FI over grant forms of assistance.

Table 42: Value added of an FI as compared to grants

Benefit	Value added of an FI compared to grants
Leverage creation	FI enables additional support to be channelled to enterprises, public administrations and more generally final beneficiaries, with a potentially greater financial impact than grants, due to the ability to attract additional public and private sector resources, thus multiplying the effects of ESI funds and national/regional contributions (e.g. each euro invested by the OP-ECP creates a multiplying effect which increases resources available to final beneficiaries). According to published research[86], such leverage effect is even more prominent for small countries like Slovenia traditionally less attractive for international investments. As for the EE sector, this means that, as the investment generated by an FI are higher than those generated by a grant scheme, the quantitative value added of an FI as compared to a grant scheme could be measured in the achievement of:

[86] European Parliament (2013) Financial Engineering Instruments in Cohesion Policy.

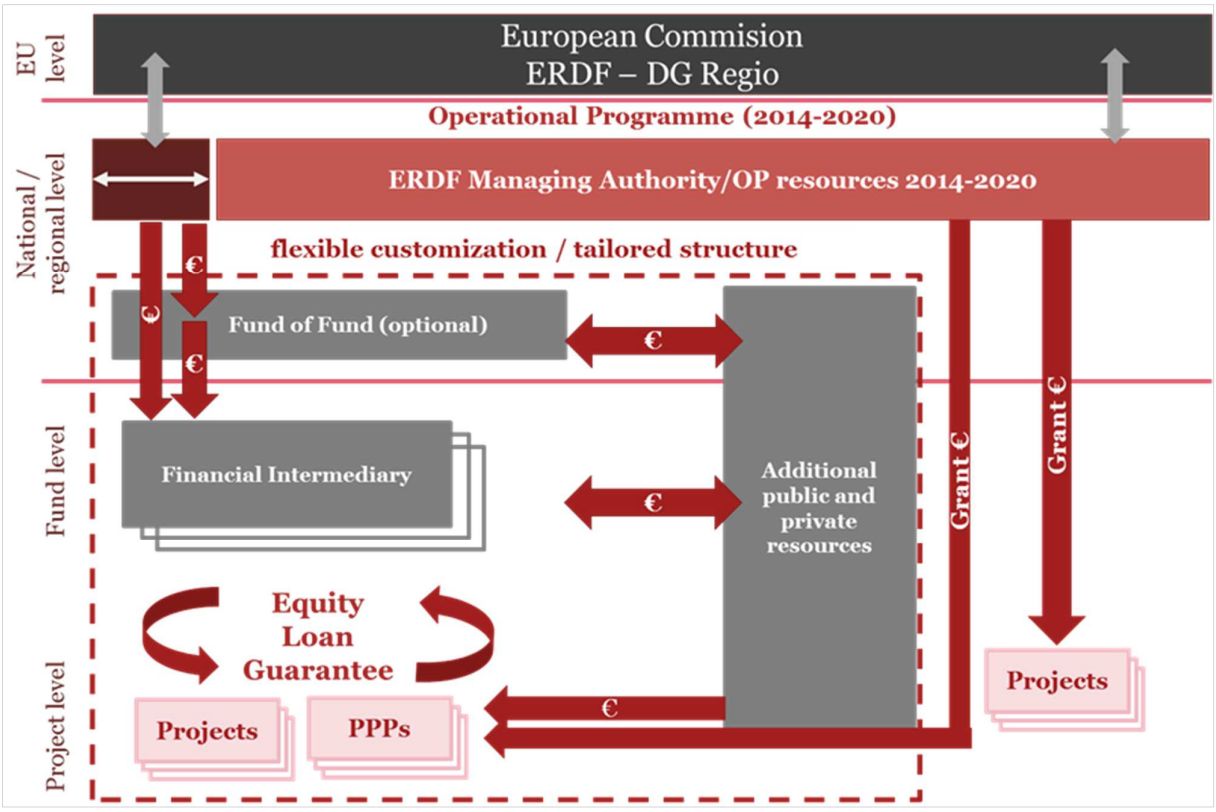
	• Higher cost and energy saving (introducing EE measures in building means lower energy costs and less consumptions); • Higher environmental impact reduction (much less GHG emissions in atmosphere); • Higher number of jobs created due to the higher number of building renewed; • Higher reduction in the operating costs of industrial machineries; • Higher safety improvements created, namely by investing and therefore improving industrial production projects, so that the number of accidents that occur on the workplace can be reduced;
Revolving nature	As these monies are repaid to the fund over the life of the project, they become available to finance additional projects. In such a way, the use of FIs can promote the long-term recycling of public funds and they potentially enable the reinvestment of ESI funds at the level of the country beyond the end of the programming period, helping achieve better value for public money.
Encourage efficiency	FI can encourage efficiency among final beneficiaries through greater financial discipline through the heightened awareness of the need to repay loans (unlike grants). This factor emerges also as an 'assurance of quality' of the project. In other words, FIs encourage companies to grow and become more competitive in order to return the investment.
Create capacity building	FIs use can help build institutional capacity through partnerships between the public and private sectors, can broaden the involvement of financial intermediaries/institutions in implementing EU regional policy and can encourage pooling of expertise and know-how, for example to improve the quality of projects. Additionally, the creation of public-private synergies ultimately results in an alignment of interests between public and private actors, taking the best out of both. On the one hand, they enable the pursuit of public policy objectives, which characterises public institutions, and on the other hand, they bring in the commercial market mechanisms accompanying private investors.
Ensure better technical assessment of projects	The TA assistance to be financed out of an FI could ensure a better technical assessment of projects as to ensure that oversized and/or unsuitable projects are excluded from support.

7.3.3. Estimate of public and private resources

The Financial Instrument offers the possibly to channel additional investments into the FI levering the initial resources provided by the OP-ECP.

The figure below illustrates the mechanism allowing the creation of leverage.

Figure 50: Flow of funds and level of additional public and private resources to leverage the FI



Source: PwC analysis, 2015 based on JESSICA Holding Fund Handbook

The table below illustrates the source of financing available in Slovenia for EE interventions that could constitute additional public and private resources, presenting their characteristics (e.g. loans, guarantee, etc.) and whether they are dedicated to interventions in the building sector or in industrial production processes. The list has been drawn on the basis of the information presented in the supply side analysis, and it has to be considered indicative to the extent that it has been developed on the basis of the information collected during the report.

Table 43: Potential additional public and private resources to consider

	Product					Market segment	
	TA as Grant	Inv. resources as grant	Loans	Guarantee	Equity	Buildings	Ind. Prod. processes
Eco Fund		x	x			x	
SID Bank			x			x	x
Commercial banks			x	x		x	x
Dedicated TA fund	x					x	

Source: PwC analysis, based on the materials collected in the supply side section

7.3.4. Review of lessons learnt from past and existing Financial Instruments in other EU Member States

Financial instruments targeting EE/RE in other EU MS

In general terms, the main reason for setting up revolving financial instruments is often a general demand for finance from private firms together with the need to increase the involvement of banks and other players providing financing in worthwhile projects.

Over the 2007—2013 programming period, 20 FIs covered EE and RE in 8 countries. Of the 20, 4 were HFs (implemented in the Czech Republic, Greece, Italy, and the Netherlands), 4 were specific funds implemented through a HF, and the remaining 12 were specific funds without a HF. In 2012, 4 new FIs were set up in Bulgaria, the Czech Republic, Italy, and the Netherlands.

Table 44: FIs for energy efficiency set up at the end of 2012

Member states	Number of HF	Specific funds within the HF
EL	1	1
IT	3	6
Total	4	7

Source: Summary of data on the progress made in financing and implementing financial engineering instruments-financed by Structural Funds, EC, September 2013

These funds have tended to focus on retrofitting existing buildings and other fixed assets to reduce energy consumption, alongside RE upgrades in existing buildings. Similar to the urban development sector, the **main type of products offered by the FIs in terms of volume are loans**, followed by guarantees and other instruments as shown in the table below. The tables below illustrate the number of repayable investments per type made by the specific funds for energy efficiency/renewable energies in final beneficiaries, as well as the amount of OP contributions paid/committed.

Table 45: Types of FIs in the EU for energy efficiency

	Number of financial products offered to final beneficiaries by the specific funds for EE and RE		OP amounts disbursed to final beneficiaries (in EUR million)	
	All specific funds	FIs for EE and RE	All specific funds	FIs for EE and RE
Loans	52,511	13,392	2,087	86
Guarantees	96,989	0	1,467	0
Equity / venture capital	2,024	NA	788	2.9
Other products	6,996	NA	342	0.3
Total	158,520	13,392	4,684	89.6[87]

Source: Summary of data on the progress made in financing and implementing financial engineering instruments co-financed by Structural Funds, EC, September 2013

The data gathered in the summary[88] demonstrate an increasing implementation in terms of number of the FEI set-up and volume of OP contribution already paid to them (60% of FEIs and 14% of OPs contributions more at the end of 2012 in comparison to the figures reported for 2011). As for the absorption of the OP contributions and SF, 2013 data shows that ca. EUR 4.7 billion of OPs contribution were paid to final beneficiaries at the end of 2012, with absorption rates varying across countries.

[87] For which EUR 42.42 million from ERDF

[88] Summary of data on the progress made in financing and implementing financial engineering instruments co-financed by Structural Funds, EC, September 2013

Selected examples

In order to provide an overview on how FI where implemented in the past and what were the key success factors, selected examples are provided.

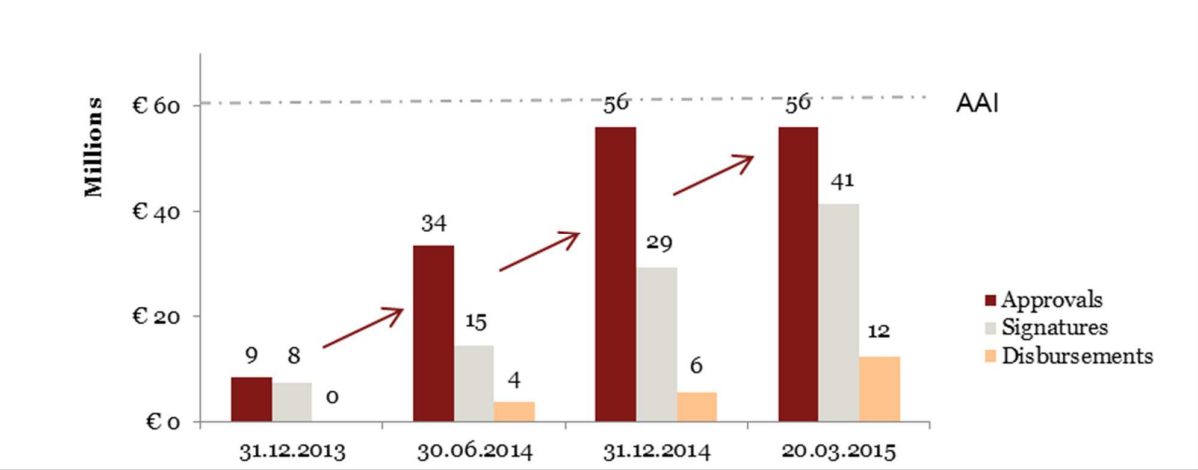
In particular:

- Example of energy efficiency fund for public buildings: Sardinia;
- Example of deployment of FI for private buildings: Lithuania;
- Example from peer countries: Slovak Energy Efficiency and Renewable Energy Finance Facility (SlovSEFF);
- Example of combination of FI and grants: Slovakian Municipal Energy Finance Facility (MunSEFF).

Sardinia

- **Description**
  - The JESSICA experience in Sardinia started with the finalisation of the agreement between EIB and the Region of Sardinia in July 2011;
  - The holding fund, created with a contribution of EUR 70 million from ERDF Sardinia OP 2007-2013 resources and still in place, encompasses two Urban Development Funds (UDFs), one of them, with a total budget of EUR 30.6 million targeting specifically the energy efficiency sector[89];
  - The financial products offered by the selected financial intermediary are: direct lending (senior, junior and mezzanine); equity.
- **Achievements**
  - Up to date, the initiative approved[90] 25 projects amounting to ca. EUR 30 million (97% of the resources for investment) for a total CAPEX value of EUR 177 million, therefore creating a leverage effect in excess of 5x[91]. The trend for approvals (i.e. decisions taken by internal credit committees of the 2 funds), signatures (i.e. binding lending agreements) and disbursements (i.e. financial resources transferred to final beneficiaries) is shown in the graph below.

Figure 51: Trend of approval, signatures and disbursements of the JESSICA initiative in Sardinia



[89] The other fund has a budget of EUR 30.5 million, drawing from Priority axis 5 resources triggering investment in the urban development sector.
[90] Disbursement has started for 14 projects, for ca. EUR 3.7 million (up to date values)
[91] Calculated as following: (177 million – 30 million)/30 million.

- The types of projects supported are: installation of photovoltaic systems on public buildings' rooftops, installation of biomass systems, replacement of public lighting systems, and other more general interventions aimed at introducing energy efficiency measures;
- These projects contribute to the policy objectives set out in the OP in terms of reduction in CO2 emissions as well as capacity building in the public sector. Moreover, JESSICA has financed and promoted the implementation of projects which otherwise would have not been completed due to the lack of sufficient funding (reliance on grants/public sector would have not been enough to make them feasible) and it has introduced an innovative and more sustainable mean of financing in a context historically based on grant schemes and unsustainable projects;
- Both financial intermediaries selected for the implementation of the JESSICA initiative are both on track to achieve a satisfying performance (as from data below, as of March 2015).

Table 46: Approved projects per UDFs (EUR mil)

Projects approved	CAPEX	JESSICA contribution	Signature	Disbursement
Project 1	71.6	8.7	√	April 2015
Project 2	0.2	0.2	√	0.2
Project 3	0.1	0.1	√	0.1
Project 4	1.3	0.5	√	0.5
Project 5	0.5	0.5	√	0.5
Project 6	4.8	0.9	√	April 2015
Project 7	0.2	0.2	√	0.2
Project 8	0.3	0.3	√	0.3
Project 9	0.1	0.1	√	0.1
Project 10	0.2	0.2	√	0.2
Project 11	0.2	0.2	√	0.2
Project 12	0.2	0.2	√	0.2
Project 13	0.3	0.1	√	0.1
Project 14	0.4	0.3	√	0.3
Project 15	0.2	0.2	√	0.2
Project 16	0.6	0.6	√	0.6
Project 17	0.2	0.2	√	March 2015
Project 18	0.1	0.1	√	March 2015
Project 19	0.4	0.4	√	March 2015
Project 20	0.2	0.1	√	March 2015
Project 21	0.3	0.2	√	March 2015
Project 22	1.0	1.0	√	March 2015
Project 23	1.0	0.7	√	April 2015
Project 24	92.9	13.8	√	June 2015
Project 25	0.1	0.1	n.a	n.a
Total	**177.3**	**29.8**	**15.2**	**3.6**

- **Key learnings (for Slovenia)**
  - The MA used the process to select the financial intermediaries to build a concrete project pipeline (specifically, the call for EoI launched for the selection of the financial intermediaries required each

candidate to develop a detailed business plan including the identification of a concrete project pipeline);

- Financial intermediaries with a strong knowledge of the local market was a key success factor;
- Flexibility of IS resulted to be a positive factor to cope with the market and project change.

Fund-of-Funds structure was successful as it allowed the MA to benefit of a single point of entry to deal with various issues arose during the implementation and investment phase (such as reporting and controls manuals and procedures, amendments to the operational agreements, evaluation of co-financing requirements, assessment of appropriateness of security structures, assessment of conflict of interests between JESSICA and private co-financing, projects scouting, etc.).

Lithuania

- **Description**
  - The Lithuanian fund for Energy Efficient Housing Renovation was established under a JESSICA holding fund (managed by the EIB). It boasts EUR 227 million from ERDF contributions, without any domestic public funding[92]. Private resources have been attracted to the fund via the domestic and Scandinavian banks responsible for structuring the loans to the final beneficiaries;
  - Technical assistance is provided up to 100% through the Housing and Urban Development Agency, in order to cover studies and design work. Notwithstanding the requirement for all building occupants to agree to taking on the loan before the renovation investment can take place, the bulk of loan repayments can still be sourced from residents' energy bill savings. The Lithuanian fund is also able to offer special repayment terms for low-income families – up to 100% reimbursement of their instalments;
  - It is worth mentioning that, despite evident benefits of energy efficiency upgrading in terms of comfort levels and heating cost savings, at the beginning the home-owners were not proactive in implementing modernisation projects and appeared cautious in taking on long-term loan commitments. However, in 2013 the new Government amended the programme by increasing the subsidies and by allowing building administrators to take out loans for the modernisation, whose repayment was bundled with the utility bills, in so doing facilitating arrangements with the lending institutions and placed the management of the loans in the hands of the building administrators; the loans were then repaid through the building administrators from the savings that residents would make on heating payments. In addition, the Government started working closely with municipalities and involving them in the housing modernisation programmes – including project selection and managing of municipal building modernisation programmes by municipal administrators.
- **Achievements**
  - According to FI-compass[93], up to January 2015, more than 3,000 buildings have had their investment plans approved for a total JESSICA contribution of EUR 700 million. Of these, almost 1,000 have already started construction for a value of EUR 230 million, additional 750 have signed financing contracts with intermediaries and almost EUR 100 million have already been disbursed;
  - In 2010 (latest monitoring data available) the total estimated energy saving amounted to ca 82.25 GWh/year;
  - Moreover, favourable loan products with affordable interest rates and sufficient subsidies have allowed for reducing the investment payback periods in some cases up to 10 years, in order to make investments more attractive and stimulate demand.
- **Key learnings (for Slovenia)**

[92] Of which EUR 127 million are from the ERDF, EUR 100 million are from national funding (EUR 100 million) and between EUR 20 million and EUR 40 million were expected from commercial banks

[93] FI-compass, Financial Instruments 2014-2020 under the ESIF – FI experiences in energy efficiency

- The undertaking and coordination of a sound and detailed preparation from a policy perspective resulted to be key to allow a complex effort to be successfully delivered on the ground, especially given the granular composition of the beneficiaries;
- The importance of planning in advance with a multi-year approach has proved of paramount importance to create the conditions for the programme to work and allow its progressive implementation on the ground.

Slovak Energy Efficiency and Renewable Energy Finance Facility (SlovSEFF)

- **Description**
  - It is a joint initiative between the EBRD and the Slovakian Government supporting investments in: EE for industry, EE for housing, RE development. In the first phase of the scheme (2007 - 2009), the total allocation of the EBRD's credit line was EUR 60m and almost 300 projects were supported;
  - The first phase was extended with additional EUR 90 million as SlovSEFF II (2010—2013) and, within the second phase, loans between EUR 20,000 and EUR 2,500,000 as well as grants between 7.5% and 20% of the loan amounts and free technical assistance were available through local banks for private companies and housing associations implementing EE and RE projects.
- **Achievements**
  - Almost 600 projects were completed in the residential sector, resulting in a refurbished floor area of more than 2.5 million m² and more than 86,000 people benefiting from lower energy bills and better thermal comfort. Beneficiaries realised an **average energy savings of 33%**, whereas "deep renovation" is seen as a "substantial decrease" in energy consumption, taken by some as ranging from 30-60%;
  - Loans for EUR 150 million were signed by the partner banks, which represented 689 eligible projects and a value of projects of more than EUR 188 million within both phases of the programme. Annual primary energy savings achieved as a result exceed 580,000 MWh. Over 110,000 tonnes of CO2 equivalent are being avoided per year as a result of the projects.
- **Key learnings (relevant for Slovenia)**
  - The **combination of loans with grant support for technical assistance** has been of great importance for the success of the initiative. The **technical assistance** component included within the initiative is funded by grants, and is therefore **free of charge for borrowers**. This includes consultancy services and also incentive payments. Sub-borrowers are eligible to receive incentive payments calculated as a percentage of the sub-loan amount, based on independent verification consultant assessment. The SLOVSEFF model has therefore proved effective as **a one-stop-shop for the sub-borrowers providing a fully integrated package of loans, grants and technical assistance**.

Slovakian Municipal Energy Finance Facility (MunSEFF)

- **Description**
  - It is an initiative promoted by EBRD and EC since 2011 and aimed at developing and stimulating commercial bank financing to municipalities and their utility companies in Slovakia, to then stimulate the rehabilitation of municipal infrastructure;
  - MunSEFF provides a **combination of credit lines with technical assistance to help local banks support municipal sustainable energy investments in Slovakia**. The local banks use the credit line to provide loans to sub-borrowers with eligible investment opportunities at their own risk. Support to the credit line is provided using a technical assistance package. This assistance helps potential sub-borrowers to prepare loan applications and familiarise local bank officers with sustainable energy investment opportunities and credit appraisal methods, but also underpins demand for the Facility.
- **Achievements**

- By the end of 2013, the MunSEFF first sub-fund focused on municipal infrastructure, launched in 2010, has supported 30 different projects and recorded 100% disbursement.

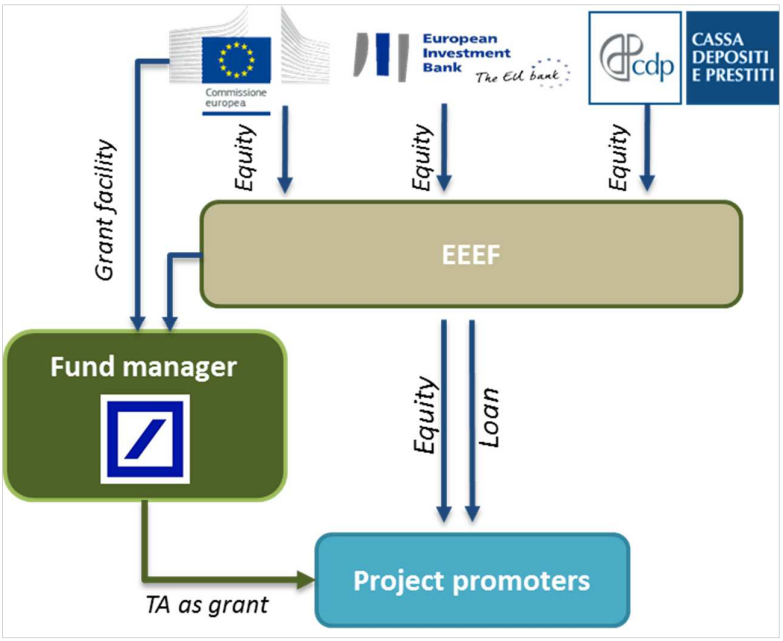
- **Key learnings (relevant for Slovenia)**
  - The combination of soft loans for municipal projects with grants has enabled:
    - Technical cooperation programme for implementation support, including for sub-investment development and validation, liaising with suppliers and service providers and, finally, information dissemination activities;
    - Investment incentives for municipal and residential sub-borrowers designed to encourage the prioritisation of EE projects, to reward the most energy efficient projects and to improve the financial viability of such projects;
    - Incentive payments designed to compensate for the additional administrative and reporting requirements set forth by the Facility and the EU and also as an incentive to roll-out the facility.
  - Importantly, **grants were used as a tool to provide technical assistance free of charge**, helping potential sub-borrowers prepare loan applications and familiarises local bank officers with sustainable energy investment opportunities and credit appraisal methods.

Technical assistance: the successful experience of the EEEF

The European Energy Efficiency Fund (EEEF) offers senior debt (with maturity up to 15 years), equity and mezzanine with more flexible maturity rates for projects at regional and local level.

The fund can co-invest as part of a consortium and participate through risk-sharing mechanisms with a local bank. The Investment Manager (IM) of the Fund, which is Deutsche Bank, is responsible for scouting and evaluation of investments, due diligence and preparation of the investment proposals. In order to lower or even neutralize municipalities' carbon footprint, the European Commission equipped EEEF with a **Technical Assistance Facility of EUR 20 million** to accelerate investments in the fields of energy efficiency, small-scale renewable energy and clean urban transport.

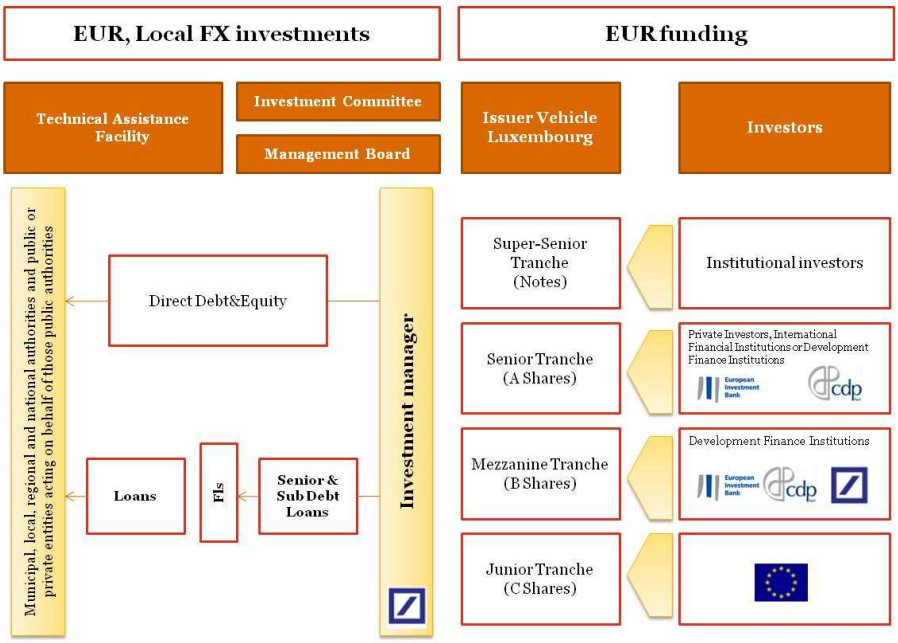
Figure 52: Governance structure of EEEF



Source: PwC 2015 analysis

The Technical Assistance Facility supported several public authorities in developing their projects by providing European Commission grants for up to 90 % of the total costs and subject to a later financing by EEEF.

Figure 53: EEEF's operational framework



Source: EEEF presentation at the Sustainable Energy Week (Brussels, April 13th 2011)

TA can be requested for the following activities: feasibility and market studies, project structuring, business plans, energy audits, preparation of tendering procedures and contractual arrangements, financial structuring and funding preparation/documentation and include any other assistance necessary to develop Investment Projects or projects to be submitted for financing under the fund (including projects where the fund co-finances projects which are supported by Structural and Cohesion Funds) excluding subsidies to investment (hardware) costs.

In mobilizing this instrument, certain guidelines need to be followed:

- TA shall generate investment projects with a minimum leverage factor of up to 20 between TA's grants and project investment;
- Grants shall cover up to 90% of eligible costs for project preparation;
- Only projects, which are to be funded by the EEEF, can receive TA grants.

Furthermore, when selecting investments in TA, the IM screens projects under several criteria like:

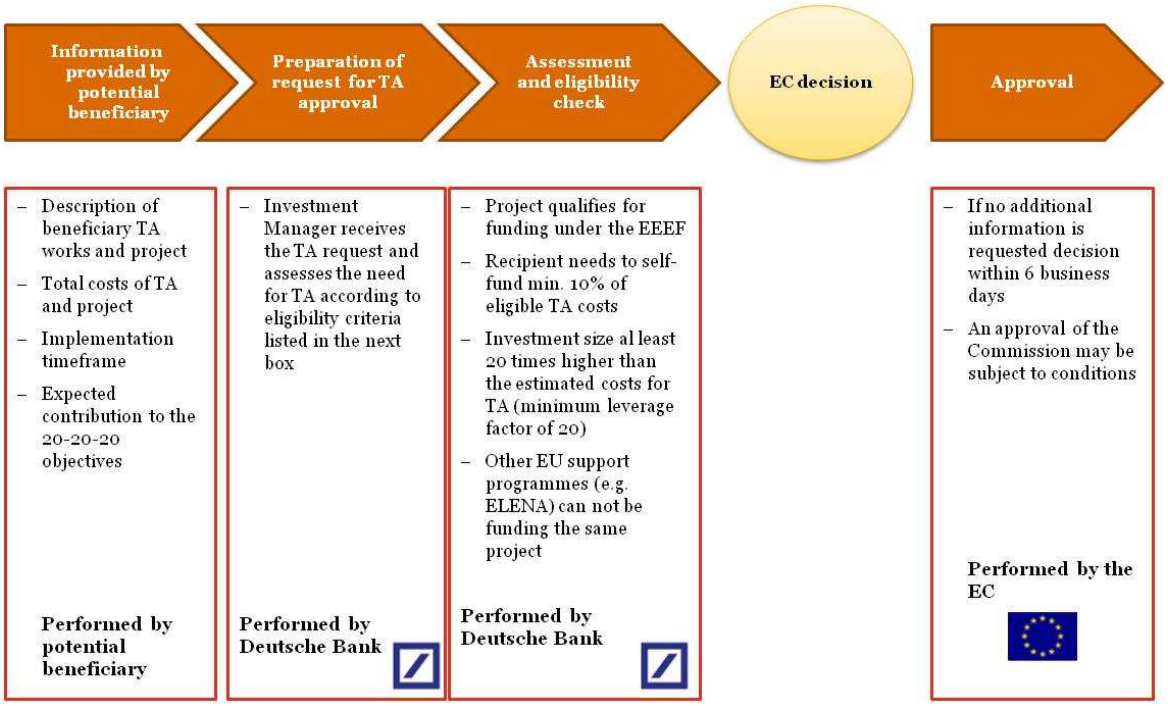
- The EU added-value in assisting the given initiative, in terms of compliance with EU policies, firstly the expected impact on the 20/20/20 objectives, as a matter of coherence of the EEEF's operations;
- Their potential bankability, as a preliminary verification of initiative success and project long-term financial sustainability;
- The absence of supports by other TA facilities on the same project;
- The geographical balance, as defined by the Fund Strategy.

As described below, the selection process for investments in TA goes through four phases:

1. **Information phase**: TA promoters/beneficiaries are required to provide detailed information about the envisaged TA works and a description of the beneficiary and the project. In such phase IM has personal meeting with municipalities/authorities and starts;
2. **Preparation phase**: IM prepares the TA application through some focused discussions;
3. **Submission phase**: IM prepares the TA request for selected projects, including the TA contract, the possible tendering process and information on additional funding;
4. **Approval phase**: the approval process ends with a decision made by the EC.

According to IM, the overall process can take up to 6 months, including the final approval by the EC, which takes from 1 to 2 weeks. Following the approval of the Commission the final beneficiary will sign a TA agreement with the IM.

Figure 54: TA approval process



Source: Mid Term Evaluation of the EEEF- 2013 developed by PwC on behalf of the EC

Sixteen public authorities benefited from the Technical Assistance Facility in countries such as Spain, Portugal, France, Denmark, UK, Ireland, the Netherlands and Belgium. Through these TA projects, EEEF managed to initiate significant investment programmes in each of the Member States, up to a total volume of approx. EUR 450 million, helping to reach the ambitious targets of the EU regarding climate protection.

The successful example of the implementation of Technical Assistance through the EEEF has the potential to be replicated in the other sectors under consideration in this Study.

Summary of lessons learnt for EE/RE

The analysis of the experience of Slovenia's current funds and facilities as well as the comparative experience of Slovakia and Lithuania in 2007—2013 have shown that there are important elements to be considered to ensure a successful implementation of FI. These are:

- **Commitment**: a successful implementation of FI is the outcome of a coordinated and result oriented approach from all parties involved. Strong commitment is then required by all players of the process;

- **Capabilities**: the following capabilities are required to set-up, implement and manage FI: financial expertise, legal and administrative expertise, technical expertise, project management capabilities. **The observation of the experience demonstrated that successful FIs were implemented when such capabilities were available at all FIs levels:** MA, HF manager, Financial Institution, Final beneficiaries and Local Authorities. Major bottlenecks occurred when capabilities of Local Authorities did not cover all the listed aspects, since it was an obstacle to the availability of suitable projects;
- **Experiences:** ability to capitalise on past experience resulted to be an important success factor in the implementation of FIs. Although Slovenia has not a **long-standing experience with FI in the area of energy efficiency,** experiences of revolving instruments co-financed by EU or regional resources can be brought by experienced actors (e.g. EIB) who were involved in the deployment of FIs in the 2007-2013 period. Availability of supporting documentation (such as procedures, call for expression of interests, terms and conditions of agreements) and establishment network of contacts (e.g. network of financial intermediaries) are among major tangible benefits achieved by capitalising on experience in previous programming periods;
- **Availability of project pipeline:** a key success factor for the full allocation of funds and success of FI. In most of the analysed cases, the project pipeline was not identified at the moment of developing the feasibility study. However, the MA decided to implement FIs to capture all the benefit traditionally achieved by FIs (capacity building, leverage effect, long term recycling of funds). The success of the initiative was due to the countermeasure employed by the MA to ensure that a project pipeline was available at the moment in which the money were invested, namely: hiring an experience fund manager able to stimulate the involvement of financial and public sector in the initiative; using the selection of financial intermediaries to set up the project pipeline, (financial intermediaries selected where those who presented concrete business plans with robust identified project pipeline, as evidence is given in the example provided, the FI reached the full allocation of resources).

Moreover, a review of the experiences gathered from the past, suggests that the following lessons should be incorporated into any envisaged FI targeting EE/RE:

Increase private capital involvement

An important lesson learnt from the Slovenian experience with existing funds and programmes, as well as from FIs in other EU MS, was that the management and distribution of funds is generally best done by actors closest to the market such as banks and other financial institutions. The aim is to attract more private capital and hence increase the leverage effect of the FIs in order to be able to maximise the benefits from the use of FIs. The selection of the financial intermediaries should be carried out with full impartiality, and on the basis of a thorough assessment that includes technical expertise and know-how.

While higher level public entities might be aware of policy objectives, they are not always aware of the needs of the market itself (and vice-versa). Involving these actors early on in the rollout of FIs, particularly during the design phase, is considered an example of best practice. This is because actors with good knowledge of the market would normally already have an established network of partners or beneficiaries in place, which would help, reduce the need for awareness-raising and would make the investment process via FIs more efficient.

Need for awareness-raising

General awareness-raising and market-enabling activities are also necessary as many of the potential market participants in Slovenia lack adequate understanding of the use and potential benefits of FIs, including the institutional set-up, administrative procedures, funding requirements etc. This lack of understanding is a significant barrier to the implementation of FIs.

In order to address this barrier, MAs should support information campaigns, including seminars and consultations with local stakeholders to better familiarize them with FIs. These local stakeholders could include banks and other financial institutions, regional and municipal governments, along with industry groups such as chambers of commerce. Such outreach programmes could be augmented by the publication of guidebooks to be made available to interested investors in print and online. In this capacity, the kinds of actors with a good knowledge of the local market could be deployed to organize and educate. Increasing these kinds of contacts can also serve as a valuable opportunity to develop projects that could potentially be compatible with FIs.

Cutting red tape

Another important lesson learnt through both the Slovenian and other MS experiences is the need to reduce the administrative and bureaucratic burden involved in applying for funding.

To be able to reduce the administration and bureaucratic burden is not only the responsibility of the central government and the Managing Authorities, but also the responsibility of the financial institutions to make it more informative and clear what needs to be done in order to meet their requirements to develop the project to the bankable stage and at the same time meet EU requirements.

Aligning incentives

In addition to actively anticipating the potential impact of the investment, it is also important to evaluate FI performance particularly when it offers the possibility of financing based on good performance. This is particularly relevant for EE projects. The provision of performance-based funding will help incentivize projects to ensure that they are well designed and managed. Overall, this kind of targeted support (both technical and financial) can help ensure that the overall objectives of the funds are achieved.

Avoiding overlapping calls

One of the more important lessons learnt is the need to favour coordination when separate entities are concurrently publishing calls for proposals/funding. This allows for the creation of synergies among calls. In the case where calls are published concurrently, clear and differentiated target recipients should be identified.

7.4. Urban and territorial development

This chapter provides an analysis of possible use of the FI in Slovenia, focusing on sustainable urban and territorial development

7.4.1. Analysis of market failures, suboptimal investment situations and investment needs

Territorial context

Slovenia is divided into two cohesion regions at NUTS level 2 regions: Western and Eastern Slovenia. These two cohesion regions are further divided into 12 statistical regions at NUTS3. Moreover, Slovenia is at the local level divided further to 212 municipalities.

Towns and other urban settlements represent the backbone of Slovenian settlement system. Urban lifestyle is overlapping most of the populated Slovenian territory and linking urban centres in a typical polycentric system. Urban centres of the regions can also be part of urban areas or functional urban areas and are highly connected with its hinterlands.

Slovenia is divided into a large number of small settlements, which are its main feature. There is a total of 6,023 settlements in Slovenia, of which only two towns have more than 50,000 inhabitants (Ljubljana and Maribor), while 90% of all settlements has less than 500 inhabitants. According to the law, the status of a city has only 67 cities, where lives about a quarter of the population of Slovenia[94].

In cities and its urban areas lives about half of the Slovenian population. More than half of all employment is concentrated in 11 urban centres. Productivity levels in urban areas are generally higher, although in Slovenia the cities have recently stagnated. Some functional areas of major centres are increasing, due to the concentrated population and accelerated daily migrations in the direction of the motorway network, especially with passenger cars. This increases the carbon footprint, deteriorates urban air quality, increase car traffic and transit, and intensifies pressure on the area, which includes best-quality agricultural land[95].

[94] http://www.mzi.gov.si/si/delovna_podrocja/prostor/urbani_razvoj/mesta_in_urbana_obmocja/
[95] http://www.goforesight.eu/urbani-forum/mesta/docs/Podlaga-za-razpravo-o-mestih.pdf

Integrated territorial investments (ITI)

ITIs are a new approach, which can be used for implementation of territorial strategies, linking the goals identified in the Partnership Agreement and Operational Programme with the territorial dimension[96].

It allows EU Member States to combine investments from several priority axes of one or more OPs for the purposes of multi-dimensional and cross-sectoral intervention. It will enable efficient implementation of integrated actions through simplified financing. This approach is multi-dimensional, tailored to place-specific features and outcomes. It means going beyond traditional administrative boundaries, and requires greater willingness from different levels of government to co-operate and co-ordinate actions in order to achieve shared goals.

Slovenia will be using the ITI approach for sustainable urban development, which is based on the principle of internal urban development and good functional integration with other towns and surroundings. ITIs will help implementing urban development projects and urban renewals, linking activities to improve the quality and security of life in cities, increase energy efficiency, create sustainable mobility and accessibility, and also develop creative industries, improve entrepreneurship and social inclusion in all the 11 city municipalities.

Emphasis will be placed on integrated investments, which will resolve several issues at the same time in a given area. Priority will be given to investments that contribute directly to new jobs and improving the living environment. It will primarily be linking thematic objectives 4 (supporting the shift towards a low-carbon economy in all sectors) and 6 (protecting the environment and promoting resource efficiency).

Slovenia has devoted for the ITI around 6.2% of the ERDF funds (EUR 107 million) and EUR 10 million from Cohesion fund[97]. A prerequisite for the implementation of integrated measures for sustainable urban development is a complete strategy for sustainable urban development, prepared by individual Slovenian city municipalities[98].

Socio-economic context

In cities and urban areas works around 94% of all working population and lives 70% of Slovenians with higher education.

Central Slovenian region is more established than other regions, mainly by the amount of money flowing through it. The average gross wage is almost a fifth higher than the average gross wage in most other regions. In addition, GDP per capita is more than 40% higher than the Slovenian average[99].

Basic examples of regional differences still exists, however the differences between the regions are slightly decreasing. The reduced difference can be explained by the impact of the crisis on regions, and with gradual effects of regional policy, which affected number of successful projects.

Financial Capacity

Municipalities vary widely concerning the budget. Ministry of Finance determines appropriate consumption of each municipality, based on length of local roads and public paths in the municipality, its size, the share of the population younger than 15 years and the proportion of the population older than 65 years, the number of inhabitants and the size of a "lump sum" of each municipality[100][101].

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[96] http://ec.europa.eu/regional_policy/sources/docgener/informat/2014/iti_en.pdf
[97] http://www.delo.si/gospodarstvo/finance/slovenija-podpira-lokalni-razvoj-ki-ga-vodi-skupnost.html
[98] Načrt priprave trajnostne urbane strategije mestne občine Nova gorica za obdobje 2015 - 2020
[99] http://www.finance.si/8813896/V-Ljubljani-najbolj%C5%A1i-le-po-pla%C4%8Dah-in-BDP
[100] http://www.mf.gov.si/fileadmin/mf.gov.si/pageuploads/Lokalne_skupnosti/Priprava_prora%C4%8Dunov_in_zaklju%C4%8Dnih_ra%C4%8Dunov/Prora%C4%8Dunski_priro%C4%8Dnik/Prora%C4%8Dunski_priro%C4%8Dnik_za_pripravo_prora%C4%8Dunov/2015/obcine-pror-prir-15-dopis.pdf
[101] http://www.mf.gov.si/fileadmin/mf.gov.si/pageuploads/Lokalne_skupnosti/Priprava_prora%C4%8Dunov_in_zaklj

Table 47: Total Revenues and Expenditures of municipalities by year, 2010—2014 (EUR)

	2010	2011	2012	2013	2014
Total Revenue	2,180,402,953	2,061,173,031	2,080,068,830	2,016,221,279	2,204,562,099
Total Expenditure	2,312,636,447	2,097,401,347	2,081,581,087	2,038,660,575	2,285,683,653

Source: RS Ministry of Finance, 2015

Revenue of municipalities in 2014 increased for 9% in comparison to year 2013 by 3% compared to 2012. The largest share of revenues consists of tax revenues, which are considered current revenues (approximately 63%), funds received from the European Union budget, which come from the budget of the European Union, representing 0.2%. Transfer revenues present 21%.

In 2014, more than 21% of the total expenditure were allocated for current expenditure, of which 23% represent salaries and 64% consists of goods and services (office supplies, energy, water, utilities, etc.). Current transfers represent 35% of total expenditure, capital expenditures amount to 40% and capital transfers for 3.3% of total expenditure.

City municipalities represent 31.5% of total expenditure and 31% of total revenue, where the Municipality of Ljubljana in both categories takes up more than a third.

The total indebtedness of Slovenian municipalities has been increasing. At the end of 2014, the total debt of 211 municipalities amounted to 899.1 million euros, an increase of seven percent over the previous year. At just over two million inhabitants, that amounts to 437 EUR per person. According to the data, the most indebted is Ljubljana, its debt amounted to EUR 202 mil at the end of December 2014. With the 56 mil EUR of debt, Ljubljana is followed by the municipality of Maribor and Koper, 29 mil EUR od debt has Celje and 22 mil EUR Kranj. Total debt of city municipalities in 2014 amounted to 438.2 mil EUR, which is 13.7 mil EUR more than in 2013[102].

Expressed as a share of gross domestic product (GDP), the total indebtedness of municipalities for several years increases. After it was just under one percent of GDP in 2007, it rose to 2.4 percent of GDP in 2014[103].

In 2014, the Slovenian municipality additionally borrowed 133 mil EUR, the share of city municipalities was 33%.

Specific sectors

Cultural heritage

Slovenia is a country with rich history and cultural heritage. The official record is kept in the Register of Cultural Heritage, which consists of three interrelated parts: a register of immovable heritage, a register of movable heritage and a register of living heritage. Around 30,000 units of cultural heritage is enrolled in the register of immovable heritage, which represents the majority of heritage. Architectural heritage represents close to 71% of all registered units. Slovenia also subscribed three sites in the UNESCO list of world natural and cultural heritage, namely the Škocjan caves, prehistoric pile dwellings around the Alps and the legacy of mercury mining in Idrija.

Brownfields

There were 194 registered brownfields in Slovenia in 2011 with a total area of 979 ha. The record includes areas where degradation was caused by industrial, military, transport and infrastructure activity, and mining activity. Degraded areas include all areas, in which activity that caused degradation is either 1) completely abandoned, 2) partially abandoned with old activity still present in some part of the area, 3) abandoned, with

u%C4%8Dnih_ra%C4%8Dunov/Prora%C4%8Dunski_priro%C4%8Dnik/Prora%C4%8Dunski_priro%C4%8Dnik_za_pripravo_prora%C4%8Dunov/2015/pror-prir-obcine-15.pdf

[102] http://www.delo.si/novice/slovenija/dolg-obcin-vse-blize-milijardi.html

[103] http://www.primorske.si/Novice/Slovenija/Zadolzenost-obcin-vse-vecja,-vsak-obcan-zadolzen-z

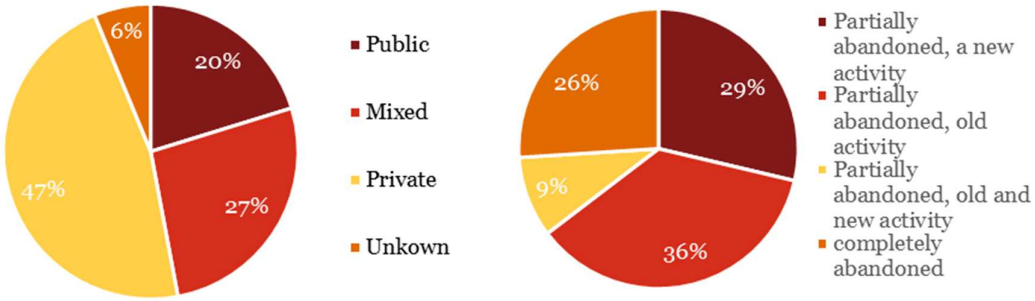
new activity present, 4) new and old activity present. Only areas that are larger than 1 hectare (10,000 m2) are included in the records.

Figure 55: The number of degraded areas by type of degradation and area (ha) in Slovenia, 2011

Source: Department of Geography, Faculty of Arts, University of Ljubljana, Records of degraded areas, 2011

Degraded areas are recorded in 82 municipalities. The largest area is in the municipality of Lendava, on the territory of the refinery Lendava (72 ha). Numerically, however, most of the brownfields are in the area of Central Slovenian region (32), followed by Savinjska and Gorenjska 26 and 22). In the area of Koroška, there is no evident brownfields. On the other hand, there were nine in Zasavska region, despite its small size. Looking at the total size of brownfields, areas of Drava and Central Slovenian region are at the top, while Zasavska, Goriška and Notrajnsko-kraška region at the bottom of the list. The most degraded areas come from industrial districts, which are mostly present in central Slovenia.

Figure 56: Area (ha) of degraded areas by ownership (left) and the rate of abandonment (right) in Slovenia, 2011



Source: Department of Geography, Faculty of Arts, University of Ljubljana, Records of degraded areas, 2011

The biggest obstacle when dealing with degraded areas at local or regional level as well as with rehabilitation and planning of new activities is ownership. In the last twenty years, the majority of today identified brownfields, came into private hands, which is why private ownership is dominating. Consequently, the least degraded areas are in a public domain.

To which degree a brownfield site is abandoned is also important, because there is a general lack of space for expanding activities of businesses. Although all areas are disused in a way, there are some differences. There is 81 completely abandoned areas (with a total area of 253 ha). Those with core business partially abandoned, but with old activity still present (350 ha), have the largest share. The review of ownership has also shown that completely abandoned brownfield sites are in private ownership, which further confirms the problem of the ownership.

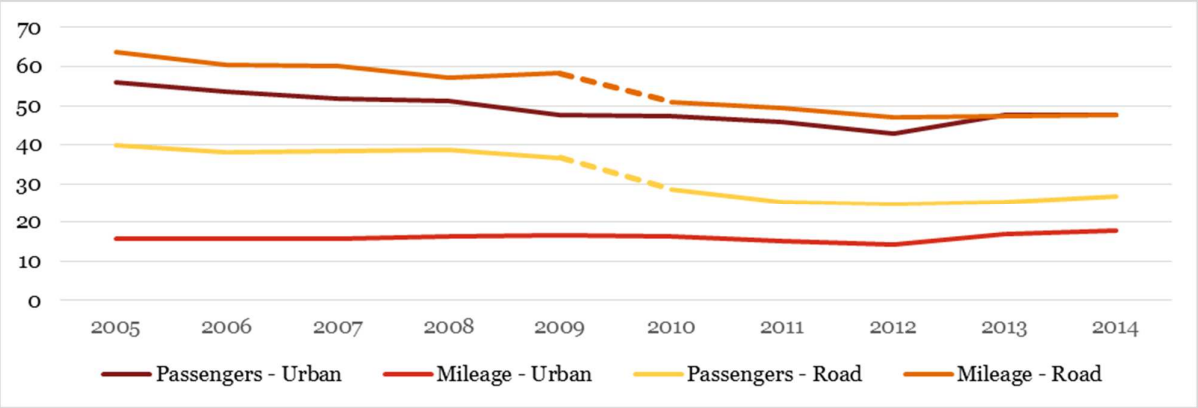
Public Transport

From 2000 to 2012, the use of public transport in the 21 EU Member States rose by eight per cent, while in Slovenia it fell by a fifth. The ratio between the number of runs and the number of urban residents in 2012

shows, that the average urban EU resident had 132 runs. Slovenia is significantly below the average, as the urban resident had on average less than 100 runs in one year[104]. One of many reasons is the ownership of private cars, which almost doubled in the last 20 years. This means that the level of motorisation in Slovenia exceeds many economically developed EU countries. Slovenia is also among the countries with highest expenditures for personal mobility per household in the context of purchases of vehicles and their operations, which means less spending for public transport[105].

The previous Ministry of Infrastructure and Spatial Planning listed additional reasons for decline in the use of public transport in past two decades. Among many are poor facilities and organization of public transport, fragmentation of schedules, relatively high price of tickets, dispersed settlements and compensation for travel to work, which does not encourage the use of public transport[106]. However, the government slowly began to shift attention from motorway development to the development of public transport, which is showing signs of recovery for the past two years. The progress is slow, but present. Road transport vehicles made 48 million kilometres, which is still about 25% less than in 2005. On the other hand, urban transport vehicles made 17 million kilometres in 2013, which is more than in 2005, due to the expansion of bus lines to suburban areas. Number of passengers in public transport on general has slowly started to rise since 2013[107].

Figure 57: Mileage and number of passengers in city and road public transport (in million)



Source: SI-STAT, 2015

Public transport is divided on a public road transport (including both long-distance and international services), which falls within the jurisdiction of the state and the public urban transport, which falls within the competence of local communities. Urban transport is mainly carried out in the municipalities of Ljubljana and Maribor. In 2013 there were 40.6 million passengers in Ljubljana and 3.9 million passengers in Maribor in 2012.

Waste

In 2013, Slovenia generated more than 4.6 million tonnes of all types of waste (almost 4% more than in 2012), of which 82% was produced in production and service activities and 18% in municipal waste. There was 414 kg of municipal waste per capita produced in Slovenia in 2013, of which 63% occurred in households and the rest in manufacturing and service activities.

[104] http://izvozniki.finance.si/8808839/Slovenija-najslab%C5%A1a-v-EU-po-uporabi-javnega-potni%C5%A1kega-prometa?metered=yes&sid=411916975
[105] http://www.focus.si/files/Publikacije/mobiliziraj_se_JPP___.brosura_tisk.pdf
[106] http://izvozniki.finance.si/8808839/Slovenija-najslab%C5%A1a-v-EU-po-uporabi-javnega-potni%C5%A1kega-prometa?metered=yes&sid=411916975
[107] Annual report LPP:http://www.lpp.si/sites/default/files/lpp_si/stran/datoteke/5.lpp_letno_porocilo_2013.pdf and MARPROM: http://www.maribor.si/dokument.aspx?id=20518

Table 48: Waste in Slovenia (in tons)

Produced waste	4,632,783
• municipal	853,388
• production and service activities	3,779,395
Separately collected municipal waste	535,152
The overall waste processing	5,168,077
Complete Waste Disposal	602,058
• *deposited waste at municipal landfills*	274,724
• *deposited municipal waste at municipal landfills*	224,001
Exports of waste	603,284
Imports of waste	1,008,331

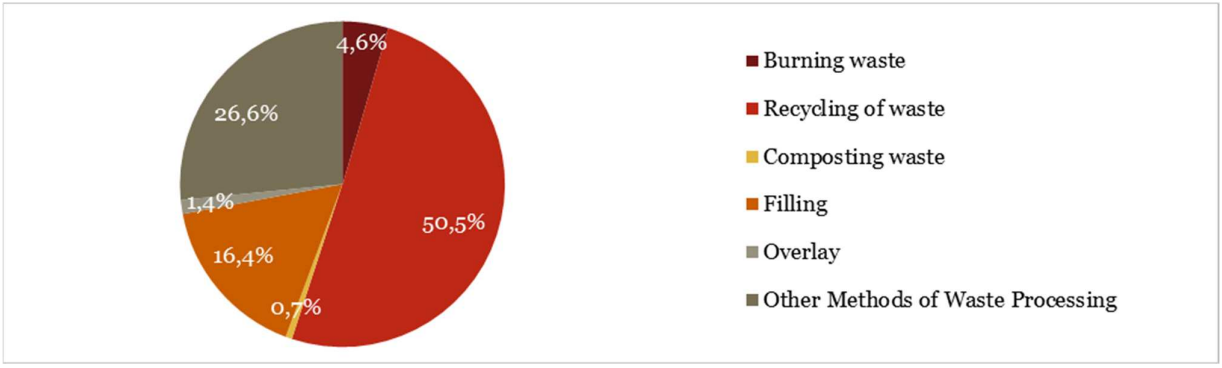
Source: SI-STAT, 2015

The amount of generated municipal waste and its handling is different in each municipality. It depends on the lifestyle of the population and their awareness, available capacity for the disposal and willingness of the municipality to establish other solutions. On average, one Slovenian created 320 kilograms of waste, inhabitants of Osilnica less than a hundred and a citizen of Šempeter - Vrtojba and Domžale more than five hundred kilograms. Differences exist also in separating and quantity of waste deposited. The most effective in waste separation are in the municipality of Gorenja vas - Poljane. More than 80 percent of waste is separated in the municipalities of Vrhnika and Domžale. The least efficient are in Ribnica and Pohorje, where they separate less than one-tenth of garbage. Unfortunately, state Administration has no incentives to promote action in municipalities.

Manufacturing sector generated more than 3 million tons of waste, while services sector more than 750 thousand tons. Due to the increased surveillance in the implementation of waste legislation, amount of waste from waste management plants, increased by almost four times, from 223,000 tons in 2012 to 812,000 tons in 2013. There was an increase in amount of construction waste (25% more than in 2012).

Slovenia process around 85 percent of all waste. The waste is treated with variety of processes such as incineration, recycling, composting and others. In terms of separating waste, the most important method of processing is recycling. Slovenia recycles 50.5 percent of all waste, which is a large portion in comparison to Europe. The result of recycling are secondary raw materials, which help in conservation of primary natural raw materials.

Figure 58: Shares of Processed Waste in Slovenia, 2013



Source: SI-Stat, 2015

Water Infrastructure

Slovenia is rich with water, although sources are unevenly distributed. There is 2,500 km of rivers, 60.8 km2 of standing water, 180 km2 of sea and 3,530 million m^3 quantity of renewable groundwater. Compared with other developed countries, the quality of water in Slovenia is at the very top of Europe. One of the reasons is that the majority of the rivers originates in the territory of Slovenia. Nevertheless, Slovenia has some pollution issues. Some parts of rivers are still burdened with excessive levels of industrial and municipal sewage. There is also occasional contamination of underground water, which is Slovenia's main source of drinking water. The contamination is more frequent in the northeast part of Slovenia and around Celje. Agency for Environment is responsible for inspection and evaluation of the water quality in Slovenia. Inspection include monitoring the quality of rivers, lakes and the sea, groundwater and areas of specific arrangements, and complies with the EU directives and norms.

In Slovenia, almost 100 percent of the population have access to safe drinking water with 92 percent connected to public water supply system. Supply of water run mostly through public water supply network, although it taken from other water sources as well. Total length of the entire water supply network in 2013 amounted to 22,655 km, which had 455,563 terminals connected to it. Water for public supply is pumped from underground sources and streams (more than 70%). The rest is pumped from flowing water (i.e. the water from natural lakes and artificial reservoirs, artificial recharge and other liquid water).

In 2013, Slovenia spent 55.8 m^3 of water per capita, 38 m^3 was spent on households and 18.8m^3 for a variety of economic and non-economic activities.

Slovenia has in the context of EU cohesion funding for drinking water supply in 2007 to 2013 implemented 10 projects with a total value of 233 million EUR of which EU participated with 131.5 million EUR.

Computing methodologies and gaps for Urban and territorial development

The gap analysis compares the available supply of finance in Slovenia against the identified demand for investment taking into account both quantitative and qualitative aspects. In terms of quantification, the analysis compares the expected (theoretical) supply of finance available in Slovenia against the value of project identified both at policy level (theoretical).

As for the qualitative aspect, the analysis assesses whether and to what extent the financial products offered so far are a suitable source of finance to support the sustainable urban development initiatives. Moreover, the qualitative part of the analysis identifies other constraints/barriers, if any, that might hinder the development of the market.

Please find methodology and quantification for demand and supply in detail in E.4.

The table below compares the assessed demand for UTD to the estimated available sources of finance firstly for "ready to start" projects (for 2015 and 2016) and later for "waiting for realization" projects from 2017–2020.

Table 49: Quantitative results of the gap analysis for "ready to start projects", 2015—2016, (EUR mil)

Demand		Supply		Potential Gap
»Ready to start« projects of Slovenian city municipalities	664*	Commercial banks**	70—74	**590—594**

Source: Data provided by Slovene city municipalities, PwC analysis

*Project selection is described in Appendix F. -.

**We assume the yearly average growth of long-term loans to local government from 2010—2014 for 9 city municipalities. Koper and Slovenj Gradec are not included, as we did not obtain their project list. For 2015, we added a 2.3% GDP growth and 2.1% for 2016 (EC, 2015). We assume that city municipalities follow the same logic as all the municipalities are dedicating 7—12% of new loans for energy efficiency projects. Therefore, 88—93% of new loans of municipalities are dedicated for urban development and territorial projects.

Table 50: Quantitative results of the gap analysis for "waiting for realisation", 2017—2020, (EUR mil)

Demand		Supply		Potential gap
»Waiting for realisation projects« of Slovenian city municipalities	189	Commercial banks**	115—121	**68—74**

Source: Data provided by Slovene city municipalities, PwC analysis, 2015

*Project selection is described in Appendix F. -

**Considering the yearly average growth of long-term loans to local government from 2010 till the end of 2014 for 8 city municipalities. Ljubljana, Koper and Slovenj Gradec are not included as we did not obtain their project list. We have assumed the same GDP growth for years 2017—2020 than it is predicted for 2016 (EC, May 2015). We assume that city municipalities follow the same logic as all the municipalities are dedicating 7—12% of new loans for energy efficiency projects. Therefore, 88—93% of new loans of municipalities are dedicated for urban development projects.

As presented in the table above, according to these estimates, it is evident that the amount of expected (theoretical) financing would not be available to meet the theoretical demand.

Moreover, findings from our analysis highlighted other qualitative aspects related to the possibility to finance sustainable urban development interventions in the Slovenian context:

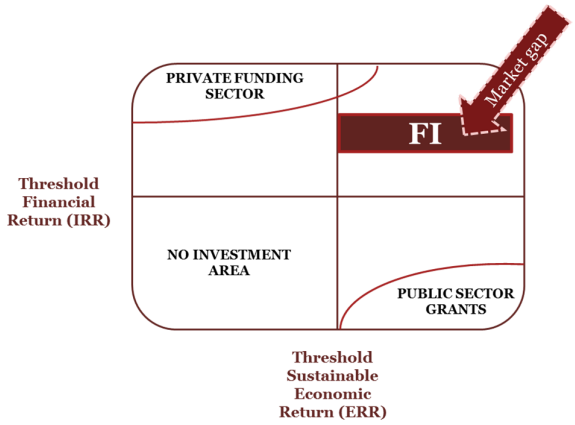
- Budgetary and financial constraints
  - Because of low budget availability, public entities are not encouraged to engage in strategic investment programming leading to the progressive development of a robust project pipeline;
  - There is a financial constraints limiting the borrowing potential. The legal limit state that the municipality may borrow additional funds, if the repayment of liabilities arising from loans (principal and interest), financial leases, trade credit (instalments) and liabilities arising from guarantees issued to meet obligations of indirect budget users and public enterprises founded by the municipality, in each year of the repayment, **does not exceed 8% of realized revenues** of the municipal budget for the year preceding the year of borrowing, not including grants and transfer income received for investments from the state or funds received from the European Union.

Partly as a consequence of the above mentioned constraints, municipalities are unwilling to commit to the high investment levels required in many urban development projects.

- Lack of capacity and skills
  - Limited capacity to initiate and manage complex projects by public sector players;
  - Limited understanding by the local authorities of concrete market needs and opportunities, leading to an excessive reliance upon a “town hall only” vision of urban development. Thus the financial viability of certain development projects is undermined by the scarce interest of investors/potential users;
  - Limited capabilities to cope with high amount of administrative and bureaucratic documentation, especially for more complex projects (i.e. long proceedings with tender preparation and execution).

In conclusion, there is a **potential financial gap** in the market created by the lack of suitable financial products.

Figure 59: Identified Market gap



The above diagram is a simple conceptual illustration of the investment focus for FI and shows where the privileged area of investment should be. This formulation reflects the fact that potentially investments of all types could be part of a strategic investment programme in a city or in a territorial context. In the above diagram, the economic performance is measured on the horizontal axis and the financial performance on the vertical axis. In can be assumed that the economic metric is the rate of return as measured through tools like Cost Benefit Analysis and financial performance metric is the financial rate of return.

The hurdle rates (minimum acceptable economic performance and minimum acceptable financial performance) are indicated by the red blues lines and the economic and financial performance of each project is mapped in the diagram. Areas of the diagram identify:

- The privileged target area for the FI (indicated by the arrow). This is where projects offer some financial return, but not enough to reach the minimum rate required by the market, and a strong economic return reflecting in principle their contribution to the objectives of the OP-ECP;
- The private sector funding area is where the economic and financial returns are both high, no market failure is identified in this area;
- The "public sector grants" area is where projects show good economic performance, but cannot generate a positive financial remuneration;
- The "no investment" area is where both the financial and economic performance are inadequate, so no investment should be undertaken by the private or public sector.

7.4.2. Value added of the FI

The table below summarizes how the use of FIs can provide significant benefits in the segments of the urban all sectors identified in the market analysis, and can contribute to address some of the market failures identified in the previous sections.

	Public sector	Private sector
Limited budget availability of Municipalities	FIs can attract private investors or different investment schemes (e.g. PPP models).	
Limited capacity to initiate and manage complex projects	FIs provide TA in the form of grants to support project promoters to initiate projects.	
Limited capacity to reasonably ensure optimisation of the investments (i.e. not over-investing in over-dimensioned projects)	FIs can provide TA as grants to support investment design and assessment.	

Source: PwC analysis, 2015

Furthermore, other aspects to be considered are the typical characteristics of FIs, namely their revolving nature, the leverage creation, the fact that they encourage efficiency among final beneficiaries, etc.

These and other aspects are presented in detail in the table below, showing the value added of an FI over grant forms of assistance.

Table 51: Value added of an FI as compared to grants

Benefit	Value added of an FI compared to grants
Leverage creation	FI enables additional support to be channelled to enterprises, public administrations and more generally final beneficiaries, with a potentially greater financial impact than grants, due to the ability to attract additional public and private sector resources, thus multiplying the effects of ESI funds and national/regional contributions (e.g. each euro invested by the OPCC creates a multiplying effect which increases resources available to final beneficiaries). According to published research[108], such leverage effect is even more prominent for small countries like Slovenia, traditionally less attractive for international investments. As for the UTD sector, this means that, as the investment generated by an FI are higher than those generated by a grant scheme, the quantitative value added of an FI as compared to a grant scheme could be measured in the achievement of: • Higher **environmental benefits, due to the reconversion of higher number of fleets;** • Higher **connectivity** due to the development of an higher number of sustainable transport infrastructure that can ultimately facilitate an higher movement of persons and goods; • Higher impact on real estate values (investment in important public infrastructure like transport network, commercial area development, can have a positive impact of the value of real-estate within the local area. As it becomes easier to access an area, it will become more attractive to build and develop on it, and thus drive up the price of real-estate) • Higher **number of jobs created** due to the higher number of interventions realised; • Higher **environmental impact reduction** (much less GHG emissions in atmosphere).
Revolving nature	As these monies are repaid to the fund over the life of the project, they become available to finance additional projects. In such a way, the use of FIs can promote the long-term recycling of public funds and they potentially enable the reinvestment of ESI funds at the level of the country beyond the end of the programming period, helping achieve better value for public money.
Encourage efficiency	FI can encourage efficiency among final beneficiaries through greater financial discipline through the heightened awareness of the need to repay loans (unlike grants). This factor emerges also as an 'assurance of quality' of the project. In other words, FIs encourage companies to grow and become more competitive in order to return the investment.
Assist capacity building	FIs use can help build institutional capacity through partnerships between the public and private sectors, can broaden the involvement of financial intermediaries/institutions in implementing EU regional policy and can encourage pooling of expertise and know-how, for example to improve the quality of projects. Additionally, the creation of public-private synergies ultimately results in an alignment of interests between public and private actors, taking the best out of both. On the one hand, they enable the pursuit of public policy objectives, which characterises public institutions, and on the other hand, they bring in the commercial market mechanisms accompanying private investors.
Ensure better technical assessment of projects	The TA assistance to be financed out of an FI could ensure a better technical assessment of projects as to ensure that oversized and/or unsuitable projects are excluded from support.
Better financial products	FI have the capacity to broadening the scope of measures supporting urban investment projects (efficiency & equity objectives) to **ensure economically viable urban development** across the EU. They also have high risk tolerance and **take risks from urban projects** thus making them viable (they might otherwise not be financed by commercial banks).

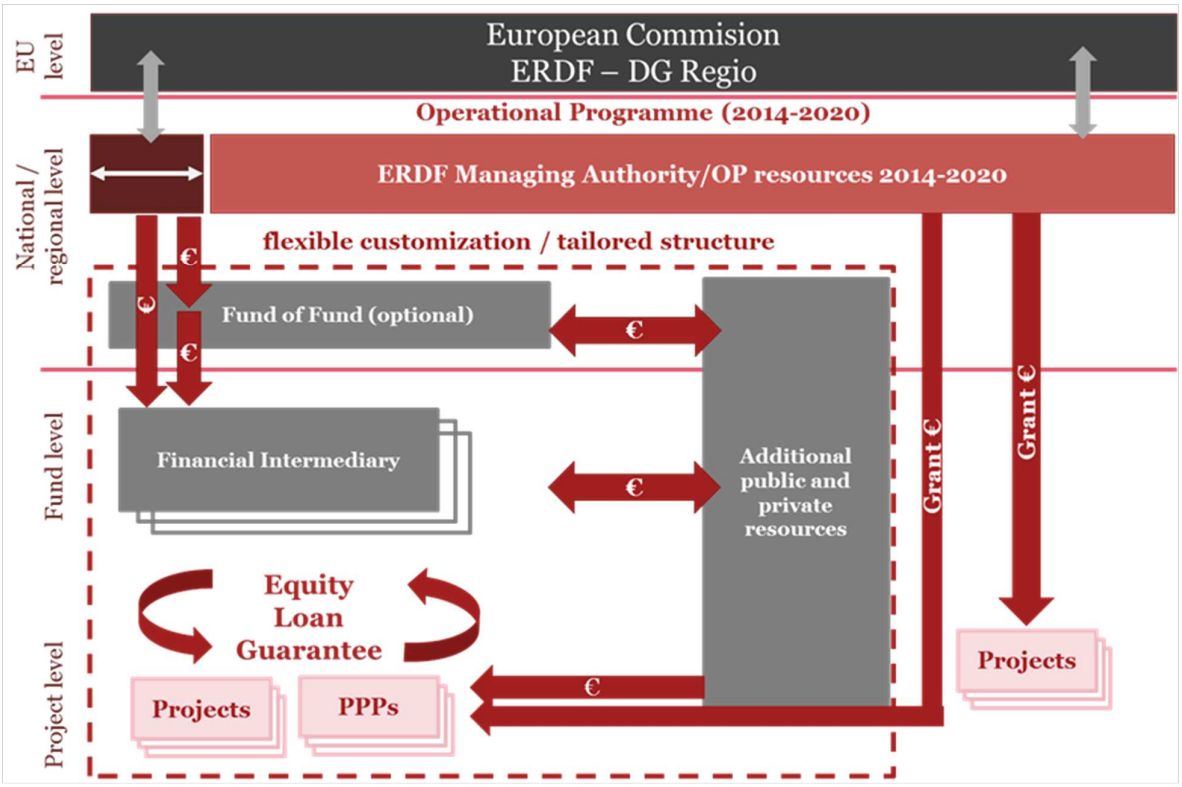
[108] European Parliament (2013) Financial Engineering Instruments in Cohesion Policy.

7.4.3. Estimate of public and private resources

The financial instrument offers the possibly to channel additional investments into the FI levering the initial resources provided by the OPCC.

The figure below illustrates the mechanism allowing the creation of leverage.

Figure 60: Flow of funds and level of additional public and private resources to leverage the FI



Source: PwC analysis, 2015 based on JESSICA Holding Fund Handbook

Table 52: Potential additional public and private resources to consider

	Product				
	TA as Grant	Inv. resources as grant	Loans	Guarantee	Equity
SID Bank			x		
Commercial banks			x	x	
Dedicated TA fund	x				

Source: PwC analysis, based on the materials collected in the supply side section

7.4.4. Review of lessons learnt from past and existing Financial Instruments in other EU Member States

Territorial development has been a key concern for the achievement of European cohesion objectives and against this backdrop the European Commission and the EIB launched the JESSICA technical assistance initiative to support urban development through financial instruments in 2007—2013. However, the development of Financial Engineering Instruments (FEI) targeting urban development in 2007—2013 has

been modest, compared to FEI targeted to enterprises. To the end of 2013, some EUR 1.53 billion has been allocated from OPs into 56 FEIs, compared with EUR 12.1 billion allocated to 854 SME focused FEIs.

Table 53: OP resources by Member State allocated to urban development-focused Financial Engineering Instruments 2007-2013

	Number of HF	Specific funds within the HF
Bulgaria	1	2
Czech Republic	1	0
Greece	1	5
Spain	2	2
Italy	3	4
Lithuania	1	7
Netherlands	1	1
Poland	5	6
Portugal	4	1
United Kingdom	3	5
Total	**16**	**35**

Source: Summary of data on the progress made in financing and implementing financial engineering instruments reported by the managing authorities in accordance with Article 67(2)(j) of Council Regulation (EC) No 1083/2006, 31 September 2014

The 2014 Summary Report on Financial Instruments (based on data to the end of 2013) provides information on the extent of investment under Urban Development Funds. As for the type of financial products used, the table below shows that most FIs implemented concerned loans, followed by guarantees and other instruments.

Table 54: Types of FIs in the EU for urban development

	Number of financial products offered to the final beneficiaries by the specific funds for UD		OP amounts disbursed to the final beneficiaries by the specific funds for UD (EUR mil)	
	All specific funds	FEIs for UD	All specific funds	FEIs for UD
Loans	94,850	2,067	3,415	133.40
Guarantees	97,086	0	1,439	0.00
Equity / venture capital	2,759	3	1,205	37.48
Other products	9,384	0	620	0.00
Total	204,079	2,070	6,679	170.88

Source: Summary of data on the progress made in financing and implementing financial engineering instruments reported by the managing authorities in accordance with Article 67(2)(j) of Council Regulation (EC) No 1083/2006, 31 September 2014

A recent study for EC DG Regio by the European Association for Information on Local Development (AEIDL) examined a small number of case study UDFs. The study noted in particular the detrimental effects of the recent financial crisis on the operations of these Instruments due to greater unpredictability in the cost of money and the returns available from completed investments. It also sounded a note of caution as to the potential viability of JESSICA type Instruments for financing comprehensive area-based development activity. The study concluded that for such an integrated approach to be successful, the JESSICA type fund - which can only finance profitable near-market type investments – usually needs to work together with traditional grant funding in urban areas confronted with more severe development challenges. A summary of the AEIDL study findings about JESSICA type funds is set out below:

1. JESSICA-type funds are most likely to be of benefit for projects that are near to market viability - these projects can make a return for an Urban Development Fund while still being too risky for the private sector;
2. JESSICA-type funds are likely to be used mostly to make investments in individual projects rather than to finance the whole of a comprehensive area-based approach made up of many complementary projects;
3. It is likely that the JESSICA-type funds will selectively invest in the more financially viable projects, leaving other key elements of a master plan such as transport, the public realm and social investments to the public authorities.
4. Large and complex developments are likely to require a mixture of grants, loan and equity instruments rather than a single Urban Development Fund;
5. JESSICA-type funds can free up grant money in programmes by investing in commercial property;
6. There will still need to be grant funding to make more difficult brownfield sites viable.

Selected examples:

In order to provide the MA with illustrations on how FIs for urban development have been implemented and key success factors, selected examples are provided.

In particular:

- Example of deployment of FIs in OPs in which the use of FIs was not initially envisaged: Poland.
- Example of a complex fund supporting diversified urban development activities: London.
- Example of urban development fund for urban interventions: Sardinia.

Pomorskie (Poland)

In Poland, the UDF in Pomorskie (Poland) is focused on supporting urban projects in the region's four major cities: Gdańsk, Gdynia, Sopot and Słupsk.

The main sources of funding for the UDF are equal to EUR 59.96 million, broken down as following:

- ERDF sources: EUR 33.87 million;
- Public regional sources: EUR 5.98 million;
- Private sources: EUR 20.11 million.

Investments must form a part of ZIPROM, integrated development plan for the city, which may support:

- Business environment institutions;
- Urban regeneration and urban functions;
- Public transport systems as well as their integration;
- More renewable energy and energy efficiency.

Urban projects must be financially viable, with a commercial element to ensure profitability and generate a financial surplus to repay the loan, or they must rely on other sources of income. The project must also have social elements that are important to the local community, such as improving the attractiveness of the area and thus raising the quality of life for local residents.

The UDF offered a low-interest rate long-term loan, with terms depending on the type of project and investor. As a general rule, the interest rate is the National Bank of Poland's reference rate, which can be reduced by up to 80% based on the so-called social indicator. Projects with the highest contribution on then indicator are offered more favourable interest rates.

The loan's final interest rate must not be lower than 0.25% p.a., and loan repayment can be up to 20 years with a the grace period of up to 12 months after project completion.

The UDF does not finance any kind of 'soft' support with the financial instrument. There is, nonetheless, very close cooperation between the final recipient and the fund manager in the preliminary implementation stage.

Achievements

As of October 2014, the UDF had signed 19 investment agreements for loans of EUR 41.7 million, which is about 105% of the ROP allocation for the UDF. Committed allocations can exceed the contributed capital thanks to interest earned on this capital. Loans paid to final beneficiaries are EUR 25.6 million, about 61% of the allocation, to supported total investments total of approximately EUR 91 million.

Lessons learnt (for Slovenia)

The MA in Poland decided to incorporate FIs in support of urban development only in 2009, during ROP implementation, requiring an amendment to the programme. The amendment took place in 2010, within the framework of the mid-term review of Poland's National Strategic Reference Framework 2007—2013 and its OPs. The amending procedure was relatively short and successfully managed due to the high commitment of the Managing Authority, the European Commission, Poland's Ministry of Regional Development and EIB personnel.

The introduction of a repayable financial instrument increased the financial and socio-economic efficiency of investments for final beneficiaries, especially in the public sector, including a change in attitudes and gain in expertise in the key stakeholders.

London

The London Green Fund (LGF) is an example of ERDF supporting the development of green infrastructure to contribute to London's ambitious carbon reduction targets.

The LGF supports three UDFs targeting investment in, respectively, energy efficiency in public buildings, waste disposal and greener social housing. The contribution of EUR 60 million ERDF combined with public and private funds brings loan and equity funding for projects ranging from the city's first plastics recycling plant to the energy efficiency upgrading of one of the main London museums.

The LGF is a holding fund targeting those projects that are not 'commercial' through the provision of the equity or loan capital needed to attract other investors.

The LGF was designed to address market imperfections that make certain projects too risky for the private sector, e.g. uncertain market demand, new or emerging technologies, or an unusually long lead time until returns are generated.

Achievements

To date, the LGF has invested GBP 99.4 million (EUR 117 million) in 15 projects with a combined project value of GBP 678 million (EUR 800 million). Expected impacts include over 2,000 jobs including construction, 215,000 tonnes per annum CO2 saving, and 330,000 tonnes per annum avoided landfill waste. The EU leverage effect is 6.77x the ERDF input.

Lessons learnt (for Slovenia)

A number of factors have contributed to the success of the LGF, not least a robust process for project steering and implementing the necessary investments strategy adjustments; the expertise of the Holding Fund manager; the long-term vision, commitment and close cooperation between stakeholders.

Sardinia

The JESSICA experience in Sardinia started with the finalisation of the agreement between EIB and Sardinia Region in July 2011.

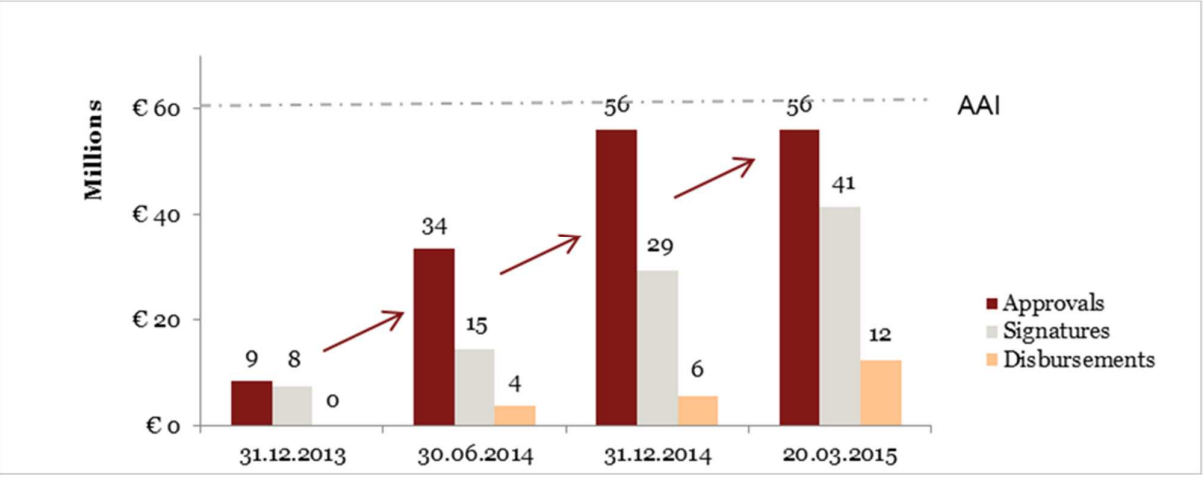
The holding fund, created with a contribution of EUR 70 million from ERDF Sardinia OP 2007-2013 resources and still in place, encompasses two Urban Development Funds (UDFs), one targeting specifically urban development with a total budget of EUR 30.5 million;

The financial products offered by the selected financial intermediary include lending (senior, junior and mezzanine) and equity.

Achievements

To date, the UDF has approved ca. EUR 26.1 million (97% of the resources for investment) for 4 projects for a total cost of EUR 91.6 million, creating a leverage effect of ca. 2.51x . The trends for approvals (i.e. decisions taken by internal credit committees of the 2 funds), signatures (i.e. binding lending agreements) and disbursements (i.e. financial resources transferred to final beneficiaries) are shown in the graph below.

Figure 61: Trend of approval, signatures and disbursements of the JESSICA initiative in Sardinia



Projects supported are include trolleybus acquisition, construction of a cruise terminal, etc.

Both financial intermediaries selected for the implementation of the JESSICA initiative are on track to achieve a satisfying performance (as from data below, as of March 2015).

	CAPEX	UDF contribution	Signature	Disbursement
Project 1	7.2	6.8	√	0.3
Project 2	45.1	7.0	√	4.4
Project 3	0.4	0.3	√	0.1
Project 4	38.9	12.0	√	4.0
Total	91.6	26.1	26.1	8.8

Lessons learnt (for Slovenia)

The MA decided to be assisted by an **experienced fund manager** (the EIB) and to use the process to select the financial intermediaries to build a concrete project (specifically, the call for EoI launched for the selection of the financial intermediaries required each candidate to develop a detailed business plan including the identification of a concrete project pipeline).

7.5. SWOT analysis of the investment areas

The comparison review of different elements that relate to the investment areas is presented in a form of a SWOT analysis in the table below.

Table 55: SWOT analysis covering key elements of the investment areas

	Strengths	Weaknesses	Opportunities	Threats
Banking sector	• Strong presence of commercial banks in the country • Sufficient liquidity – banks are looking for bankable projects • Strategies on majority of commercial banks are focused on SMEs	• Limitations by Basel III regulations to support SMEs • Very conservative approach toward SMEs – very tight loan risk management policies • Very little experience in energy efficiency funding	• Recovering economy • Willingness of SMEs to invest in investments • New programming period providing new opportunities for the use of FIs through bans •	• Increasing number of micro-enterprises • Poor credit history among SMEs • Lack of technical skills of business owners to apply for banking products and present feasible business plans • High indebtness of SMEs
Financial Instruments	• Experience in the design and implementation of FIs for the areas of SMEs and RDI by national institutions • Diversity of FIs available for the areas of SMEs and RDI • Willingness of the Country to promote the use of FIs for 2014-2020, also in the other investment area, where there is lack of experience	• Very little experience in the design and implementation of FIs for the EE and UTD areas • No experience in the design and implementation of FIs for agriculture, agri-business companies (funds from EAFRD for FI)	• New regulation promoting the use of FIs • New programming period providing new opportunities for the use of FIs	• Scarcity of viable business plans among SMEs • Limited technical skills

SMEs	• Willingness of SMEs to invest in investments in the coming years	• Negative impact of the crisis on SMEs and the unwillingness to finance new investments • Scarcity of business plans that would reflect the strategy of the company as they were adopting it to get the funding • High indebtness of SMEs • Limited technical and managerial skills of micro enterprise	• Existing strong implementation of FIs for support of SMEs • EU regulation promoting the use of FIs • Willingness of the country to further promote the use of FIs for 2014-2020 • Set an example of providing financing to SMEs from EARDF via financial instruments	• Limitations by Basel II and III regulations for commercial banks to support SMEs
RDI ecosystem	• High levels of RDI intensity in the business sector • Stimulative tax policy (for companies with high profits) • Awareness of importance of supportive ecosystem, especially with innovative SMEs and start-ups	• Over-indebted companies, absence of strategic owners • Innovation activity (innovation followers) • Diversified structure of the economy – too high fragmentation • Too-weak cooperation between public and private sector • Low internationalization of SMEs	• More efficient use of existing research infrastructure and knowledge with a view to increasing its support for innovation development process • Improving knowledge transfer between public research organizations and enterprises • Exploitation of possible synergies between different stakeholders	• Not enough emphasis on rationale and effective use of synergies of all higher education, research and innovation infrastructure
Development of energy efficiency projects and use of renewable energies	**PRIVATE** • Increased awareness of the benefits of increased energy efficiency of residential buildings • Experiences with FI for EE renovation with Eco Fund as well as possibility of obtaining grants	**PRIVATE** • Distrust in the companies that provide renovation • Too many partial renovations • Difficult in acquiring funds for multi-apartment buildings • Energy poverty	**PRIVATE** • Greater emphasis on energy efficiency at European level • Increased emphasis in energy contracting	**PRIVATE** • Unfamiliarity and distrust of energy contracting • Small number of providers of energy contracting

	PUBLIC • Country as a reliable payer is a relatively risk-free client • Increasing number of information oncost-effective potential for energy savings in buildings	**PUBLIC** • Lack of competence, information and reliable data sources for the implementation of building renovation • Lack of financial sources • Partial, not complete building renovation • Limited possibility of borrowing • High share of buildings under cultural heritage	**PUBLIC** • EU mandatory requirement to renovate 3% of the total floor area of public buildings owned and used by public sector annually • Greater emphasis on energy efficiency at European level • Possibility of energy contracting	**PUBLIC** • Greater emphasis on energy efficiency at European level • Lack of FI for financing energy renovation of public buildings • Small number of providers of energy contracting • Longer periods of relatively low prices of energy sources
Urban and territorial projects	• Slovenia uses the Integrated Territorial Investment mechanism	• Long and bureaucratic procedures for public procurement • Plans of municipalities are in some cases "wish-lists" and not the most feasible projects	• New mechanisms to promote Integrated Territorial Investments • Having the potential to implement eleven integrated territorial investments	• Asymmetric impact of the market due to the different competitive capacities and economic structures in the regions

Source: PwC analysis, 2015

8. Building block 2: Delivery and management of Financial Instruments under the four investment areas

The analysis carried out in Building Block 1 identified the potentiality for an FI to be set up in order to fill (at least part of) the identified gap and address the related market failures in each of the selected investment areas. This section presents the investment strategy for the four investment areas, namely: SMEs, RDI, EE/RE and UTD.

In particular, the Overall objectives of the MAs to implement FI in these four investment areas are:

- To take advantage of the revolving nature of FIs. The use of FIs enables the MAs to create a tool that will "re-cycle" the financial resources dedicated to supported projects. Once returned, these resources will represent an independent source of funding, additional to other potential resources made available in future programming periods;
- To achieve leverage from ERDF and EAFRD funds, which will be mobilised through the use of innovative FIs. By creating an FI facilitating access to credit at competitive terms, the MA could attract private capital into the supported projects. In addition, selected initiatives could be supported jointly by funds' resources and public subsidies from other regional and national sources;
- To promote the long-term development and implementation of supported projects. The MA seeks to encourage local and regional administrations and private companies to plan investments, which are capable of being financially self-sustainable whilst ensuring long-term economic, social and environmental benefits.

8.1. General considerations on the combination of Financial Instruments and grants

EU legislation that is defining the implementation of Financial Instruments for the 2014—2020 programming period allows a single body to grant both a financial product (such as a loan or an equity product) and a grant. Figure 62 is presenting the requirements that need to be fulfilled to meet all the criteria.

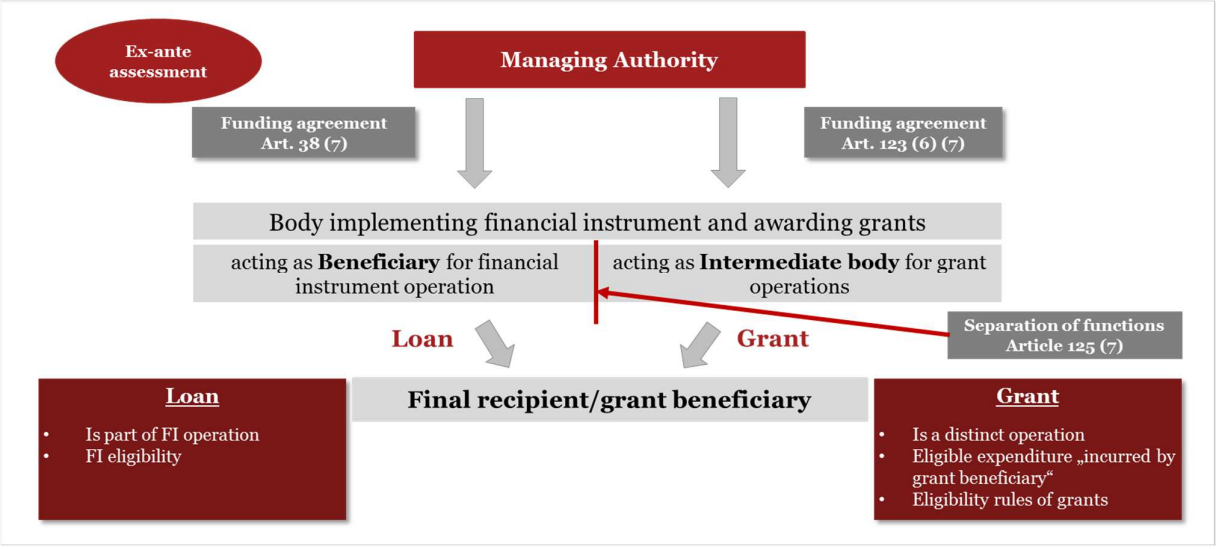
Furthermore, Investment Strategy for 2014—2020 needs to consider Financial Instruments and grants in a comprehensive manner.

In that perspective, grants may be used for:

- Technical Assistance for SMEs in view of:
  1. Improving their knowledge and management skills;
  2. Helping them for their application for financing, either "usual" financing or Financial Instruments;
  3. Provide networking.
- Financing feasibility studies for:
  1. Energy efficiency projects; and
  2. Urban and territorial development projects.
- Awareness-raising materials for Financial Instruments, such as:

1. Awareness-raising events for the tendering process and launch of the Financial Instruments;
2. A quick manual presenting the Financial Instruments available for the different target groups in all the areas; and
3. A physical one-stop-shop informing the SMEs on their financing options according to their needs, their phase in the lifecycle and their perspectives (e.g. equity financing for innovative start-ups).

Figure 62: Combination of support of Financial Instruments and Grants



8.2. Proposed Financial Instruments for the four investment areas

The proposed Investment Strategy consists in seven Financial Instruments and a Technical Assistance facility, which provides grants to financial intermediaries and final beneficiaries. These seven Financial Instruments are detailed in the following paragraphs. They are presented according to five Funds:

- Financing Fund for SMEs and large companies;
- A Fund financing agriculture companies and rural-area companies;
- An RDI Fund;
- An Energy Efficiency Fund; and
- An Urban and Territorial Development Fund.

These Funds are detailed individually, along with the Financial Instruments and the financial products provided. Not least, we present the Technical Assistance facility.

The funds available for each Financial Instrument are determined based on the amounts proposed in the OP-ECP and RDP for the programming period 2014—2020. According to the available information, EUR 128 mil is intended for FIs below TO1, EUR 255 mil for FIs under TO3 and EUR 56 mil for FI under TC4. Funds under TO1 and TO3 are divided into two cohesion regions, Eastern and Western Slovenia.

RDP 2014—2020 dedicated EUR 88 million for Financial Instruments in sub-measures 4.2, 6.4 and 8.6.

Table 56: Allocation of funds for financial instruments in the EKP-OP 2014-2020 (EUR mil)

TO1	Total Amount	East	West
RRI large companies	**50**	29	21
RRI SMEs	**50**	29	21

RRI Low Carbon Society	**28**	16	12
Total	**128**	**74**	**54**
TO3	**Total Amount**	**East**	**West**
Generic investment	**62**	43	19
SME development, incubators and business support (including support for "spin off" and "spin out" businesses)	**127**	87	40
Energy efficiency and demonstration projects of SMEs and support measures	**60**	41	19
Support for social enterprises (SMEs)	**6**	4	2
Total	**255**	**176**	**80**
TO4	**Total Amount**		
The renovation of public infrastructure for greater energy efficiency demonstration projects and support measures	**50**		
Intelligent systems for power distribution for medium and high voltage (including intelligent energy networks and ICT systems)	**6**		
Total	**56**		

Source: OP-ECP 2014—2020

Table 57: Allocation of funds for financial instruments in the RDP 2014-2020 (EUR mil)

Sub-measure	Code	**FI** (EAFRD + SLO participation)
Support for investments in processing/marketing and/or development of agricultural products	4.2	**17**
Support for investments in establishing and developing non-agricultural activities	6.4	**57.36**
Support for investments in forestry technology and processing, mobilisation and marketing of forest products	8.6	**13.7**

Source: RDP 2014—2020

Along with the amounts provided in the OP-ECP and RDP, we took into consideration also the identified gaps and market failures as well as characteristics of individual FIs, i.e. their leverage.

- Based on our analysis, commercial banks do not face liquidity problems, consequently, the amount for portfolio guarantees is the highest;
- Proposition of transfer of funds for FI under TO4, which are intended for the implementation of smart grids (6 mil EUR), for financing private enterprises.

In the table below we propose the indicative amounts for individual Financial Instruments. These proposed amounts represent a "maximum" (meaning that they are used all the resources that are planned in the OP-ECP and RDP). However, some of the FI can be considered as a pilot and the proposed amount could be lower. Starting with a lower amount will also allow greater flexibility in the use and transfer of funds.

Table 58: Proposal for allocation of funds between each of the proposed FI

Amount	Source of funds	East	West
F1: 244 EUR mil	• 88 EUR mil from TO1 for SMEs and large companies	51.0	37.0
	• 96 EUR mil from TO3	66.4	29.6
	• 60 EUR mil from TO3 for promoting material and energy efficiency, and strengthening the systems integration and optimization of technologies and processes	41.5	18.5
F2: 79 EUR mil	• 79 EUR mil from TO3	54.6	24.4
F3: 30 EUR mil	• 20 EUR mil from TO3	13.8	6.2
	• 10 EUR mil from TO1 (large companies)	5.8	4.2

F4: 88 EUR mil	• 88 EUR mil from RDP	/	/
F5: 30 EUR mil	• 20 EUR mil from TO1 (start-ups, SMEs)	11.6	8.4
	• 10 EUR mil from TO1 (large companies)	5.8	4.2
F6: 56 EUR mil	• 56 EUR mil from TO4	/	/
F7: 16.7 EUR mil	• 16.7 EUR mil from TO6 and TO4	/	/

Based on this division of funds in the OP-ECP on two Cohesion regions, monitoring and planning processes should follow the territorial division. This would be further aligned with the Fund-of-Funds and financial intermediary.

Combination of support from a financial instrument with other forms of support

Two types of combination approaches are available for the use of Financial Instruments together with grants or other forms of support[109]:

a. The financial products proposed below for Slovenia can be combined with grants in the form of one operation (i.e. they can be combined with interest rate subsidies, guarantee fee subsidies or technical assistance). In the case of this support under one single operation, the provisions applicable to financial products provided via financial instruments shall apply (CPR, Article 37(7)).

Interest rate subsidies and/or the guarantee fee subsidies should only be used to improve the conditions of access of the final beneficiary to the private capital co-invested at the level of the relevant financial product, in order to make the best use of the Programmes' contribution transferred to the financial instrument[110].

Furthermore, grants for technical support may be combined with financial products in a single operation only for the purpose of technical preparation of the prospective investment for the benefit of the final beneficiary to be supported[111].

b. The financial products proposed below for Slovenia can be combined with grants also in the form of two separate operations. When grants are used to complement the investment of the FI, the grant component of the investment financing has to be considered as a different operation, even if it can be managed by the same body.

8.2.1. Financial Instruments for SMEs and large companies

The SME financing Fund will provide three types of products to financial intermediaries:

- A portfolio guarantee, including micro-guarantee for SMEs and large companies (FI 1);
- A senior loan to provide micro-loans to micro-enterprises and entrepreneurs (FI 2);
- Equity financing to provide equity and quasi-equity financing to SMEs, including innovative SMEs and large companies (FI 3).

Table 59: Characteristics of financial product 1 – Portfolio guarantee for SMEs

***Financial product 1* – PORTFOLIO GUARANTEE**	
Type de product	Portfolio guarantee to support SMEs and large companies, including micro-

[109] European Structural and Investment Funds Guidance for Member States and Programme Authorities: CPR_37_7_8_9 Combination of support from a financial instrument with other support, 2015

[110] European Structural and Investment Funds Guidance for Member States and Programme Authorities: CPR_37_7_8_9 Combination of support from a financial instrument with other support, 2015

[111] Official Journal of the European Union: COMMISSION DELEGATED REGULATION (EU) No 480/2014 f 3 March 2014

Financial product 1 – PORTFOLIO GUARANTEE	
	guarantee for loans below EUR 25,000.
Proposed amount using ESI Funds	This proposed amount aims to address a large financing gap in loan financing and decrease the risk aversion of commercial banks when providing loan finance. The amount is combined from the following amounts: • EUR 88 mil from TO1 for SMEs and large companies • EUR 96 mil from TO3 • EUR 60 mil from TO3 for promoting material and energy efficiency, and strengthening the systems integration and optimization of technologies and processes **Value proposition: EUR 244 million, originated from TO 1 and TO 3.**
Expected leverage effect	From 1.5 to 5.
Expected amount available to the target groups	From EUR 366m to EUR 1.2.
Possibility of combination with grants or subsidies	Yes, but provision of grants or subsidies raises state aid issues that will have to be managed by the entity that will provide it to the final beneficiaries.
Target groups	All SMEs in all sectors and in all development stages (seed, creation, development and turnaround), with EU exceptions and large companies. Including for instance: • Micro-enterprises in the social economy sector; • Entrepreneurs; • SMEs needing financing to export; and • Innovative SMEs (also start-ups); • SMEs for project to promote material and energy efficiency, and strengthening the systems integration and optimization of technologies and processes; • Large companies. The portfolio guarantee could guarantee loans starting at EUR 0 (upper amount to be defined).
Geographical scope	Slovenia
Objectives	• Reduce the difficulties to access loan financing experienced by SMEs and entrepreneurs (for instance, with a micro-guarantee which would guarantee a loan below EUR 25,000) because SMEs/entrepreneurs do not have the necessary collateral or because the commercial banks consider their projects as too risky; • Support the provision of micro-loans and loans to SMEs and entrepreneurs; • Support the provision of loans to large companies; • Complete the existing guarantee instruments (which are project-by-project guarantees and not portfolio guarantees); • Support working capital financing and investment. When using the funds from TO1, the only support to the working capital is possible if it is related to investments.
Advantages expected by the SME/entrepreneur	• Reduction in the maximum level of collateral required by the commercial bank to the company; • Reduction in the interest rate required for the loan (as compared to a loan, which does not benefit from the guarantee); • Guarantee costs potentially below the market cost (depending on the discussion between the Fund-of-Funds and the financial intermediary prior to launch the instrument); • Possibility for a grace period longer than the one usually applied by the financial intermediary market (depending on the discussion between the Fund-

Financial product 1 – PORTFOLIO GUARANTEE	
	of-Funds and the financial intermediary prior to launch the instrument); • Access to Technical Assistance provided by the TA facility.
Details	• The First-Loss Portfolio Guarantee (FLPG) will cover the first losses of the portfolio of companies created by the selected financial intermediary. These benefits provided to the financial intermediary (i.e. the commercial bank) will be transferred to the target groups (i.e. SMEs, start-ups, social enterprises, also large companies) as lower collateral requirements, lower interest rates, longer maturity and longer grace period. It will be discussed during the negotiations with the financial intermediary; • This product is a portfolio guarantee provided to a financial intermediary that will be selected via public procurement procedure. This product is to be provided under a risk-sharing instrument where the financial intermediary also bear a part of the risk; • This guarantee may cover the losses (losses related to the non-payment of the capital and the interests of the loan) that the financial intermediary may have; • In line with the EU regulation, the types of financing that could be covered by the guarantee are investment financing (fixed assets) and working capital financing (if financed from TO1, the only support for the working capital is possible if related to investments); • If funding from TO1 and TO3 are used to constitute the guarantee fund, the monitoring and reporting processes set up by the financial intermediary need to make sure that the follow-up and tracking of funding from each TO is ensured; • Steps relative to the reception, analysis, documentation and provision of loans to the final beneficiaries will have to be handled by the financial intermediary, according to the existing and required market procedures. The financial intermediary will therefore have a direct credit relation with the final beneficiary.
Expected socio-economic benefits / Value Added of the product	• Promotion of entrepreneurship; • Job creation; • Creation of new enterprises; • Reduction of unemployment; • Reduction of poverty; • Revolving use of ESI Funds; • Risk sharing with the private sector; • Use of knowledge and competences within the financial intermediary to select and finance the projects/companies/entrepreneurs.
Coherence with other forms of intervention in Slovenia	This product would be provided to a limited number of financial intermediaries, which would be selected *via* public procurement procedure. It would enable coexistence with existing guarantee instruments, which are not portfolio guarantees.
Consistency with the Common Strategic Framework	This product would be consistent with the following Thematic Objectives (non-exhaustive list of Thematic Objectives): • TO1 - Strengthening research, technological development and innovation; • TO3 - Enhancing the competitiveness of small and medium-sized enterprises, the agricultural sector (for the EAFRD) and the fisheries and aquaculture sector (for the EMFF).
State Aid	This product would be set up and implemented under the *de minimis* rule.
Evaluation of the value and the level of preferential remuneration required to attract counterpart resources from private	The element is not applicable for an instrument of this type.

Financial product 1 – PORTFOLIO GUARANTEE	
investors	
Potential monitoring indicators	• Number of SMEs (with a split between micro-enterprises, small enterprises, medium-sized enterprises) and large companies; • Number of entrepreneurs supported; • Number of employees employed in the SME at the inclusion of the SME in the portfolio; • Total amount provided to SMEs; • Leverage effect.

Table 60: Characteristics of financial product 2 - Senior loan to provide micro-loans to micro-enterprises and entrepreneurs

Financial product 2 – A SENIOR LOAN TO PROVIDE MICRO LOANS TO MICRO-ENTERPRISES AND ENTREPRENEURS	
Type de product	Micro-loans to support micro companies for personal and business purposes, below EUR 25,000.
Proposed amount using ESI Funds	This proposed amount aims to address a huge financing gap in microfinance and to provide financing to individuals and micro companies that have difficulties to obtain financing. The amount is combined from the following amounts: • EUR 79 mil from TO3 **Value proposition: EUR 79m, originated from TO 3.**
Expected leverage effect	From 1.5 to 2.5.
Expected amount available to the target groups	From EUR 119 mil to EUR 198 mil.
Possibility of combination with grants or subsidies	Yes, but provision of grants or subsidies raises state aid issues that will have to be managed by the entity that will provide it to the final beneficiaries.

Target groups	Individuals and micro enterprises, including for instance:
	• Individuals (self-employed and individuals for personal purposes);
	• Would-be entrepreneurs;
	• Micro enterprises (including innovative micro companies and start-ups):
	  o That need financing to keep their business alive;
	  o That want to expand their business activities.
	• Social enterprises.

Geographical scope	Slovenia
Objectives	• Reduce the specific difficulties of the target groups and final beneficiaries when accessing finance because financial institutions consider their project as too risky and/or not bankable. • Establish a risk-sharing financing scheme with financial intermediaries in view of providing loans of very small amounts to non-bankable individuals, needing financing to have an improved access to the market labour.
Advantages expected by the SME/entrepreneur	• Provision of micro-loans, potentially with no or small collateral requirement; • Easier way to get financing;
Details	• Once selected, the financial intermediary will define a portfolio of predetermined micro-loans (this definition will be made with a predetermined volume and amount); • Each micro-loan provided via the financial intermediary will have an interest

Financial product 2 – A SENIOR LOAN TO PROVIDE MICRO LOANS TO MICRO-ENTERPRISES AND ENTREPRENEURS	
	rate that follows the market conditions (basic rate plus margin related to the risk taken); • In line with the EU regulation, the types of financing that could be covered by the personal micro-loan are the small investments needed by the final beneficiaries; • Steps relative to the reception, analysis, and provision of the micro-loan to the final recipient will have to be handled by the financial intermediary, according to the existing and required market procedures. The financial intermediary will also follow its own standards and procedures. Following this, the financial intermediary will have a direct credit relation with the final recipient.
Expected socio-economic benefits / Value Added of the product	• Promotion of entrepreneurship; • Job creation; • Employability of employees and job flexibility; • Reduction of poverty; • Support and structuring of the social economy sector; • Improved quality of life.
Coherence with other forms of intervention in Slovenia	This product would be provided to a limited number of financial intermediaries, which would be selected *via* public procurement procedure. It would enable coexistence with existing microfinance instruments.
Consistency with the Common Strategic Framework	This product would be consistent with the following Thematic Objectives (non-exhaustive list of Thematic Objectives): • TO3 - Enhancing the competitiveness of small and medium-sized enterprises, the agricultural sector (for the EAFRD) and the fisheries and aquaculture sector (for the EMFF).
State Aid	This product would be set up and implemented under the *de minimis* rule.
Evaluation of the value and the level of preferential remuneration required to attract counterpart resources from private investors	The element is not applicable for an instrument of this type.
Potential monitoring indicators	• Number of micro companies supported; • Number of entrepreneurs supported; • Number of employees employed; • Leverage effect.

Table 61: Characteristics of financial product 3 – Equity financing

Financial product 3 – EQUITY FINANCING	
Type of product	Co-investment product providing equity financing to SMEs financing (equity and quasi-equity) and to large companies financing.
Proposed amount using ESI Funds	This amount has been defined under: • Total amount dedicated to Financial Instruments for equity financing in TO3 for 2014-2020, namely EUR 40 million; • Market failures related to access to finance equity and quasi-equity. The amount is combined from the following amounts: • EUR 10 million from TO1 for large companies;

Financial product 3 – EQUITY FINANCING	
	• EUR 20 million from TO3 for SMEs. **Value proposition: EUR 30 million, originated from TO1 and TO3.**
Expected leverage effect	The degree of intervention of the instrument depends on the company's development phase (see Article 21 of the General Block Exemption Regulation, No 651/2014 of 17 June 2014).
Expected amount available to the target groups	To be defined under: • Amount provided from the ESIF; • Development phase of the company.
Possibility of combination with grants or subsidies	Yes, but provision of grants or subsidies raises state aid issues that will have to be managed by the entity that will provide it to the final beneficiaries.
Target groups	• Enterprises (including start-ups, innovative SME and large companies in all phases); • All sectors (with EU exceptions).
Geographical scope	Slovenia
Objectives	• Strengthen equity financing and quasi-equity financing for companies in seed, creation, development and turnaround stages; • Support the companies in any stage, based on a good business plan; • Strengthen the capitalization of SMEs with high growth potential in Slovenia (innovative or not innovative projects); • Encourage the structuring of capital market in Slovenia, including Business Angels; • Supplement the existing equity financing supply, co-investing with market operators (business angels, investment funds, etc.) presented in the country and attract, among others, outside investors who generally do not operate in the country.
Advantages expected by the SME/entrepreneur	• Part of the investment will come from the financial intermediary (co-investment funds) in the SMEs and large companies capital using ESI Fund resources, its own resources and attracting other investors to mobilize its own resources; • Access to support provided by the Technical Assistance facility, for example: access to an incubator facilities and coaching by an experienced entrepreneur, support in conducting market research, feasibility studies and "market testing" as well as information on other existing mechanisms for the development of innovation and/or entrepreneurship in general; • Its purpose is to create synergies with other venture capital and investment funds as well as attract investors from Slovenia and abroad.
Details	• The percentage of the public contribution in the financing of each operation will vary depending on the phase of the companies in its life cycle. Thus, the public contribution level must be consistent with Article 21 of Regulation (EU) No 651/2014 of 17 June 2014; • The manager of the co-investment fund will be an independent entity that makes all investment decisions/divestment as a professional manager, economically and legally independent from the Managing Authority; • The governance of the co-investment funds should include mechanisms to avoid potential conflicts of interests within the manager co-investment funds. • The details of the public procurement procedure shall ensure that the financial intermediaries have the necessary permissions and approvals in Slovenia and/or on European level to exercise the activities as a fund manager such as the approval that the company is in line with AIFM directive; • The groups targeted include SMEs of all development stages (seed, creation, development and turnaround stages) as well as large companies at all

Financial product 3 – EQUITY FINANCING	
	development stages (using funding from TO1); • Financial intermediary needs to make sure that the follow-up and tracking of funding from each TO is ensured.
Expected socio-economic benefits / Value Added of the product	• Promoting entrepreneurship; • Improvement of companies' projects; • Creation of new enterprises; • Revolving use of ESI Funds; • Possibility to focus on special categories of final beneficiaries (in terms of investment amounts and SME development phases); • Risk sharing with the private sector (through the financial intermediary); • Use the skills of the financial intermediary for the selection of projects.
Coherence with other forms of intervention in Slovenia	• This instrument would complement the current trend of equity financing in the country, by attracting and structuring an increasing equity financing market that is currently insufficient; • In addition, equity financing (in particular Venture Capital) is favoured by a large number of instruments, managed by different operators. Furthermore, an increase in the use of the instrument and number of operators would allow greater diversification of risk-taking for each individual operation; • It can be coupled with loans for innovative enterprises (FI 5) and Technical Assistance facility.
Consistency with the Common Strategic Framework	This co-investment instrument would be consistent with the objectives following themes (non-exhaustive list of Thematic Objectives): • TO1 - Strengthening research, technological development and innovation; • TO3- Enhance SME competitiveness, the agricultural sector (for the EAFRD) and the fisheries and aquaculture sector (for the EMFF).
State Aid	In line with Article 21 of Regulation (EU) No 651/2014 of 17 June 2014.
Evaluation of the value and the level of preferential remuneration required to attract counterpart resources from private investors	This element is at the discretion of the Managing Authority. It can be decided by them not to consider this possibility. It must be discussed internally between the Managing Authority and the financial intermediary or between the Fund-of-Funds and the financial intermediary. In the second case, this element must be agreed and determined in the specifications for the selection of the financial intermediary.
Potential monitoring indicators	• Number of SMEs supported (micro, small, medium and large enterprises); • Number of supported entrepreneurs; • Number of large companies supported; • Number of employees in SMEs at the time of inclusion in the portfolio; • Average amount provided; • Total amount provided; • Leverage.

8.2.2. Financial Instrument for agriculture companies and companies from rural development areas

The Fund for financing rural companies will provide a **guarantee instrument** for companies working in the **agriculture** and **companies from rural development areas** (using EARDF funds), which would constitutes a pilot instrument in the EU (FI 4).

Table 62: Characteristics of financial product 4 - Guarantee for companies in agriculture

GUARANTEE FOR COMPANIES IN AGRICULTURE and AGRI-BUSINESS (portfolio or individual)	
Type of product	A pilot Financial Instrument providing guarantees for companies working in the agriculture and companies from rural development areas, using EARDF funding, is feasible[112].
Proposed amount using ESI Funds	**EUR 88m,** originated from measures 4.2, 6.4 and 8.6 under Rural development programme 2014—2020 for Slovenia.
Expected leverage effect	From 1.5 to 4.
Expected amount available to the target groups	From EUR 130m to EUR 350m
Possibility of combination with grants or subsidies	Yes, but provision of grants or subsidies raises state aid issues that will have to be managed by the entity that will provide it to the final beneficiaries.
Target groups	SMEs and large companies[113] in the agriculture and from rural development areas and natural persons who have registered a supplementary activity on the farm - all types of eligible companies would be addressed by this Financial Instrument (in terms of sub-sector, size, age).
Geographical scope	Slovenia
Objectives	• This pilot FI would consist of a **guarantee** instrument, aiming at reducing the risk taken by a financial institution (commercial bank) when lending to a company (SME or large company) working in the agriculture or in rural development areas and natural persons who have registered a supplementary activity on the farm; • Encourage SMEs and large companies in the agriculture and agri-business sector to use financial instruments instead/along with grants; • Covers credit risk of the financial intermediary (banks requiring guarantee/collateral); • Reduce the difficulties to access loan financing experienced by SMEs; • Support working capital financing and investment.
Advantages expected by the SME/entrepreneur	• Reduction in the maximum level of collateral required by the commercial bank to the SME/entrepreneur; • Reduction in the interest rate required for the loan (as compared to a loan, which does not benefit from the guarantee) - depending on the discussions between the Fund funds and financial intermediaries prior to the implementation of the instrument; • Guarantee costs potentially below the market (depending on the negotiation discussions between the Fund-of-Funds and the financial intermediary prior to launch the instrument); • Possibility for a grace period longer than the one usually applied by the financial intermediary market (depending on the negotiation discussions between the Fund-of-Funds and the financial intermediary prior to launch the instrument).
Details	• This product is a guarantee provided to a financial intermediary that will be selected *via* public procurement procedure. This product is to be provided under a risk-sharing instrument where the financial intermediary also bears a part of the risk; • This guarantee may cover a significant part of the risk (elements to be defined

[112] Combination with interest rate subsidy in possible.
[113] Up to 750 employees and 200 million of turnover.

GUARANTEE FOR COMPANIES IN AGRICULTURE and AGRI-BUSINESS (portfolio or individual)	
	during the due diligence with the financial intermediary); • This guarantee may cover the losses (losses related to the non-payment of the capital and the interests of the loan) that the financial intermediary may have; • In line with the EU regulation, the types of financing that could be covered by the guarantee are investment financing (fixed assets) and working capital financing; • Steps relative to the reception, analysis, documentation and provision of loans to the final beneficiaries will have to be handled by the financial intermediary, according to the existing and required market procedures. The financial intermediary will therefore have a direct credit relation with the final beneficiary.
Expected socio-economic benefits / Value Added of the product	• Promotion of entrepreneurship; • Revolving use of ESI Funds; • Risk sharing with the private sector; • Use of knowledge and competences within the financial intermediary to select and finance the projects/SMEs/large companies.
Coherence with other forms of intervention in Slovenia	This product would be provided to a limited number of financial intermediaries, which would be selected *via* public procurement procedure. This product could potentially be combined with funds for Technical Assistance facility to assist in the preparation of projects and business plans.
Consistency with the Common Strategic Framework	This product would be consistent with the following submeasures from the RDP 2014—2020: • 4.2. Support for investments in processing/marketing and/or development of agricultural products; • 6.4. Support for investments in establishing and developing non-agricultural activities; • 8.6. Support for investments in forestry technology and processing, mobilisation and marketing of forest products; This product is also aligned with the OP-ECP, especially with the TO3 - Enhance SME competitiveness, the agricultural sector (for the EAFRD) and the fisheries and aquaculture sector (for the EMFF).
State Aid	This product would be set up and implemented under the *de minimis* rule.
Evaluation of the value and the level of preferential remuneration required to attract counterpart resources from private investors	The element is not applicable for an instrument of this type.
Potential monitoring indicators	• Number of companies supported (with a split between SMEs and large companies and natural persons who have registered a supplementary activity on the farm); • Number of entrepreneurs supported; • Total amount provided to SMEs and large companies and natural persons who have registered a supplementary activity on the farm; • Amount of encouraged investments; • Leverage effect.

8.2.3. Financial Instrument for RDI

The FI proposed in details below is focusing on providing loans for RDI projects for start-ups, SMEs as well as for large companies. Best practices in other member states have emphasized the fact that in order to have positive results with such FI, a well-developed innovation system is required as well as a clear project pipeline. That is why the MA may consider this FI as a pilot, which would consequently require lower amounts. This would increase the flexibility in the implementation in the FI.

Table 63: Characteristics of financial product 5 - Loans to innovative start-ups, SMEs and large companies

LOANS TO INNOVATIVE START-UPS, SMEs AND LARGE COMPANIES	
Type of product	Senior loans below EUR 100,000 for innovative start-ups and SMEs and below 500,000 for large companies.
Proposed amount using ESI Funds	This proposed amount aims to address the gap in RDI financing in the area of start-ups, SMEs as well as large companies. The amount is combined from the following amounts: • EUR 10 million from TO1 for large companies; • EUR 20 million from TO1 for SMEs. **Value proposition is EUR 30 million, originated from TO1.**
Expected leverage effect	From 1.5 to 2.5
Expected amount available to the target groups	To be defined with regards to: • The amount from the ESI Funds; • From the expected leverage. In view of the proposed EUR 30 million, the amount of loans grated to innovative companies' falls between EUR 45 million to EUR 75 million.
Possibility of combination with grants or subsidies	Yes, but provision of grants or subsidies raises state aid issues that will have to be managed by the entity that will provide it to the final beneficiaries.
Target groups	• Individuals creating their companies (with the obligation to create the company within 6 months); • Innovative start-ups, SMEs and large companies.
Geographical scope	Slovenia
Objectives	• Support for start-ups, SMEs and large companies with an innovative project that they are in seed stage, creation and/or development stage (development finance is possible, although the focus is on seed and creation phases); • Financing risk-taking innovative start-ups, SMEs and large companies; • Financing tangible and intangible investments (given that the financing of intangible investments can be difficult for start-ups and SMEs); • Ensure sharing of risk with a financial intermediary (allowing leverage of approximately 2); • Complete the existing financing dedicated for innovation; • Reduce the specific difficulties of the target groups and final beneficiaries when accessing finance because the financial institution consider their project as too risky and /or not bankable; • Loans provided by better market conditions; • Potentially, no collateral (especially for start-ups and SMEs).
Advantages expected by the SME/entrepreneur	• Access to funding for the development projects of innovative start-ups, SMEs and large companies; • Possibility for a grace period longer than the one usually applied by the financial intermediary on the market (depending on the discussion between the Fund-of-Funds and the financial intermediary prior to launch the instrument);

LOANS TO INNOVATIVE START-UPS, SMEs AND LARGE COMPANIES	
	• Access to a support provided under the Technical Assistance facility, for example: access to an incubator and monitoring by an experienced entrepreneur, support in conducting market research, feasibility and "market testing" studies as well as information on other existing mechanisms for the development of innovation.
Details	• Prior to launch such Financial Instrument, two elements are needed: 1. A clear pipeline of "ready-to-start" projects among innovative companies; and 2. A well structured "innovation eco-system" able to source such projects. • This instrument grants a senior loan to a financial intermediary which subsequently provides loans to the beneficiaries; • Steps relative to the approval, analysis and provision of the loans to the final recipient will have to be handled by the financial intermediary, according to the existing and required market procedures. The financial intermediary will follow its own standards and procedures. Following this, the financial intermediary will have a direct credit relation with the final recipient. Depending on the discussions and negotiations made during the selection of the financial intermediary, the interests' rates and requirements to provide collateral will be determined. Loans should be provided at a better market conditions than currently available at the market. • The loans may cover investment needs (tangible assets and/or intangible); • All the necessary steps of the analysis, documentation, treatment records, lending and monitoring must be carried out by the financial intermediary, under the existing common procurement procedures. This financial intermediary will have a direct credit relationship with the beneficiary; the financial intermediary will also assume some of the risk associated with the granting of loans; • The financial intermediary will also aim to follow the evolution of innovative start-ups, SMEs and large companies, particularly in connection/coordination with innovation stakeholders in Slovenia; • Once selected, the financial intermediary will define a portfolio of predetermined loans (this definition will be made with a predetermined volume and amount); •
Expected socio-economic benefits / Value Added of the product	• Promoting entrepreneurship; • Improving technical quality and assembly projects of innovative companies (notably in relation to grant funding, and to ensure loan repayment); • Support risk taking; • Creation of new enterprises; • Revolving use of ESI Funds; • Risk sharing with the private sector; • Use of knowledge and competences within the financial intermediary to select and finance the projects/SMEs/large companies.
Coherence with other forms of intervention in Slovenia	This product would be provided to a limited number of financial intermediaries, which would be selected *via* public procurement procedure. It would enable coexistence with existing financial instruments dedicated for RDI. This product could be potentially coupled with a guarantee (FI 1), micro-loans (FI 2) and equity financing (FI 3), as well as with grants for Technical Assistance for project preparation (using the TA facility).
Consistency with the Common Strategic Framework	This product would be consistent with the following Thematic Objectives (non-exhaustive list of Thematic Objectives): • TO1 - Strengthening research, technological development and innovation.
State Aid	In order to minimize market distortions, this instrument would be set up under the

LOANS TO INNOVATIVE START-UPS, SMEs AND LARGE COMPANIES	
	de minimis rule and selected financial intermediary will ensure that financing transactions with innovative SMEs would take into account the rules on State aid. It will also ensure the conduct of appropriate control procedures.
Evaluation of the value and the level of preferential remuneration required to attract counterpart resources from private investors	The element is not applicable for an instrument of this type.

Potential monitoring indicators	• Number of companies supported (with a split between SMEs and large companies);
	• Number of new entrepreneurs supported;
	• Total amount provided to SMEs and large companies;
	• Leverage effect;
	• Number of innovative SMEs supported:
	  o Breakdown by company size;
	  o Development phase (seed, creation, development phase);
	  o Breakdown by sector.
	• Number of employees in innovative companies at the time of the loan;
	• Survival rates of innovative companies after 3 and 5 years;
	• Total amount granted;
	• Leverage.

8.2.4. Financial Instrument for Energy Efficiency

The EE/RE Financial Instrument would provide 3 products to 3 final beneficiaries:

- Loans to public and private asset owners;
- A risk-sharing instrument (a specific guarantee instrument) addressed to ESCOs to reduce their risk and incentivise to finance EE/RE projects (i.e. a credit line that ESCOs may draw upon if the revenues generated by a EE/RE project are not sufficient to ensure the repayment of the senior debt contracted with a bank, and are consequently below the forecasted level);
- Equity financing for ESCOs.

Furthermore, by providing grants to public/private asset owners for project preparation/design (TA facility), a One-stop-shop for EE/RE projects could be created: from project development support via grants (TA facility) to project financing per se via loans.

When considering the results of the analysed financing gap and market failures, it would be appropriate that the MA would consider providing higher amounts to the private sector. The funds could be transferred either from the funds dedicated for the public sector or for Smart Grid implementation. The amount of funds dedicated to FIs would remain the same, but would put more emphasis on the target group that currently presents important financing needs in Slovenia. Moreover, we have also included part of the funds dedicated for energy efficiency from TO3.

Table 64: Characteristics of financial products under the Energy Efficiency Fund

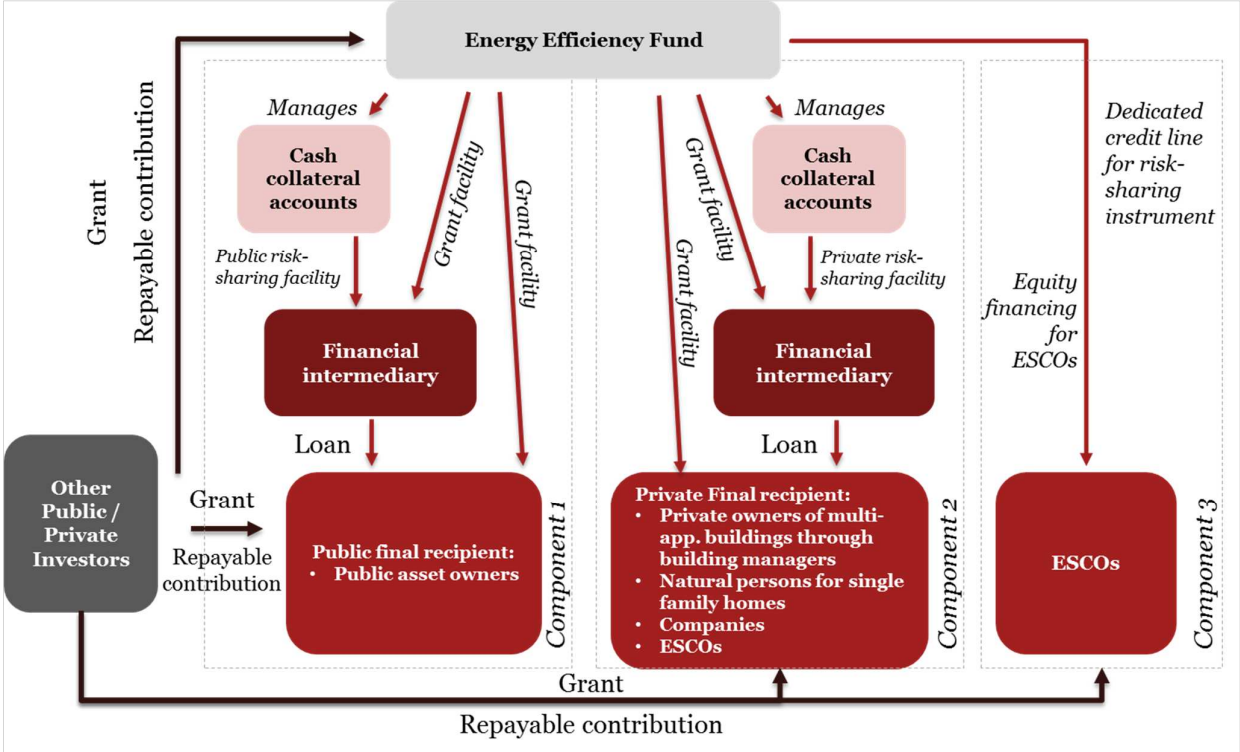
CHARACTERISTICS OF THE ENERGY EFFICIENCY FUND	
Type of products	• Loans offered at better market conditions; • Risk-sharing instrument for ESCOs: a guarantee instrument that would consist in

CHARACTERISTICS OF THE ENERGY EFFICIENCY FUND	
	a credit line; • Equity financing for ESCOs; • Blended with grants (for instance: interest rates subsidies) for Technical Assistance to support project preparation (including feasibility studies and project preparation for ESCOs) (TA facility).
Proposed amount using ESI Funds	To be defined under: • Total amount awarded to Financial Instruments for TO4 in the Operational Programme for 2014—2020; • Market failures related to the financing of energy efficiency projects involving renewable energy, particularly in the context of the renovation of public and private buildings. The amount is combined from the following amounts: • EUR 56 million from TO4. **Value proposition: EUR 56 million, originated from TO4.**
Expected leverage effect	From 1.5 to 2.5 for loans The leverage effect for the guarantee and the equity financing targeting ESCOs is more complicated to estimate since this market is new and developing in Europe and in Slovenia. There is currently no best practices or previous experiences to refer to (and which could support estimates for expected leverage effect).
Expected amount available to the target groups	To be defined with regards to: • The amounts from the ESI Fund,; • The expected leverage effect; • The amount provided by each product.
Possibility of combination with grants or subsidies	Yes, but provision of grants or subsidies raises state aid issues that will have to be managed by the entity that will provide it to the final beneficiaries.
Target groups	• Renovation projects of public and private buildings. • The amount per operation may fall within a range between EUR 5,000 and 100,000.
Geographical scope	Slovenia
Objectives	• Create incentives for the renovation of buildings; • Ensure sharing of risk with a financial intermediary (allowing leverage of approximately 2).
Advantages expected by the SME/entrepreneur	• Access to funding for the renovation of public/private buildings at a preferential interest rate; • Access to the support provided by the Technical Assistance facility: e.g. supporting the conduct of preliminary energy audits, market research and feasibility studies.
Details	• This instrument grants a senior loan to a financial intermediary which subsequently provides loans between EUR 5,000 and 100,000 with a requirement of lower guarantee/collateral and a preferential interest rate for (i) public and private entities to renovate their buildings to make them more efficient and more economical in terms of energy consumption; • Loans with better market conditions: lower interest rate, longer maturity and grace period for funding projects dedicated to energy efficiency and renewable energy (i.e. longer maturities and a longer grace period than is currently available on the market); • All the necessary steps of the analysis, documentation, treatment record, lending and monitoring must be carried out by the financial intermediary under the existing common procurement procedures. This financial intermediary will

CHARACTERISTICS OF THE ENERGY EFFICIENCY FUND	
	have a direct credit relationship with the SME and/or the private entity/public renovating its building (the final beneficiary); the financial intermediary will also assume some of the risk associated with the granting of loans; • Energy efficiency fund can also provide guarantee and equity financing with ESCO. Details have to be discussed during the negotiation with the financial intermediary.
Expected socio-economic benefits / Value Added of the product	• Support for the renovation of private/public buildings in order to increase their energy efficiency; • Support the development and implementation of projects related to energy efficiency and renewable energy; • Improving the technical quality and implementation of the projects related to energy efficiency and renewable energy (especially compared to grant funding, and to ensure repayment of the loan); • Revolving use of ESI Fund; • Risk sharing with the private sector (through the financial intermediary); • Use of the skills of the financial intermediary for the selection and monitoring of projects (particularly thanks to the support of Technical Assistance facility).
Coherence with other forms of intervention in Slovenia	This product would be provided to a limited number of financial intermediaries, which would be selected *via* public procurement procedure. This product could be potentially coupled with grants for Technical Assistance for project preparation (using the TA facility).
Consistency with the Common Strategic Framework	This loan instrument would be consistent with the objectives following themes (non-exhaustive list of Thematic Objectives): • TO4 - Support to the transition to a low-carbon economy in all sectors.
State Aid	In order to minimize market distortions, this instrument would be set up under the *de minimis* regime.
Evaluation of the value and the level of preferential remuneration required to attract counterpart resources from private investors	The element is not applicable for an instrument of this type (loans).
Potential monitoring indicators	Number of projects funded with: • Breakdown by "energy efficiency projects"/"projects related to renewable energy"; • A breakdown by sector; • Number of renovated buildings (with a split public/private buildings); • Total amount awarded for: o Renovation of private and public buildings; • Leverage.

Please find below the structure, illustrating the functioning of all three financial products of the above described Financial Instrument.

Figure 63: Potential structuring for the EE Fund



8.2.5. Financial Instruments for Urban and Territorial Development

The Fund for financing Urban and Territorial Development will provide loans to municipalities, regional and local authorities, public service companies and real-estate project developers for implementation of sustainable urban strategies that 11 city municipalities are preparing. In that regards, a pilot project for city municipalities would be preferable prior to systematisation of this set-up.

In the 2014-2020 programming period, EUR 117 mil is dedicated in TO4 and TO6 for implementation of sustainable urban strategies through the mechanism of ITIs. For the implementation of proposed pilot projects for city municipalities, EUR 16.7 mil has been dedicated for Financial Instruments.

Table 65: Characteristics of financial product 7 - Loans for urban and territorial development projects

CHARACTERISTICS OF THE URBAN AND TERRITORIAL FUND	
Type of product	Loans for urban and territorial development projects.
Proposed amount using ESI Funds	EUR 16.7 mil, originated from TO6 and TO4. The amount proposed is intended for pilot projects in city munipalities[114].
Expected leverage effect	From 1.5 to 2.5
Expected amount available to the target	In view of the proposed EUR 16.7 mil, the amount of potential loans granted for such projects falls between EUR 25 mil and EUR 42 mil.

[114] The amount that would address the identified financing gaps for urban and territorial development in all 11 Slovenian city municipalities is estimated between EUR 50—100 mil.

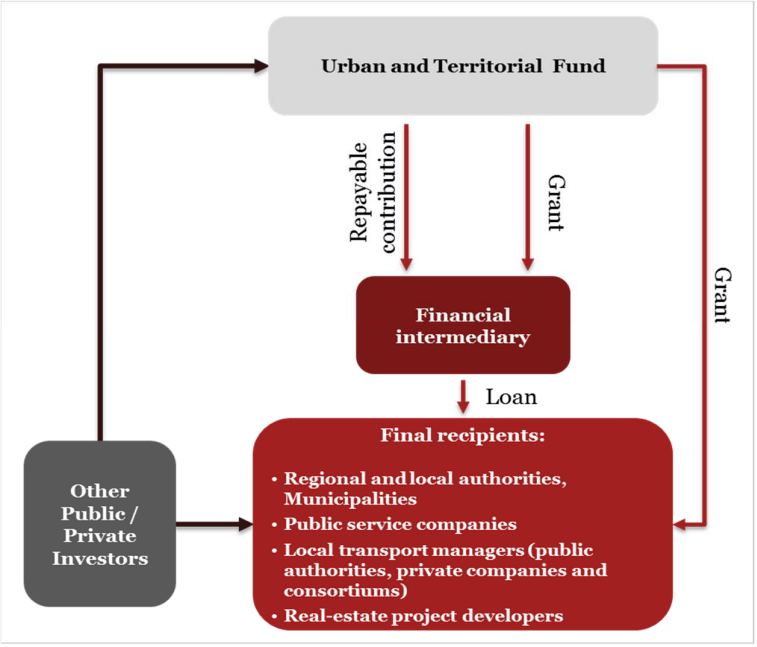
CHARACTERISTICS OF THE URBAN AND TERRITORIAL FUND	
groups	
Possibility of combination with grants or subsidies	Yes, but provision of grants or subsidies raises state aid issues that will have to be managed by the entity that will provide it to the final beneficiaries.
Target groups	• Regional and local authorities, Municipalities; • Public service companies; • Managers of public services; • Real-estate project developers.
Geographical scope	Slovenia
Objectives	• Reduce the specific difficulties of the target groups and final beneficiaries when accessing financing; • Loans provided by better market conditions; • Potentially, no/lower collateral; • Support projects in the area of urban and territorial development.
Advantages expected by the municipality/ SME/entrepreneur	• Provision of loans, potentially with no/lower collateral; • Possibility for a grace period longer than the one usually applied by the financial intermediary market (depending on the discussion between the Fund-of-Funds and the financial intermediary prior to launch the instrument); • Access to Technical Assistance provided by the TA facility (loans blended with grants).
Details	• Prior to launch such Financial Instrument, the following element is needed: 1. A clear pipeline of "ready-to-start" projects among municipalities[115] • Once selected, the financial intermediary will define a portfolio of predetermined loans (this definition will be made with a predetermined volume and amount); • Each loan via the financial intermediary will have an interest rate that follows the market conditions (basic rate plus margin related to the risk taken); • Steps relative to the reception, analysis and provision of the loans to the final recipient will have to be handled by the financial intermediary, according to the existing and required market procedures. The financial intermediary will follow its own standards and procedures. Following this, the financial intermediary will have a direct credit relation with the final recipient.
Expected socio-economic benefits / Value Added of the product	• Improved quality of life; • Creation of new enterprises; • Revolving use of ESI Funds; • Risk sharing with the private sector; • Use of knowledge and competences within the financial intermediary to select and finance the projects of the municipalities/companies.
Coherence with other forms of intervention in Slovenia	• This product would be provided to a limited number of financial intermediaries, which would be selected via public procurement procedure. It would enable coexistence with existing financial instruments dedicated for urban and territorial development; • This product could potentially be coupled with grants for Technical Assistance for project preparation (using the TA facility).

[115] Please note that all the Slovenian city municipalities are currently preparing sustainable urban strategies that could have an effect on the projects list that we prepared in the scope of this analysis. Current project list can be updated when City municipalities will provide their project list in the context of implementation of sustainable urban strategies with the use of ITI mechanism.

CHARACTERISTICS OF THE URBAN AND TERRITORIAL FUND	
Consistency with the Common Strategic Framework	This product would be consistent with the following Thematic Objectives (non-exhaustive list of Thematic Objectives): • TO 6 – protecting the environment and promoting resource efficiency; • TO4 - Support to the transition to a low-carbon economy in all sectors.
State Aid	This product would be set up and implemented under the *de minimis* rule.
Evaluation of the value and the level of preferential remuneration required to attract counterpart resources from private investors	The element is not applicable for an instrument of this type.
Potential monitoring indicators	• Number of projects financed (different categories of projects); • Average amount of project financed; • Total amount of financed projects (individual municipalities, different categories of projects); • Number of companies supported; • Split between public and private companies; • Number of projects supported by companies (by project type); • Leverage effect.

Please find below the structure, illustrating the functioning the above described Financial Instrument for Urban and Territorial Development.

Figure 64: Potential structuring for the UTD Fund



8.2.6. Technical Assistance facility

The following table shows the characteristics of Technical Assistance facility that we propose to implement in parallel with the seven Financial Instruments detailed above.

Table 66: Technical Assistance facility

TECHNICAL ASSISTANCE FACILITY	
Type of product	Grant and tutoring/mentoring to promote and provide knowledge and skills to financial intermediaries and final beneficiaries for the use financial instruments and products of the Investment Strategy
Proposed amount using ESI Funds	The funds dedicated for Technical Assistance facility may originate from: • Funds dedicated for Financial Instruments from relevant TOs. Exception: Funds for TA within FI4 may also be obtained through the funds of the EAFRD that are dedicated for technical assistance.
Target groups	• **Financial intermediaries** whose skills and knowledge on the use of ESI Funds and Financial Instruments should be further developed; and therefore potentially: commercial banks, investment funds and institutions offering microfinance, selected through public procurement procedure for each Financial Instrument; • **The final beneficiaries, recipients of financial products** granted through Financial Instruments, proposed in the Investment Strategy; therefore potentially: SMEs (including young innovative companies), entrepreneurs, beneficiaries of loans eligible for financing energy efficiency projects (private and public entities).
Geographical scope	Slovenia
Objectives	• Support and promote the development and implementation of the Financial Instruments in Slovenia; • Improve knowledge related to the existence and operation of the Financial Instruments in Slovenia; • Support of financial intermediaries in the management of Financial Instruments and final beneficiaries with the use of products granted through these instruments; • Support of the existing economic supporting networks (chambers of commerce, main innovation actors).
Advantages expected by the municipality/ SME/entrepreneur	• Expected benefits and services by financial intermediaries: o Improving their capacity to identify projects, prepare and examine documentation, set a suitable financing offer and finally follow the SME and / or entrepreneur; o Support in monitoring and reporting financial transactions in order to comply with European regulations. • Expected benefits and services by the final beneficiaries: o Financial and Operational Support in the preparation and setting up projects that can be supported by funding through Financial Instrument: market feasibility studies, project preparation support for energy efficiency and urban and territorial development projects, energy audit, development of business plans; o Operational Support in the funding application: preparation of documentation, preparation for the meeting with the bank/ investment funds, assistance in drafting specific documentation to apply for funding; o Support for the management and monitoring of the project once funding is obtained; o Support from different relevant institutions, e.g. accelerators for start-

TECHNICAL ASSISTANCE FACILITY	
	ups, mentoring schemes, different promotion possibilities (participation on fairs outside the country, memberships in different associations...).
Details	• This facility is intended to award a grant or technical support service to financial intermediaries and final beneficiaries within the framework of managing a financial instrument or of obtaining a financial product provided via Financial Instruments; • For example, grant and/or technical support that can be dedicated to cover a certain percentage of the cost of preparing a project of an SME (e.g. market research, feasibility studies, energy audits and preparing documentation for a request for funding); • This facility should be managed or supervised by the country services in order to avoid any conflict of interest with the management of the Financial Instruments: the aim is to differentiate the support services dedicated to SMEs for access to financing (granted through Technical Assistance facility) and a loan made by a financial intermediary whose decision must be made independently and according to the existing standard procurement procedures; • This facility can also structure and build support for the main stakeholder that support the Slovenian economy (e.g. chambers of commerce, innovation actors in the country and players in the energy transition).
Expected socio-economic benefits / Value Added of the product	• Improved technical skills and knowledge of financial intermediaries managing Financial Instruments; • Improving the technical quality and overall documentation submitted by SMEs and entrepreneurs; • Improved monitoring of financial operations carried out by financial intermediaries; • Support for the coordination of stakeholders supporting the economy of the country.
Coherence with other forms of intervention in Slovenia	This facility would complement the support measures to the existing Slovenian economy. It would focus on the development and implementation of Financial Instruments as part of the Investment Strategy (both at the level of the financial intermediary that the final beneficiary).
Consistency with the Common Strategic Framework	This Technical Assistance facility is coherent with Thematic Objectives that include funds dedicated for Financial Instruments: • TO1 – Strengthening research, technological development and innovation; • TO3 - Strengthening SME competitiveness, the agricultural sector (for the EAFRD) and the fisheries and aquaculture sector (for the EMFF); • TO4 – Supporting the transition to a low-carbon economy in all sectors; • TO6 - Protecting the environment and promoting resource efficiency.

Proposed financial instruments represent the baseline for the development of the investment strategy that is the basis for the deployment of the FIs. If during the course of the programming period the need for adapted FIs arises, the FoF can potentially introduce other FIs, if proven to be more effective. Any changes of the strategy need to be confirmed by the MAs.

8.3. Preferential remuneration

The possibility to adopt a preferential remuneration scheme for private investors already existed in the 2007—2013 programming period, although it was exclusively foreseen for profit sharing. The standard approach was *pari passu* remuneration where public and private investors shared exactly the same risks and rewards, due to State aid considerations. Such an approach was mirrored in the previous State aid rules on risk capital investments in SMEs. In the 2014—2020 period preferential remuneration is extended also to repaid capital.

The element of the preferential remuneration is at the discretion of the Managing Authorities. It can be decided by them not to consider this possibility. It must be discussed internally between the Managing Authorities and the financial intermediary or between the Fund-of-Funds and each financial intermediary. In the second case, this element must be agreed and determined in the specifications for the selection of the financial intermediary.

If the Managing Authorities should consider this possibility, it could therefore be decided upon:

7. Asymmetric profit-sharing (e.g. the hurdle rate is not *pari passu*, but gives preference to the private partners);
8. Asymmetric loss-sharing (e.g. guarantee schemes, covering a first loss piece covered by the public sphere for instance);
9. Preferential fee payment to the managers to the extent they are also co-investors within the limits established by the envisaged Delegated Act to the CPR;
10. Preferential exit regime (e.g. risk taking on the not sold engagements).

In line with this increased consideration of preferential remuneration schemes, the scope of the envisaged General Block Exemption Regulation is broader for 2014–2020 than in the past and covers risk finance for SMEs; which is particularly relevant for Financial Product 3 providing equity financing to companies, including start-ups and SMEs.

The framework of GBER may help the MAs to facilitate State aid procedures in case a preferential remuneration scheme is considered, and could be covered by the GBER for SME risk finance, under Financial Product 3 in the present proposed investment strategy for Slovenia for instance.

In that context, the Managing Authorities have to decide whether a preferential remuneration is needed to attract private investors and to what extent. To do so, two approaches are possible.

The first approach to assess the need and the extent to which a preferential remuneration is necessary by looking at the experience in FIs collected so far and the evaluations of such experience, if available. In that matter, the Managing Authorities can use the present findings of *ex-ante* assessment as initial analysis whether a preferential remuneration is needed to attract private investors for some Financial Products. Moreover, the country has experience with FIs involving private investors and using (or not) Structural Funds. Based on this, it is recommended to consider both types of experiences (i.e. the FIs using Structural Funds in the 2007-2013 programming period, as well as those not using Structural Funds) to assess whether a preferential remuneration is needed to attract private investors in the Slovenian context. This analysis is to be conducted for each Financial Product proposed in the present *ex-ante* assessment and in light of the particularities of the Slovenian context and the historical use of FIs in the country.

The second approach to assess the need and extent of preferential remuneration is to conduct an analysis which:

- Defines the main investment criteria for potential private investors, particularly in terms of profit expectation and risk appetite;
- Establishes a hierarchy of preferential schemes according to their impact on competition (e.g. asymmetric profit sharing schemes tend to be less distortive than asymmetric loss sharing); and
- Foresees the preferential remuneration scheme as part of the governance of the FI, mitigating the downside risks involved for the EU contribution.

The main indicators to assess the need for preferential remuneration are related to the risk, in particular to the overstretching of the risk-appetite of the private partners or a new financial product, where no, or insufficient, experience and track-record can be found. The analysis, therefore, includes:

- The targeted sector itself, since different sectors show different risk profiles;
- The diversification of the fund by sectors and regions;
- The diversification of the fund portfolio by granularity, since the level of risk is closely related to the composition of the portfolio (i.e. number and size of loans). As such, the risk tends to be higher if

a portfolio of loans is composed by a small number of large loans rather than if it comprises a large number of small loans. It should be noted, however, that for most of the Thematic Objectives or investment priorities with the exception of SME competitiveness, it may be difficult to achieve a good portfolio diversification in this regard;

- Position in the life cycle of the products or the companies (e.g. SMEs since inception until the moment the growth phase starts tend to be more risky); and
- Maturity of the target market as regards the implementation of FIs, since financial partners tend to be more reluctant and request preferential remuneration in regions or sectors where past experience with FIs is limited.

As preferential remuneration needs a specific assessment, the mismatch between the expected profits of the Financial Product and the risk of the private partners has to be clearly communicated. The main steps to be undertaken to assess the need for preferential remuneration can be summarised as follows:

- A statement on the expected profit (or loss) rate and the risk of the Financial Product;
- A statement on the expectations of the private partners is needed, taking into account the volume of their contribution and the distribution of profit and risk. As a matter of fact, although it is true that a higher risk can be compensated by higher expected profit, this compensation works only in a rather limited range in order to respect the principles of sound financial management;
- Based on these considerations, it is possible to estimate the amount of support needed to attract private investors. Two components could be identified:
  - The difference between the revenue-rate of the envisaged Financial Product and the Fair Rate of Return (FRR) of the private investors; and
  - The rate of return to compensate the risk difference in case of high risks.

If the compensation is deemed possible, because the risk difference falls in the limited area mentioned above, in a fourth step, it is possible to sum the rate of returns. In such a case, an asymmetric profit sharing could serve the purpose.

If the envisaged sector is considered by the banks or other financiers as too risky, compensation *via* an asymmetric profit sharing will not be possible or will be too expensive. The perceived risk may be temporary (economic downturn or new product without track record), but may also be systemic (sector risk) or portfolio-related (low granularity i.e. a few large investments). In such cases, a risk reduction (asymmetric loss protection) for the private investors has to be assessed. State-of-the-art instruments for risk reduction are the so-called first-loss buffers, which imply that, up to a pre-defined ceiling, the losses are borne by the EU contribution. If the losses occurring during the implementation of the Financial Product are lower than this threshold, they are covered by the public budget. If the losses during the implementation are higher, the part above the ceiling is either shared *pari passu* between the private and the public investor or following another pre-agreed rule.

The experience with preferential remuneration is rather broad for FIs targeting SMEs, although the majority of past experiences did not encompass ESIF resources. In other sectors, the experience is scarcer. PPP transport projects that were undertaken in the past showed a considerable protection for the downside risk, sometimes engineered the other way round so that the private investors took the first hits with a first loss piece, but if costs increased or low traffic levels caused further deteriorations, the risk beyond a pre-defined threshold was again taken by the public budget. Such financial engineering is currently envisaged for EU-level FIs provided that the present and future liabilities of the EU contribution are limited by a pre-defined ceiling. Such ceilings apply in the financial engineering of the Connecting Europe Facility (CEF), with the mezzanine element supported by the EU budget, and in contracting projects for energy savings and energy efficiency as provided with the European Energy Efficiency Fund (EEEF).

Against this background, the key parameter for an independent assessment of preferential remuneration schemes would be a combination of the foreseen rate of return for private investors and the share of risk they take.

8.4. Aid and State Aid implications in Slovenia

State aid is defined as the use of public resources to provide assistance to one or more companies/institutions in preference to others. In order to ensure that such assistance does not distort competition in the internal market, the EU has enacted strict rules, restricting the conditions under which State aid can be provided[116]. The legislative framework stipulates that EU funding that is centrally managed, i.e. by the Commission or Executive Agencies of the EU, is exempted from State Aid rules. However, EU funding that has been allocated to the MSs, and is thus under the direct financial management of MS public authorities, is subject to State aid rules. In accordance with the national Slovenian legislation, each state aid and *de minimis* aid has to be notified to the Ministry of Finance and await for the issued opinion prior to the implementation.

It is important to assess the State aid implications and dimension of the planned FI upfront right at the beginning of the design phase. This is because the applicable State aid compatibility legal base is relevant for the main parameters of the design of the FI, in particular as regards eligible undertakings, maximum amounts per beneficiary, the financial conditions attached to them, and the governance structure. State aid control consists of three assessments:

- Assessment of whether the measure constitutes State aid within the meaning of Article 107(1) of the Treaty on the Functioning of the European Union (TFEU); e.g. State aid can be excluded if the FI respects the market economy investor principle, i.e. if the FI is market-conform;
- If the measures constitutes State aid, assessment whether it can be found compatible without notifying it to the Commission, e.g. because it fulfils the requirements of a *de minimis* Regulation or a Block Exemption Regulation or if the envisaged FI is set up as an off-the-shelf instrument (FIs complying with the standard terms and conditions laid down by the Commission- Art 38 (3) of the Common Provision Regulation (EU) 1303, since the design of such instruments ensure that they do not need to be notified to the Commission;
- If the measures constitutes State aid, and does not fulfil all the conditions of the rules that exempt it from notification, it has to be notified to the Commission which carries out a compatibility assessment of the aid measure with the internal market according to the provisions of Article 107 (3) TFEU and its implementing rules, prior to the implementation of the FI.

The State aid assessment shall answer the following questions:

- Is the aid measure aimed at a well-defined objective of common interest?
- Is the aid well designed to deliver the objective of common interest, i.e. does the proposed aid address the market failure or other objectives? Is there a need of intervention?
- Is the aid an appropriate policy instrument – more appropriate than other possible instruments?
- Is there an incentive effect, i.e. does the aid change the behaviour of the aid recipient?
- Is the aid measure proportionate to the problem tackled, i.e. could the same change in behaviour not be obtained with less aid?
- Are the distortions of competition and effect on trade limited, so that the overall balance is positive?

Article 37 (2) of the CPR not only refers to the possible state aid implications but explicitly mentions two of the key elements of the State aid assessment, namely the proportionality of the envisaged intervention and the minimisation of the market distortions by the intervention.

Therefore, the design of the entire FI has to follow the detailed rules set out in the applicable State Aid legal basis.

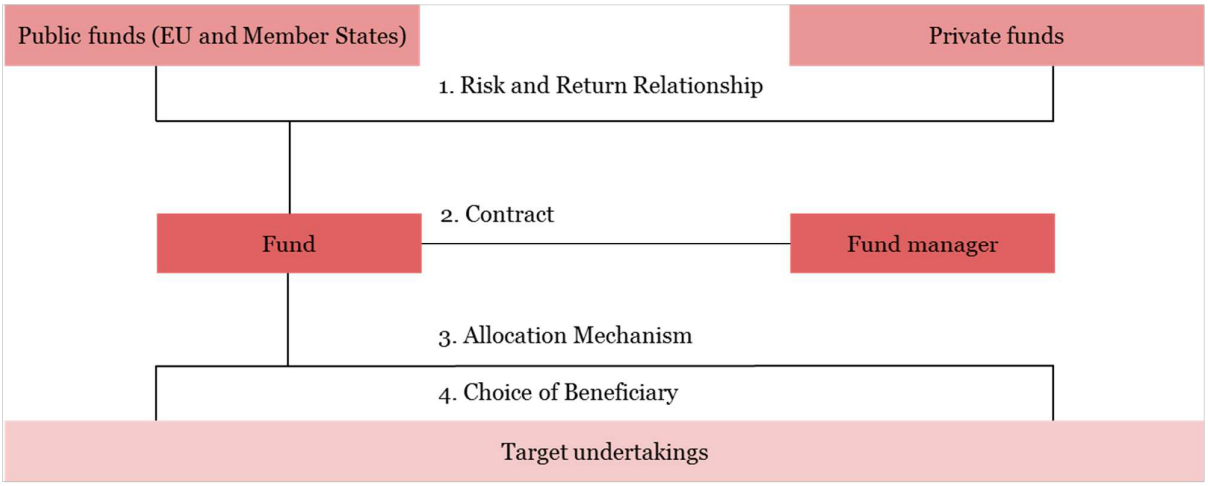
[116] State aid measures can only be implemented after approval by the EC, except in case where State aid measures are compatible with the Block Exemption Regulation 651/2014. Then the approval of the EC is not required. The Commission's Directorate-General for Competition (DG COMP) is in charge of State aid matters. In addition, the Commission has the power to recover illegal State aid. It is also necessary to keep in mind that if a programme does not follow the State aid rules could face financial penalties or be forcibly terminated.

When designing the state aids measures, the MA shall collect information and consider the effect of the same or similar financial instruments on the market. Such analysis will be considered useful for:

- Determination of the needs of the market for such instrument, respectively whether the similar instruments (private or publicly supported) are already supplied on the market, as well as what is the level of the demand of such instrument;
- Determination whether the measures constitutes the state aid or not, respectively for determination of the state aids element.

MAs should determine whether the envisaged FIs constitute State aid at any level. If the MA is not sure, it can always notify the planned measure for legal certainty to the Commission (DG Competition), which can provide assurance in that regard ultimately in the form of a decision. Since the FI will be controlled by the MAs (shared management, with or without national budget resources) and as the private undertakings involved might operate in competitive cross-border markets, the assessment will focus on the existence of a selective economic advantage within the meaning of Article 107 (1) TFEU. Such an advantage can be granted at different levels, as described in Figure 65 below.

Figure 65: Classification assessment of the FI



Source: Ex-ante assessment methodology for financial instruments in the 2014—2020 programming period

First level: Private investors (Risk and Return Relationship of the Contributions)

At the first step of the analysis aims to determine whether the State aids are granting to private investors. State aid could be excluded at this level if there is a *pari passu* and *pro rata* distribution of risk and rewards between the public and private investors and the contribution of the private operators is economically significant.

According to the Risk Finance Guidelines, the Commission will consider the investment to be effected *pari passu* between public and private investors, and thus not to constitute State aid, where its terms would be acceptable to a normal economic operator in a market economy in the absence of any State intervention. This is assumed to be the case only if public and private investors share exactly the same upside and downside risks and rewards and hold the same level of subordination, and normally where a significant proportion of the funding of the measure is provided by private investors, which are independent from the companies in which they invest. The Commission considers that, in the case of risk finance measures, 30% independent private investment can be considered economically significant.

In order to attract private investors where situations of market failure exist, FIs may need to provide preferential remuneration, i.e. grant sub-commercial terms for private investors. For instance, the public investor may accept to assume the first loss, invest on less advantageous terms than private investors (i.e. non *pari passu* investment), or the private investor may receive more from the returns. It is to be noted that

in the case of certain types of FIs, e.g. typically loan or guarantee measures, the financial intermediary, usually a bank, is the private investor at the same time. In other measures, such as equity measures, the private investors are different from the financial intermediary.

Second level: Financial intermediary and its management

The second step will analyse whether the terms of the contract between the MA and the financial intermediary on the one hand, and the manager/management and the financial intermediary on the other hand, reflect normal market conditions. MAs should carry out this analysis under the 'market economy operator principle'.

It will also be examined whether all ESI Funds contributed are passed through to the target undertakings. The question is whether the fund is a mere clearing mechanism or an intermediary vehicle for the transfer of aid as opposed to an entity, which profits from Member States' contributions. State aid could be excluded at this level if it becomes clear that all funds are forwarded to the selected final beneficiaries.

In many cases in the past, not all funds were transferred to the final beneficiaries. In most of these cases, management costs and fees were paid by the programmes. In such cases, market-conform remuneration, including for the administrative costs, is not considered as state aid, if the intervention is otherwise *pari passu* or market conform.

Third level: Target Undertakings (final beneficiaries)

For final beneficiaries, State aid can be excluded if the FI respects the market economy investor principle. If not, the eligibility criteria and the maximum amounts play an important role. State aid for them is not subject to notification if it is covered by a block exemption regulation or does not exceed the *de minimis* threshold. Therefore, the design of the FI including maximum amounts of support will play a crucial role in determining whether the final recipient will be considered as aid recipient or not, and whether the FI will require a notification.

FIs may be better suited to overcome some market failures than traditional grant instruments if:

- The FI is set up to cover multiple sectors and to address multiple issues it could minimise the overall level of state intervention, since this set up facilitates risk mitigation;
- The risk of the portfolio can be reduced with the involvement of experienced intermediaries through the establishment of professional incentives to achieve public goals;

The analysis of existing good practices may help to reduce the risk since it would allow building on the results of past experience and to avoid causing unintended distortion effects.

8.5. Options for the implementation and governance structure of the Financial Instruments

As recommended in the *ex-ante assessment methodology for Financial Instruments,* this section provides an analysis of the possible implementation and governance structure options of the envisaged FI(s) *as per* Article 38 of the CPR.

8.5.1. Implementation options for the Financial Instruments

In accordance with the CPR, for the 2014—2020 programming period, any MA seeking to set up an FI (as defined by Article 37) must choose from one of the following implementation options laid out in Article 38(1):

- **Financial Instruments created centrally at the level of the EU and managed directly or indirectly by the EC** (i.e. FIs managed by the Commission such as H2020 and COSME). The possibility to contribute ESI funds to centrally launched and managed instruments is a new possibility introduced for the 2014—2020 programming period and is foreseen in Article 38 (1)a. According to the *ex-ante methodology for Financial Instruments*, it is further stated "this choice may be appropriate for instances when the technical capacity and/or the expertise of the MA is considered insufficient or where

the critical mass for establishing an FI has not been reached and the existing EU-level instruments are well aligned with the Programme objectives. This option avoids duplicating FIs at lower levels and gives assurance to MAs that resources will be used through tested vehicles and experienced teams."

- **FIs set up at national, regional, transnational or cross-border level, managed by or under the responsibility of the Managing Authority**. For contributions to national, regional, transnational or cross-border FIs, the EU co-financing share will be increased by ten percentage points in cases where a priority axis is fully implemented through FIs.

Setting up a tailor-made vs. an off-the-shelf instrument

In case where an FI is set up at national, regional, transnational or cross-border level, Article 38(3) of the CPR states that the MA must then decide whether to structure the FI along either of the following lines:

- Off-the-shelf instruments: FIs complying with the standard terms and conditions laid down by the Commission;
- Tailor made instruments: already existing or newly created FIs which are specifically designed to achieve the specific objectives set out under the relevant priority.

Off-the shelf instruments[117]

The objective of the "off the shelf" instruments is to provide standard terms and conditions for a set of predefined FIs that can be set-up and implemented by Managing Authorities in order to:

- Facilitate the design and the management of the most commonly used financial products within the ESIF, in particular for specific sectors where FIs are expected to play an important role contributing to the Europe 2020 objectives;
- Assist MAs in the delivery of financial means to the final recipients. Off-the-shelf instruments are based on the implementation experiences and know-how capitalised during the 2007-2013 programming period.

In addition, the off the shelf instrument should:

- Include general terms and conditions for the selection of bodies implementing FIs in order to facilitate MA to select through public procurement bodies implementing the FIs. These are drafted according to the CPR, the most relevant requirements of EU procurement law and some relevant elements from previous experience;
- Include common term sheets of a minimum set of technical and legal requirements and harmonised funding agreement template for each of the instruments;
- Be structured in such a way that their terms and conditions do not require state aid notification and subsequent clearance from the EC.

What are the different off-the shelf instruments[118]?

- FIs focusing on energy efficiency and renewable energies
  - Renovation Loan based on a Risk-Sharing loan model (RS loan)
- FIs focusing on SMEs
  - Loans for SMEs based on a portfolio Risk-Sharing loan model (Risk Sharing Loan)
  - Guarantee for SMEs (partial first loss portfolio, capped guarantee)

[117] Please find more information on https://www.fi-compass.eu/news/2015/07/difference-between-shelf-tailor-made-instruments

[118] https://www.fi-compass.eu/sites/default/files/publications/presentation_201501_Brussels_ESIF_Thomas-de-Bethune.pdf

Possible additional off-the shelf Financial Instruments in 2014—2020:

- Equity fund for SMEs and start-up companies based on a co-investment model
- Urban Development Fund based on the JESSICA model

Tailor made instrument

Tailor made instruments are regulated by articles 37 to 46 of the CPR. The benefit of choosing this option is that they can be adapted to target a specific issue(s) in a specific territory which cannot be covered by an off-the-shelf instrument. Such option could be appropriated when:

- An *ad-hoc* mix of subsidies and tailor-made lending is required (i.e. the needs of the final beneficiaries and projects are very specific);
- The MA has already enough experience in the management of FI and believes to be able to act quite independently.

While in theory off-the-shelf instruments may streamline some of the administrative requirements involved with setting up an FI, they have strict parameters to follow that may not allow for certain national/market-specific nuances to be taken into account. In the case of Slovenia, this *ex-ante* assessment has identified specific needs of final beneficiaries in the various sectors and the country has enough experience in the design, use and management of Financial Instruments to act independently. It would therefore appear that a tailor-made FI providing several specified financial products is the more appropriate mechanism, even though the use of off-the-shelf instruments are not excluded.

8.5.2. Defining the governance structure of the FI

In the case where an FI would be set up at national level, there are three options that the MA can choose from as the most suitable implementation arrangement as per Article 38(4) including:

1. Invest in the capital of existing or newly created legal entities, including those financed from other ESI Funds, dedicated to implementing FIs consistent with the objectives of the respective ESI Funds, which will undertake implementation tasks; the support to such entities shall be limited to the amounts necessary to implement new investments in accordance with Article 37 and in a manner that is consistent with the objectives of this Regulation;
2. Entrust implementation tasks to:

- the EIB;
- International financial institutions in which a Member State is a shareholder, or financial institutions established in a Member State aiming at the achievement of public interest under the control of a public authority;
- A body governed by public or private law;

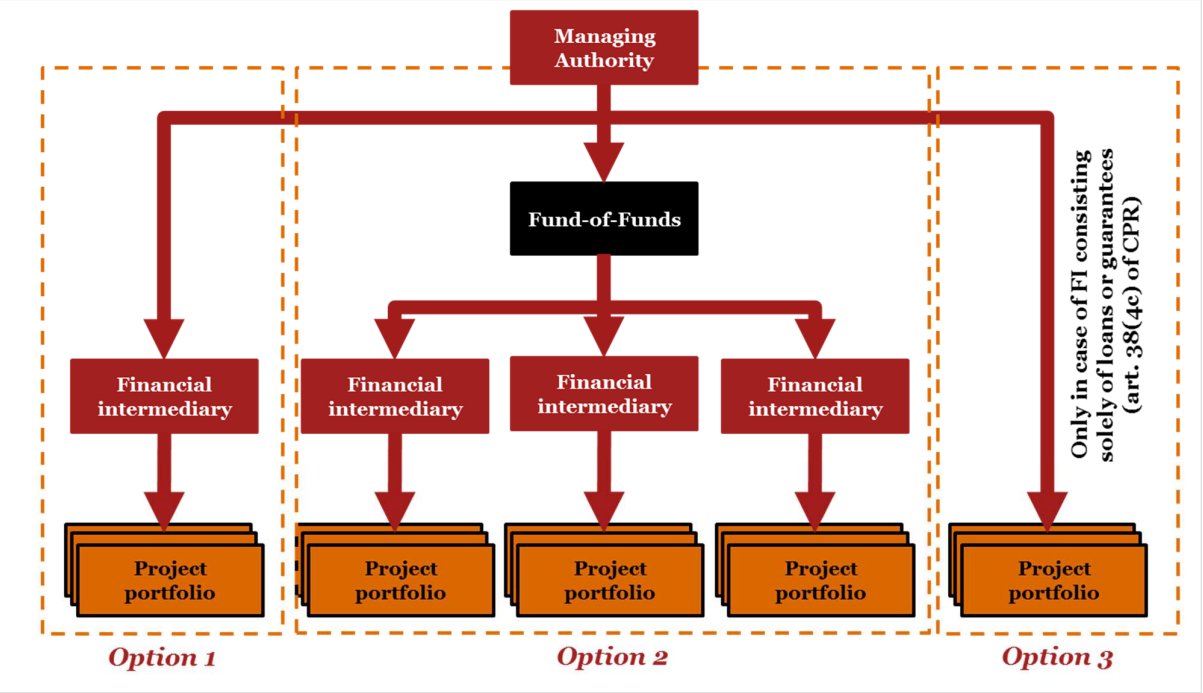
3. Undertake implementation tasks directly, in the case of FIs consisting solely of loans or guarantees.

Moreover, under options (1) and (2), the MA has a further choice to make regarding the governance structure of the proposed FI(s), specifically whether or not to use a "two-stage" Fund-of-Funds structure or a "one-stage" FI with direct contracting of financial intermediaries:

i. An FI implemented through one or more financial intermediaries;
ii. An FI implemented through a Fund-of-Funds structure;
iii. Direct implementation of the FI by the MA.

These governance options are presented in the figure below:

Figure 66: The different possible governance structures for FIs



More detailed description of each of the options, including their pros and cons, is presented in Appendix F. -, while the suggested option for the Slovenian case is spell out in the next section of the report.

8.6. Proposed governance structure for the Financial Instruments in Slovenia

Taking into consideration the analysed factors throughout the study, the creation of Fund-of-Funds is the option that presents the greatest potential for added value and maximisation of the potential leverage generation for Slovenian market. Please note that proposed governance structure is only indicative and results from the analysis conducted in the present ex-ante assessment. The final decision concerning the governance structure of the Financial Instruments is entrusted to the Managing Authorities.

As illustrated in the Figure 67, this Fund-of-Funds would receive financing from two programmes: Operational Programme for the Implementation of the EU Cohesion Policy in the period 2014—2020 (OP-ECP) and Rural Development Programme 2014—2020 (RDP). The first one is focusing on ERDF, managed by the Government Office for Cohesion Policy and the second one is focusing on EARDF managed by the Ministry of Agriculture, Forestry and Food. The two Managing Authorities would appoint a Fund-of-Funds manager and set-up a "Strategic supervisory committee" which would be in charge of making sure the orientations, priorities and overall strategies defined in the OP-ECP and RDP are followed by the Fund-of-Funds manager.

The Fund-of-Funds would be composed of five compartments:

- Financing Fund for SMEs and large companies which would provide three products to financial intermediaries:
  - A portfolio guarantee, including also micro-guarantees;
  - A senior loan aiming at providing micro-loans to final beneficiaries;
  - Equity financing aiming at investing in SMEs and large companies;
- A Fund financing rural companies and providing guarantee to financial intermediaries;

- An RDI Fund aiming at financing innovative projects of start-ups, SMEs and large companies and providing a senior loan to a financial intermediary;
- An Energy Efficiency Fund providing three products:
  - Loans for the renovation of public and private buildings;
  - A risk-sharing instrument aiming at financing ESCOs;
  - Equity financing to reinforce the equity structure of ESCOs;
- An Urban and Territorial Development Fund, providing loans to finance urban projects from municipalities in Slovenia, potential via mechanism of Integrated Territorial Investments (ITIs).

Finally and as detailed in the previous section, this Fund-of-Funds structure could attract other public and private investors at the level of (i) the sub-fund, (ii) the financial intermediaries and (iii) the projects.

Key roles and responsibilities of the proposed governance structure

- **Managing Authority**: responsible for the management of resources under the OP-ECP and RDP.
- **Strategic supervisory committee:** is the supervisory body of the management of the Fund-of-Funds. The strategic supervisory committee incorporates representatives of the MA and concerned intermediate bodies (line Ministries in charge for the four priority areas), as well as other co-investors, if applicable.
- **FoF manager:** delegated by the MA to implement the Investment Strategy of the FoF. FoF manager is responsible for the internal administration of the FI in relation to the performance of the Fund actions. In particular, the activities that can be performed by the FoF manager include:
  - Pursuit of the strategy set out in the investment strategy;
  - Launch and manage one or more requests for proposal in order to identify and select one or more financial intermediaries. Under this respect, it will:
    - Review and, where appropriate, further evaluate the Business Plans submitted by the financial intermediaries;
    - Negotiate the Operational Agreement with the financial intermediaries;
    - Monitor and control of the operations in accordance with the terms and conditions of the applicable operational agreement;
    - Reporting to the Strategic supervisory committee on the progress of the various operations;
    - Treasury management of the balance of the Funds.
- **Financial Intermediaries** selected by the FoF manager, responsible for implementing investment strategies in the specific priority areas through investing in projects. The Financial Intermediary must ensure that the financed projects are viable from an economic, social and technical point of view, and that they meet the eligibility criteria established. In view of that, the financial intermediary must analyse the associated risks, the financing structure and the income foreseen for the parties involved in the projects in order to establish the conditions required for the participation of the fund in the financing of these projects.

Advantages of the Fund-of-Funds structure

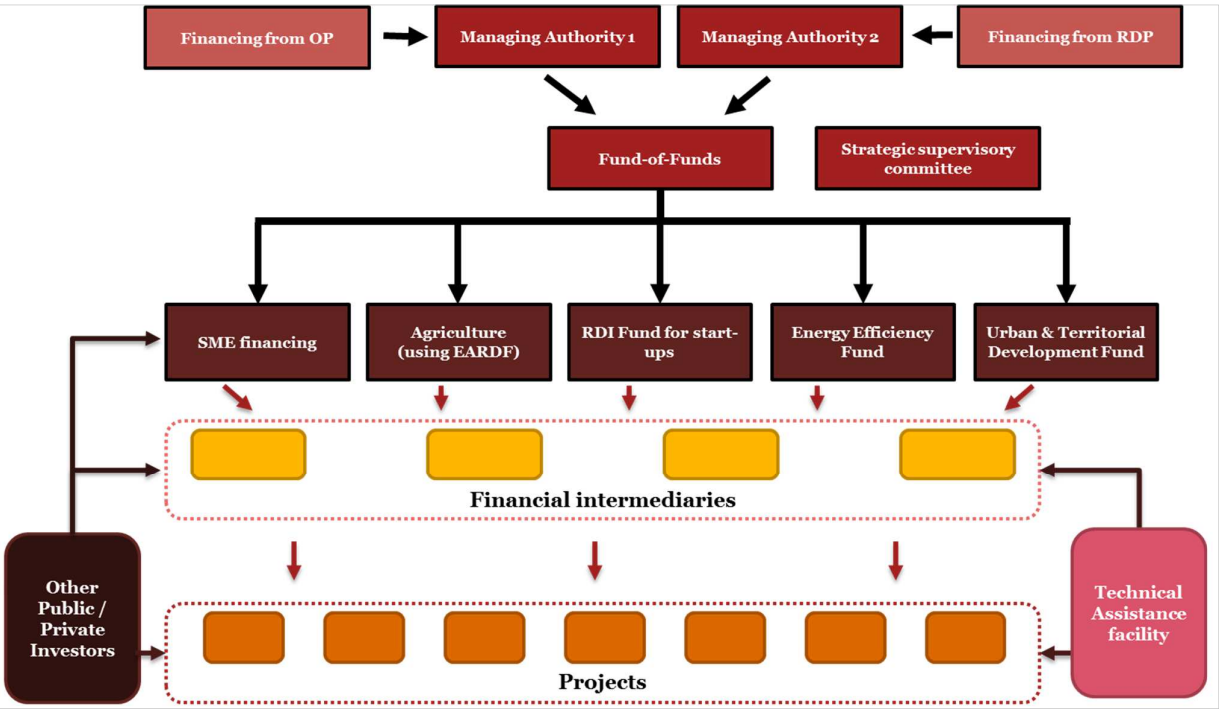
- A rationalisation and optimisation of the different Financial Instruments, implying: cost reduction in the set-up and management of the different instruments, creation and leverage of synergies between the instruments, synergies in the set-up and management of public procurement procedure for the selection of financial intermediaries, possibility to harmonise the management, follow-up and reporting modalities, as well as possibility to optimise the treasure management of the instruments;
- An overview of the use of ESI Funds under Financial Instruments and more generally of the activities of the Managing Authorities in favour of the different investment areas targeted by the ESI Funds (and more particularly SME financing, RDI, EE/RE and UTD);
- More flexibility between the Financial Instruments (as opposed to the other options); and

- Finally, under the 2014—2020 programming period, the possibility to use resources from different Funds like ERDF and EARDF.

Moreover, several Member States in Europe are currently setting-up Fund-of-Funds covering different OPs and various ESI Funds. This is the case of Slovakia and Bulgaria, which are currently setting-up their Fund-of-Funds for the use of Financial Instruments for the 2014—2020 programming period.

For the reasons listed above and in view of aligning Slovenia with the current developments of Fund-of-Funds in other EU Member States, it is advised to set-up of a unique Fund-of-Funds in Slovenia.

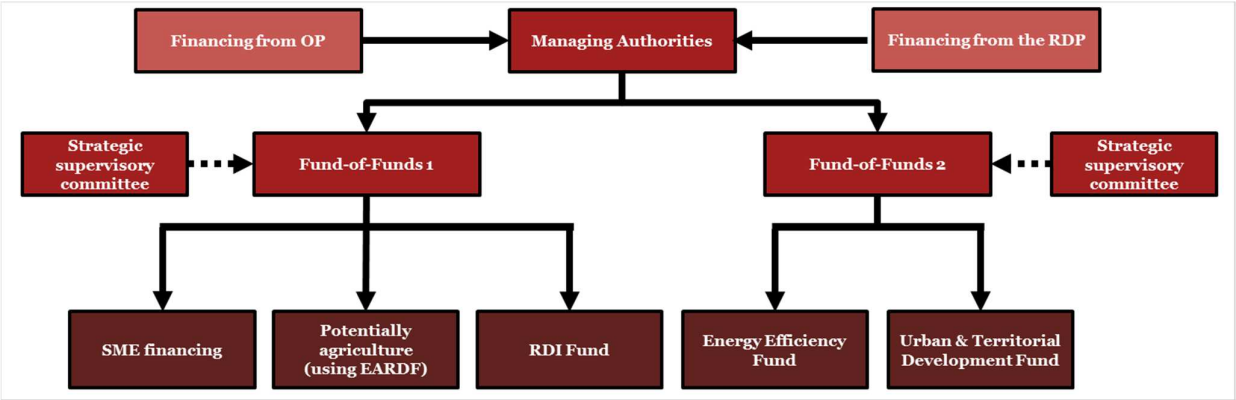
Figure 67: Fund-of-Funds governance structure proposed for Slovenia over the 2014—2020 programming period



Source: PwC, 2015

This Fund-of-Funds structure may however be adapted. As presented in the figure below, an option with two (or potentially even more) Funds-of-Funds can be implemented. Compared to a single Fund-of-Funds the alternative solution with several Funds-of-Funds is less efficient and therefore considered a second-best choice.

Figure 68: Potential governance structure with two Funds-of-Funds for Slovenia over the 2014—2020 programming period



Source: PwC, 2015

As explained above, the Managing Authorities will appoint a **Fund-of-Funds manager.** According to the CPR (Article 38(4)), this Fund-of-Funds manager may be:

- The EIB;
- An International Financial Institutions in which Slovenia is a shareholder, or financial institutions established in Slovenia aiming at the achievement of public interest under the control of a public authority;
- A body governed by public or private law.

When considering the EU regulation and the experience acquired in Slovenia in the use of Financial Instruments, five entities may be appointed as Fund-of-Funds manager for the 2014—2020 programming period: (i) the EIB, (ii) SID Bank, (iii) Slovene Enterprise Fund (SEF)[119], (IV) Eco Fund and (V) Slovenian Regional Development Fund. In that sense, these five institutions:

- Are eligible as Fund-of-Funds; and
- have experience in the development and management of Financial Instruments.

Based on the experience of the EIB in the set-up and management of Financial Instruments and on interviews conducted with SID Bank and the Slovene Enterprise fund (SEF), the table below syntheses the strengths and areas for improvement of the three institutions. This table aims to provide to the Managing Authorities the elements needed to appoint a Fund-of-Funds manager.

	Strengths as a potential FoF manager	**Areas for improvement** in view of becoming a FoF manager
EIB	• Experience in the set-up and management of Financial Instruments using Structural Funds over the 2007—2013 programming period • Ready-to-use solution	• Weaker knowledge of the Slovene environment in comparison with SID Bank and the SEF • No direct contribution to the development of national capacity in the development and implementation of Financial Instruments using ESI Funds • Risk of limitation in capacity building towards Slovenian stakeholders for

[119] Eco Fund and Slovenian Regional Development Fund have also been identified as possible candidates, but due to size and capacity constraints, they were not included in the further detailed analysis.

	Strengths as a potential FoF manager	**Areas for improvement** in view of becoming a FoF manager
		the future
SID Bank	• Experience in all the investment areas (even if its experience in EE/RE and UTD have to be developed further) • Strong internal capacity and appropriate resources to ensure the monitoring and reporting processes thanks to strong back-office resources • Strong experience with commercial banks • Successfully passed the ECB stress tests in 2014 by the ECB and the EBA, which demonstrates high level of competence in risk management • Knowledge of Financial Instruments focusing on SME financing • Willingness to develop Financial Instruments in new markets such as EE/RE • Experience with Financial Instruments, which focus on RDI • Preparedness and planning cooperation with InnovFin and SME Initiative • Experience as an intermediary of Financial Instruments based on EIB resources that require the same system of reporting and monitoring as it will be required for Financial Instruments in the context of OP-ECP	• Experience to be further improved in the EE/RE and UTD investment areas • No experience with Financial Instruments related to equity financing • Experience with ESI funds
Slovene Enterprise Fund	• Strong experience with commercial banks working with SMEs • Knowledge in the development and implementation of Financial Instruments using Structural Funds, especially guarantees • Knowledge of Financial Instruments focusing on RDI financing • Connections with the innovative ecosystem • Capacity and knowledge in the supply of micro-loans and in the equity financing market • Willingness to further develop in the	• Limited resources in terms of human capacity and monitoring/reporting processes • No experience in the EE/RE and UTD investment areas • No specific experience in the financing of companies in rural environment

	Strengths as a potential FoF manager	**Areas for improvement** in view of becoming a FoF manager
	micro-loan market as well as in RDI and equity financing • Willingness to collaborate in the InnovFin and COSME initiatives in Slovenia • Experience with reporting and monitoring of financial instruments for the programming period 2007—2013	
Eco Fund	• Experience in Financial Instruments for EE/RE area •	• Limited resources in terms of human capacity and process of monitoring / reporting • Experience in the investment areas RDI, SME and UTD • Experience with managing such high amount of funds • Experience with managing ESI funds • Experience in negotiation with Financial Intermediaries
Slovenian Regional Development Fund	• Experience in Financial Instruments for SME development, rural development companies and municipalities	• Limited resources in terms of human capacity and process of monitoring / reporting • Experience in the investment areas RDI and EE/URE, also in the area of SMEs, when compared to SID bank and SEF • Experience with managing such high amount of funds • Experience with managing ESI funds • Experience in negotiation with Financial Intermediaries

Source: PwC, 2015

When considering the table above, it may be said that EIB does not seem the most appropriate solution for Slovenia. This is mainly due to the fact that having a national institution as Fund-of-Funds manager would enable capacity building and transfer of knowledge which will benefit this Fund-of-Funds manager and all the future financial intermediaries. Eco Fund and Slovenian Regional Development Fund have been identified as possible candidates, but these funds have a large gap in the field of human resource capabilities and capacity, as well as in the field of required experience in the analysed investment areas.

SID Bank presents the most comprehensive experience in financing the different investment areas considered by the Managing Authorities for the 2014—2020 programming period. In parallel, the Slovene Enterprise Fund has acquired knowledge in the development and implementation of guarantee instruments and of Financial Instruments using Structural Funds over the 2007—2013 programming period. It has also developed connections with the innovative ecosystem and has created capacity and knowledge in the supply of micro-loans that may be leveraged over the 2014—2020 programming period.

Following this, a governance structure consisting in one Fund-of-Funds is suggested in order to create synergies between the Financial Instruments. On the other hand, it may also be envisaged to separate the portfolio guarantee instrument from the Fund-of-Funds. As detailed in the previous section, this portfolio guarantee instrument would focus on SMEs and could leverage the experience, knowledge and relations with commercial banks acquired by the Slovene Enterprise Fund. Separating one instrument from the Fund-of-Funds is however not an optimal solution since it would reduce the synergies and coordination between the different proposed instruments.

8.7. Role of Technical Assistance

8.7.1. Managing Authority/Financial Instrument level Technical Assistance

General awareness raising activities on the benefits of financial instruments

Within the promotion of a broader cultural change away from the use of traditional grant financing, and in order to be able to make better use of FIs in the 2014—2020 programme, a series of concerted activities are required to raise awareness of the opportunities presented by the use of revolving funds.

Effective marketing and communication to reach new audiences, right from the start of the 2014—2020 period is vital to generate sufficient interest and understanding that leads to a greater level of FI implementation. After the initial launch of the programming period, marketing and communication activities will be required to raise the general awareness levels on the advantages offered by FIs.

It would help provide the MAs/financial intermediaries with a springboard to understand benefits/regulatory changes/new opportunities for the deployment of FIs in 2014—2020, and to promote FIs vis-à-vis partners in their respective constituencies. This also needs to reach beyond attracting new partners, investors, financial intermediaries and project developers to increase the amount of areas and to scale up the level of projects that can potentially attract FI-backed investments in the future.

Maximising the impact of financial instruments

TA can help provide MAs with advice on maximising the impact of FIs including calculating revolving effects, leverage and mobilising national additional resources. One of the expected benefits of FIs is to attract private investment, notably thanks to risk-sharing provisions as well as other public funding. This is particularly relevant in the context of budgetary constraints or when private investors show restrictions on their risk appetite, their risk bearing capacity or are not fully confident in the market and would like to share risks.

The use of FIs can therefore benefit from co-investment by public and private capital, obtaining a multiplication of initial resources in order to maximise the impact of the intervention. This implies the joint participation of different players with an appropriate allocation of roles and responsibilities as well as of the risks of the operations, which may affect the level of private contributions. In addition to calculating the expected leverage of the FI (the calculation of the estimated additional public and private resources raised divided by the nominal amount of the ESI Funds expenditure), MAs also need to consider the revolving character of the FI.

Legal requirements and state aid implications for financial instruments

The legal framework for the 2014—2020 programming period has been adapted to further expand and strengthen the use of FIs as an efficient and sustainable way to complement traditional grant-based financing. Indeed, to encourage and to increase the use of FIs, the CPR foresees the possibility to generate synergies – FIs delivered through ESIF should take account of and work together when justified other EU instruments (FIs and grants) and national public programmes. Furthermore, there is increased scope for combination of different Programme contributions and different ESI Funds in one FI. Technical assistance can be provided to MAs in the form of advice on the advantages and challenges related to exploiting synergies and combining support when implementing ESI Funds and FIs in the 2014—2020 programming period. The advice should be based on the existing Commission technical guidance.

Technical assistance services may be required to provide stakeholders with advice on state aid implications when implementing FIs in the 2014—2020 programming period. This would address the identified need for MAs to ensure that FIs, whatever implementation option, sector context or financial products area chosen, are compliant with the relevant European State aid rules/provisions.

It is important to assess the state aid implications of the planned FI upfront, i.e. at the very beginning of the design phase. This is because the applicable state aid compatibility legal base will determine the main parameters of the design of the FI, in particular as regards to eligible undertakings, maximum amounts per beneficiary, the financial conditions attached to them, and the governance structure. Therefore, the design of the entire FI has to follow the detailed rules set out in the applicable State aid legal base.

EU Funds under shared management are considered part of the national or regional budgets and as such are subject to State aid rules and potentially, to notification to DG Competition before its implementation can start. Union funding centrally managed by the institutions, agencies, joint undertakings or other bodies of the Union, which is not directly or indirectly under the control of the Member States, does not constitute state aid. Where such, Union funding is combined with state aid, only the latter will be considered for determining whether notification thresholds and maximum aid amounts are respected, provided that the total amount of public funding granted in relation to the same eligible costs does not exceed the most favourable funding rate laid down in the applicable rules of Union law.

Development of a business plan

The development of a business plan is one of the fundamental building blocks underpinning the development of an FI. Past experience suggests that there is demand for clear advice covering the definition of the scale and focus of the FI and its planned operations.

A financial instrument's business plan will need to build on the proposed investment strategy defined in the ex-ante assessment and be compliant with the priorities laid down in the relevant ESIF Programme. It needs to define the FI's goals, areas of action, implementation period and the range of investment options to be pursued.

Ideally, the purpose of TA services in this area would be to provide a step by step approach, allowing for variations within scope, focus and circumstances, to give MAs the tools to develop the FI's business plan.

Preparing and negotiating funding agreements

TA could also support the preparation and negotiation of the funding agreement. Provide support in the finer detail of how to write and conduct negotiations on funding agreements between MA and the financial intermediary. Funding agreements are necessary to define the terms and conditions under which the financial intermediary implements the financial instruments and shall include at least the elements stipulated in Annex IV to the CPR. As part of the requirements, the funding agreement for example determines the amount and the terms of payment of the management fees to the bodies implementing FI/financial intermediaries.

This TA support would ideally come in the provision of advice, templates and examples to MS/MAs in order to formulate and performance and implement funding agreements to ensure a well-functioning FI and a performance-driven approach to management cost and fees.

Advice on financial instrument products

A service that could be expected is the provision of a clearer understanding of the precise specificities of financial products that can be used within the ESIF approach to FIs in the 2014—2020 programming period to MAs.

To support projects which are expected to be financially viable and do not give rise to sufficient funding from market sources, FIs can deliver ESI Fund Programme resources. In delivering ESI Fund objectives and addressing prevalent financing needs, FIs often target projects on the edge of viability and therefore need to deploy tailored financial products.

A good level of understanding of the implications of using the financial products is required to assist in the definition of the FI investment strategy as referred to under the relevant funding agreement, for example in

terms of conducting ex-ante risk assessment for the definition of multiplier ratios for guarantees, leverage potential, types of beneficiaries or projects, and state aid implications and so on.

Financial management (e.g. disbursement, repayments)

Issues exist to ensure conformity of disbursements with national as well as ESIF regulations and the agreed investment strategy, the management of disbursement flows and the proper recording of relevant back office data of FIs.

As such, there will be possible demand to provide MAs with advice on how to achieve a good practice approach to financial management in accordance with the relevant Regulation.

Calculations related to capitalised interest rates and guarantee fee subsidies

MAs may require advice on how to apply Article 42 of the CPR with relation to capitalised interest rates and guarantee fee subsidies. Technical support may be required when considering the use of interest rate subsidies and guarantee subsidies product.

FIs may be combined with interest rate subsidies and guarantee fee subsidies as set out in Article 37 (7); however the provisions applicable to FIs shall apply to all forms of support within that operation. There is therefore a need to assist MAs with the interpretation of Article 42 of the CPR and delegated acts, which outline the eligibility criteria for capitalised interest rate subsidies and guarantee fee subsidies.

Monitoring and reporting

There are two different ways TA could be requested within the Slovenian context once the FI is up and running with regards to monitoring and reporting:

1. The provision of MS/MAs with advice on monitoring provisions allowing for reporting compliant with article 46 of the CPR, to be included in the funding agreements/strategic document;
2. The provision of MS/MAs and bodies implementing FIs with advice on the reporting compliant with Article 46 of the CPR.

The new legal basis for monitoring and reporting of FIs has three main objectives:

- To enhance the transparency regarding the implementation of FIs;
- To allow the EC to better assess the overall performance of FIs; and
- To regularly provide the MS, Commission services, European Parliament (EP), Council, European Court of Auditors and public with the data on the progress made in financing and implementing the FIs.

According to Annex IV to the CPR (Article 1(d) and Article 2(d)) provisions for monitoring of the implementation of investments and of deal flows including reporting by the FI to the financial intermediary and/or the MA, are the compulsory parts of each funding agreement and strategic document. The monitoring provisions should also be compliant and help MAs to meet their reporting requirements defined in Article 46.

Article 46 of the CPR also sets out the requirements for the MA when reporting on operations comprising FIs to the Commission. The required information should be included in the specific report on FIs to be annexed to the annual report on implementation of programmes.

To ensure that all categories of the information required under Article 46 of the CPR are reported in a consistent and comparable way and can, where necessary be consolidated and aggregated, MAs should use a standard model for the reporting included in the relevant Implementing Act.

The standard reporting model contains already some indications of the format of the information required, but detailed technical characteristics of the requested information (as for example: input method, format and length of each field and links to the other information already available, like priority axes/measures, indicators) will be further developed in the Commission electronic reporting system (SFC2014) and explained in the specific guidance.

Reuse of resources reinvested, exit and winding up financial instruments

It is anticipated that there will be demand for the provision of advice on how financial intermediaries can efficiently and effectively re-use the support from the ESI Funds until and after the end of the eligibility period.

The revolving nature of FIs means that stakeholders will need to consider how to re-use the resources attributable to the support from the ESI Funds until the end of the eligibility period and after the end of eligibility.

This type of service would involve drawing upon EC guidance on the management of resources reinvested, exit and the winding up of FIs – focusing primarily on the requirements of Articles 44 and 45 of the CPR. TA can be provided also for the Financial Intermediaries or at the project level.

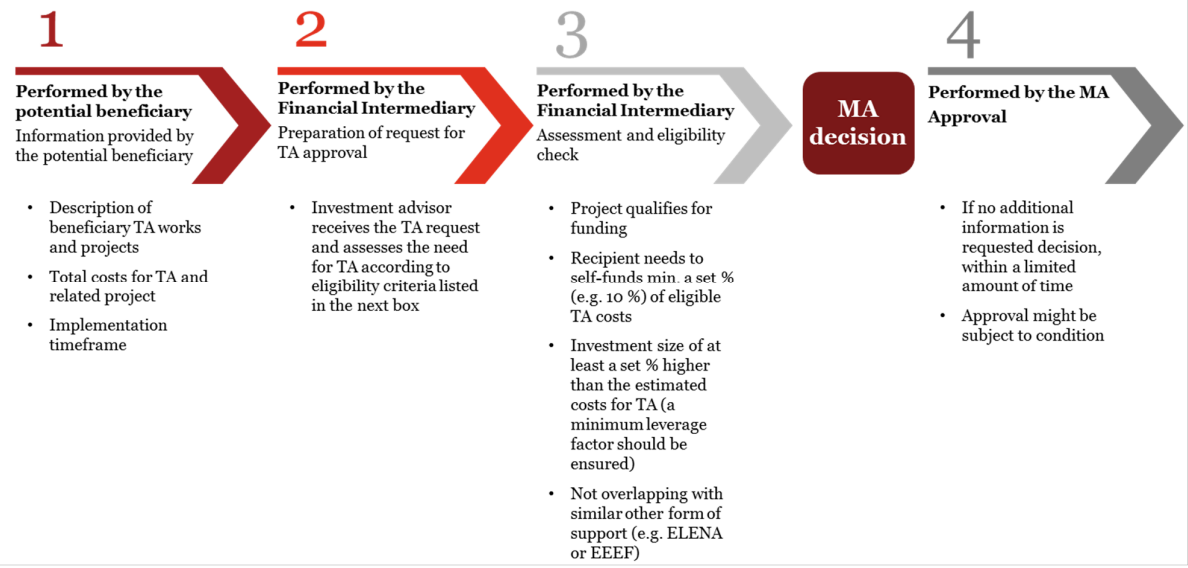
8.7.2. Financial intermediary level Technical Assistance

Financial intermediaries, also seek TA, as they tend to have little in-house technical expertise, especially on topics requiring high level SF regulatory skills. TA at the financial intermediary level may be needed to establish a strategy, develop a project pipeline and assess project selection criteria. At the same time, financial intermediaries are required to demonstrate the necessary governance, processes, skills, track record and deal sourcing/appraisal capabilities relating to the advisory services, financing, execution, monitoring and audit, whilst also knowing the new EU rules and procedures.

8.7.3. Project level technical assistance

TA can also be required at the individual project level. The selection process through which potential beneficiaries should undergone for the TA could be similar to the one envisaged in the EEEF. In particular, the TA's potential beneficiary has to present information about the envisaged TA works required after which the investment advisor prepares formal TA request for the selected projects which require approval by the EC. The figure below distil the main steps of the selection process.

Figure 69: TA selection steps



Source: PwC analysis, 2015 based on EEEF website documentation

This can help improve project quality, facilitating the investment process at the Specialised Investment Vehicle level. Activities can include:

- Consultation on the conceptual development and structuring of a project;

- Assistance with project preparation (e.g. cost-benefit analysis, financial analysis, environmental issues, procurement planning);
- Provision of an independent review of project documentation: feasibility studies, technical design, grant application;
- Guidance on ensuring compliance with EU law (environmental, competition and others);
- Assistance in ensuring conformity with EU policies.

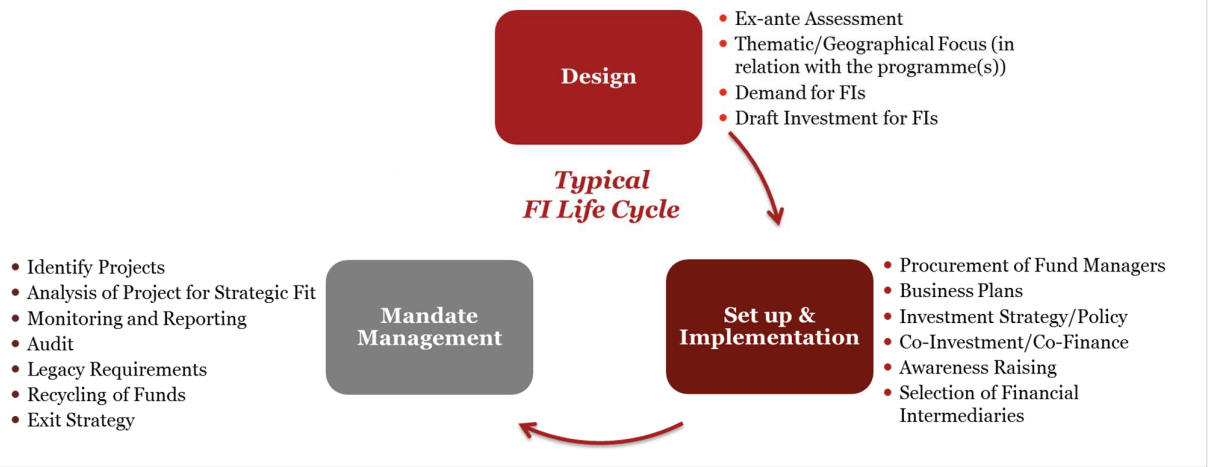
Moreover, the TA facility could have the following characteristics:

- Should be financed by means of grants out of a dedicated line within the FI at the fund level;
- Shall cover up to a certain percentage of eligible costs for project preparation;
- Shall be at disposal only for projects, which are later funded by the FI.

8.8. Action plan for the implementation, monitoring and evaluation of the Financial Instruments

While the new regulatory framework clearly presents strong opportunities for the increased use of FIs supporting ESI Funds thematic objectives, it is necessary to define and agree on the main concepts related with the FI life cycle. As this is not an attempt to define a new scheme, we can consider that the FI life cycle illustration of the EIB Financial Instrument Guide gives a correct picture of the different steps of the FI life cycle and of the related services that should be carried out[120].

Figure 70: FI life cycle

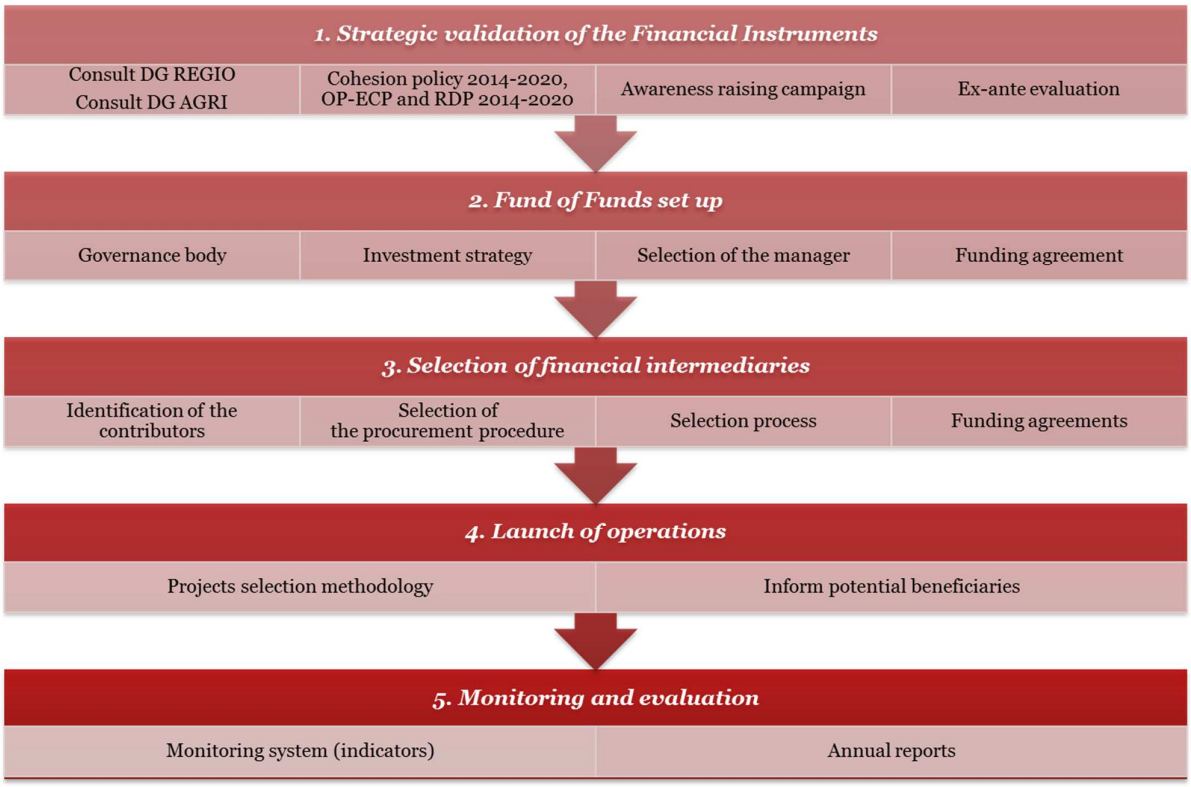


Using the term "life cycle" implies that a FI should have a defined start and end. However, the ultimate objective of a FI is to create a sustainable, long-term investment capacity. Consequently, our understanding is that any structure that will be put in place will be based on a sustainable, long-term operational capacity. As such, we consider that the **design** phase covers essentially the ex-assessment as per Article 37 of the CPR including the draft of the Investment Strategy and the analysis of the governance and implementation modalities of the FI. Furthermore, we believe that is useful to consider cooperation also in the other two steps of the FI life cycle, to provide normal management of the FI operations.

The below figure presents the plan of necessary actions in order to set up the proposed FIs. They are presented in chronological order, from their strategic valuation all the way to the monitoring and evaluation process once they are implemented. The individual steps are in detail presented in Appendix H. -.

[120] EIB (2013), Assignment 29: Strategic UDF Investing and Project Structuring, Appendix 1: Financial Instrument Guide: Setting up and implementing Financial Instruments.

Figure 71: Action plan for the implementation of FIs



9. Conclusion

This report presents the findings of the study in support of the Ex-ante Assessment of using Financial Instruments in Slovenia during the 2014—2020 Programming Period. The study analysed supply and demand for financing in a number of policy areas and makes the case that there exist market failures in each resulting in financing gaps.

The study goes on to detail how FIs could be used to close, or at least reduce the identified gaps. For each of the analysed investment areas, the proposed investment strategy outlines the type of financial products appropriate to the sector, a proposed contribution from the relevant operational programmes, the expected results. It also lays out the potential added value of using FIs in these areas compared with the alternatives, i.e. non-repayable grant financing, or no financing at all. An examination of relevant Technical Assistance needs and potential state aid implications is included as well.

It was estimated that the following amounts could be channelled through FIs ***budget*** in four investment areas as follows:

- FI 1 - Portfolio guarantee: EUR 244 million;
- FI 2 - Micro-loan instrument: EUR 79 million;
- FI 3 - Equity financing: EUR 30 million;
- FI 4 - Portfolio guarantee instrument, using EAFRD funds: EUR 88 million;
- FI 5 – Loans to innovative start-ups, SMEs and large companies: EUR 30 million;
- FI 6 - Loans for energy efficiency (public and private) projects: EUR 56 million;
- FI 7 - Loans for urban development projects: EUR 16.7 mil;
- Technical Assistance facility.

Please, refer to further analyses of the above budget in section 8.2 Proposed Financial Instruments for the four investment areas.

The structure of the FIs is channelled in five special funds (for the four investment areas) governed by a Fund-of-Funds, which is beneficiary of the MAs.

If Slovenia decides to create and implement Financial Instruments dedicated to SMEs and large companies (including agriculture), RDI, energy efficiency and sustainable urban development, it is important to pay particular attention to the following key factors for success, beyond the recommendations and action plans set out in this study.

Key success factors	Description
Provide technical support for setting up projects	Use of FIs requires the development of project evaluation expertise as well as an increased awareness of the concept of return on investment and the forecasted business plan. Technical support will be needed to ensure that these tasks of the project preparation are successfully carried out.
Ensure maximum flexibility, transparency and lower costs[121] for end beneficiaries	Administrative burden in all process levels needs to be decreased. Structuring of FIs needs to be with the view of easing processes & costs for the end beneficiaries, by leveraging from enhanced public information, improved processes management and competition among market actors not only from funding supply side but also technical (with especially strongly influenced in areas like EE and urban development. Financial information for demand actors need to be considered for public distribution.

[121] Not limited to financial terms, but also time and other transactional costs

Raise awareness	If uptake of financial support is to be maximised, then it is vital that there be an important awareness raising action to make potential beneficiaries aware that the funding exists, especially in the areas where introduction of FI is not fully developed/does not exist yet.
Redefine the scope of the projects	It is very important to have the ability to redefine the scope of projects to ensure that they are integrated, sustainable and bankable. An FI requires the involvement of the public sector together with the private sector on larger scope projects, all while ensuring the public sector make a financial return. In the long run, this return will be used to help recycle the funds initially invested.

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Appendix A. - *Indicative allocation from the OP-ECP and RDP 2014—2020for the investment areas and sub-measures*

Table 67: Indicative allocation from the OP-ECP 2014—2020 in the SME and RDI sector

TO	ESIF	Union support for the TO (EUR)	Relevant investment priorities (IP)	Relevant specific objectives	Target group	Main beneficiaries
1	ERDF EAFRD	461,739,161 24,126,000	1b – Promoting business investment in R&D, developing links and synergies between enterprises, research and development centres [...]	1b - Increased share of innovation active enterprises	Development partnerships, enterprises and knowledge institutions	Legal entities under public law, including ministries, enterprises, different forms of linking of enterprises among themselves and with knowledge and cultural institutions, supportive environment for innovation, chambers, institutes, research organisations, regional development agencies, NGOs, knowledge institutions, operating under priority areas addressed in Slovenian Smart Specialization Strategy (S4).
3	ERDF EAFRD EMFF	526,078,421 238,948,972 9,854,259	3a - Promoting entrepreneurship, in particular by facilitating the economic exploitation of new ideas and fostering the creation of new firms, including through business incubators	3a1 - Promote the creation and activities of new enterprises, especially start-ups 3a2 - Increase the added value of SMEs	SMEs in all phases of development, potential entrepreneurs	SMEs in all phases of development, potential entrepreneurs, entities of support environment for entrepreneurship and innovation, public funds (e.g. Slovene Enterprise Fund, Slovenian Regional Development Fund, etc.), public agencies (e.g. SPIRIT Slovenia, etc.) and other financial intermediaries (e.g. SID Bank, regional guarantee schemes, etc.), central administration and public administration, judiciary, municipalities, regional development institutions.
			3b - Developing and implementing new business models for SMEs, in particular with regard to internationalisation	3b - Enhance international competitiveness of SMEs	SMEs, especially those who just want to start international operations and those which they seek to diversify into new products and / or new foreign markets or expand existing activities in foreign markets.	SMEs, institutions, chambers, associations, non-profit organisations, networks, regional development institutions, public institutes.

Source: Operational programme for the Implementation of the EU Cohesion Policy in the Period 2014-2020 and Partnership agreement, 2014

Table 68: Indicative allocation under the RDP 2014-2020 in the field of agriculture and rural development

Code	Sub-measure	Funds dedicated for FIs (EAFRD + SLO funds)	Grants (EAFRD + SLO funds)	Beneficiaries
4.2.	Support for investments in processing/marketing and/or development of agricultural products	17,000,000	59,422,595.03	Legal and natural persons engaged in the processing and marketing of agricultural products, such as companies, cooperatives and institutions, independent entrepreneurs, farms engaged in the production or processing of agricultural products, farms with supplementary activity, agricultural and grazing communities that carry out milk processing in the mountains and economic interest groups.
6.4.	Support for investments in establishing and developing non-agricultural activities	57,360,000	0	Natural persons who have registered supplementary activity on the farm and micro-enterprises in rural areas. For investments that add value to wood and are not supported in the framework of sub-measure 8.6 - Investments in forestry technologies and in processing and mobilization of wood, the beneficiaries may also be small companies.
8.6.	Support for investments in forestry technology and processing, mobilisation and marketing of forest products	13,700,000	25,326,666.67	Companies, cooperatives, sole proprietors and farms with registered supplementary activity and are defined as micro or small enterprise.

Source: Rural Development Programme 2014—2020

Table 69: Indicative allocation from the OP-ECP 2014—2020 in the Energy Efficiency and Renewable sector[122]

TO	ESIF	Union support for the TO (EUR)	Relevant investment priorities (IP)	Relevant specific objectives	Target group	Main beneficiaries
4	ERDF CF	21,024,205 260,607,798	IP 4a Supporting EE, smart energy management and RE use in public infrastructure, including in public buildings, and in the housing sector	4a1 Improve energy efficiency in the public sector 4a2 Improve energy efficiency in households	Enterprises, public sector, households, low income households (eligible for grants amounting to at least 50 % of the eligible costs of investments	Enterprises, central public administration, public sector, self-governing local communities, providers of energy performance contracting, NGOs (priority to the organisations reaching out to low income groups of population), cooperatives (e.g. housing).
			IP 4b Promoting the production and distribution of energy derived from renewable sources	4b Increase the share of RES in end-use energy consumption	Enterprises, public sector, households, municipalities, cooperatives, institutes, individuals	
			IP 4c Development and use of intelligent low- and medium-voltage distribution systems.	4c Improve the capacity utilisation and efficiency of energy systems	Final consumers and electricity generation undertakings connected to low-voltage and medium-voltage distribution network and operators of energy distribution systems	Operators of energy distribution systems, owners/operators of production units of distributed electricity sources and electricity storage facilities, owners of electric vehicles and owners/operators of car parks, ICT companies, self-governing local communities, local energy companies

Source: Source: Operational programme for the Implementation of the EU Cohesion Policy in the Period 2014-2020 and Partnership agreement, 2014[123]

[122] It should be noted that funds for the Financial Instruments will be allocated as part of the funds that are planned in the context of Integrated Territorial Investments.
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Table 70: Indicative allocation from the OP-ECP 2014—2020 in the Urban and Sustainable Urban Development sector

TO	ESIF	Union support for the TO (EUR)	Relevant investment priorities (IP)	Relevant specific objectives	Target group	Main beneficiaries
6	EDRF CF EAFRD EMFF	30,000,000 269,111,316 203,323,170 8,166,308	IP 6d Taking action to improve the urban environment, to revitalise cities, regenerate and decontaminate brownfield sites (including conversion areas), reduce air pollution and promote noise-reduction measures	6d1 Efficient land use in urban areas	Population living in cities and urban areas, the economy, local communities, public open space and buildings managers, organisations active in the area of urban development promotion and urban revival, knowledge institutions, housing cooperatives and providers of other forms of housing in the cities, visitors to cities and urban areas.	Municipalities
				6d2 Improve air quality monitoring to provide better support to the development of plans in this field	Decision-makers at national and local level, population living in cities and urban areas, the economy, local communities, visitors to cities and urban areas	Slovenian Environment Agency
4	ERDF CF	21,024,205 260,607,798	IP 4a Supporting EE, smart energy management and RE use in public infrastructure, including in public buildings, and in the housing sector	4a1 Improve energy efficiency in the public sector	Enterprises, public sector, households, low income households (eligible for grants amounting to at least 50 % of the eligible costs of investments	Enterprises, central public administration, public sector, self-governing local communities, providers of energy performance contracting, NGOs (priority to the organisations reaching out to low income groups of population), cooperatives (e.g. housing).
				4a2 Improve energy efficiency in households		
			IP 4d Promoting low-carbon strategies for all types of territories, in particular for urban areas, including the promotion of sustainable multimodal urban mobility and adequate mitigation and adaptation measures	4d 1 Develop urban mobility to improve air quality in urban areas	Citizens, pedestrians, cyclists, users of public passenger transport, users of private cars	Municipalities, transport operators, education institutions, research institutions, non-governmental organisations, regional development agencies, enterprises

Source: Operational programme for the Implementation of the EU Cohesion Policy in the Period 2014-2020 and Partnership agreement, 2014

Appendix B. - ***Slovenian Economic Context***

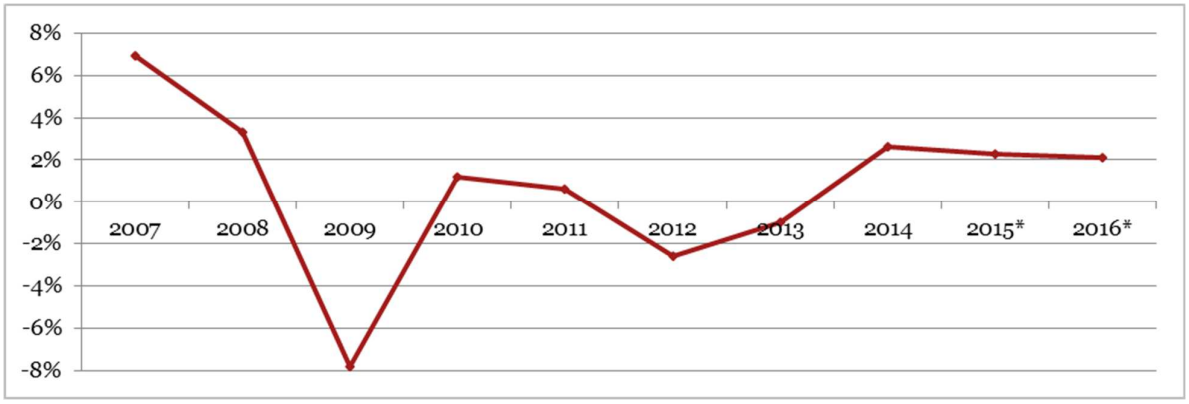
This section of the study contains an overview of the economic context in Slovenia. The Slovenian economic context has an impact on the individual performance of each actor involved in the economic investment areas we are considering. As recommended in each volume of *ex-ante assessment methodology for Financial Instruments*, gathering data on macroeconomic indicators such as GDP growth, exports/imports, etc. is an essential step before determining the existence of market failures and suboptimal investment situations.

With a loss of more than 9% of GDP between 2008 and 2013, Slovenia experienced one of the hardest recessions among Euro area countries. However, Slovenia's economy rebounded in 2014, with 2.6% growth, driven by net exports and remarkable size of infrastructure investments co-funded by EU. Growth is not expected to boom, especially with the bank recapitalisations weighing on the general government budget. On the other hand, restructuring of the banking sector is gaining momentum, which will lead to associated cost reduction. Public debt is expected to reach the maximum in 2015, before it will start to contract.

Key macroeconomic indicators

Slovenia ended recession in 2013 and grew almost in every sector, although net exports remained the main growth engine. The latter had exceptional 6.3% growth in 2014, which lead to a significant gain in Slovenian market shares. Investment was another important contributor to growth in 2014, mainly driven by infrastructure projects cofounded by the EU. On the other hand, machinery and equipment investment contracted, despite strong rebound recorded in 2013. Private consumption has increased for the first time since 2010, due to the slowly rising of employment rate[124].

Figure 72: Year-on-year real GDP change from 2008 to 2016 (in %)



Source: SI-STAT, 2015

Growth is expected to continue, although with decelerated rate. According to the EC, economic growth is forecasted to be 2.3% in 2015, before further decreasing to 2.1% in 2016. This is estimated because net export are expected to decrease. On the other hand, investment in equipment and machinery is expected to increase, which will accelerate and support future growth. Private consumption is expected to strengthen as well, while government consumption (under a no policy change), is expected to increase surprisingly later in 2016, after a 5-year decline.

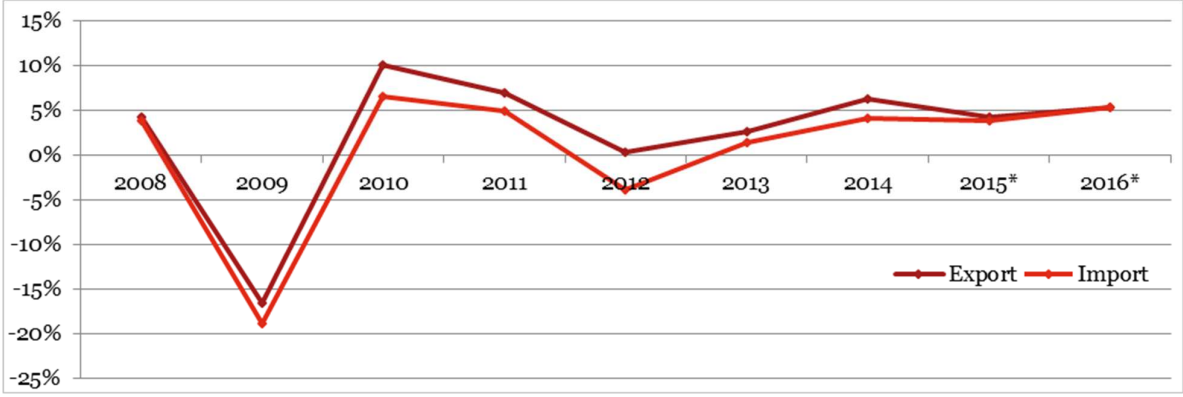
On the export side, Slovenia has regained export market share since 2013. This trend strengthened in 2014 following devastated market share losses between 2008 and 2012. According to the European Commission's export performance indicator, performance has evolved and outperformed Euro area in

[124] European Economic Forecast, Spring 2015. Available at: http://ec.europa.eu/economy_finance/eu/forecasts/2015_spring/si_en.pdf

2011. Despite the fact, that Slovenia lagged behind peers, such as the Czech Republic, Hungary, Poland and Slovakia between 2009 and 2012, the gap was reduced significantly in recent years[125].

Exports increased mainly due to the continued growth of exports to EU Member States, while the decrease in exports to EU non-member countries slowed down. The main trading partners, exports to Croatia, Germany, Italy and Austria increased the most. The largest contributor to overall export growth over the years is from the product group motor cars. Products from the group of medicaments contributed the second largest share of total exports in 2014[126]. The current account surplus is projected to rise steadily and is expected to remain high as long as deleveraging in the corporate sector continues[127].

Figure 73: Year-on-year changes of exports and imports (goods and services) from 2008—2016 (in %)



Source: SI-STAT and EC, 2015

Slovenia's exports in 2014 amounted to EUR 23,039.2 million, while imports amounted to EUR 22,645.4 million. The export/import ratio was 101.7% and the external trade surplus amounted to EUR 393.9 million. The external trade surplus was recorded in all months except in February, May, August and November[128].

Private investment decreased dramatically in 2009/2010. The financial crisis was not the main reason for the current situation. There is also highly indebted corporate sector, significant state involvement in the economy, and an unsupportive business environment. Lack of investment is worth special attention because of the impact it has on domestic demand and short-term economic outlook. In addition, the lack of investments is harmful for the potential future growth of the Slovenian economy. On the other hand, exceptionally high capacity utilization at the start of 2015 has projected private investments to rise in the following years[129].

[125] European Commission, Country Report Slovenia 2015. Available at: http://ec.europa.eu/europe2020/pdf/csr2015/cr2015_slovenia_en.pdf
[126] Statistical Office RS. Available at http://www.stat.si/StatWeb/en/show-news?id=4985
[127] http://ec.europa.eu/economy_finance/eu/forecasts/2015_spring/si_en.pdf
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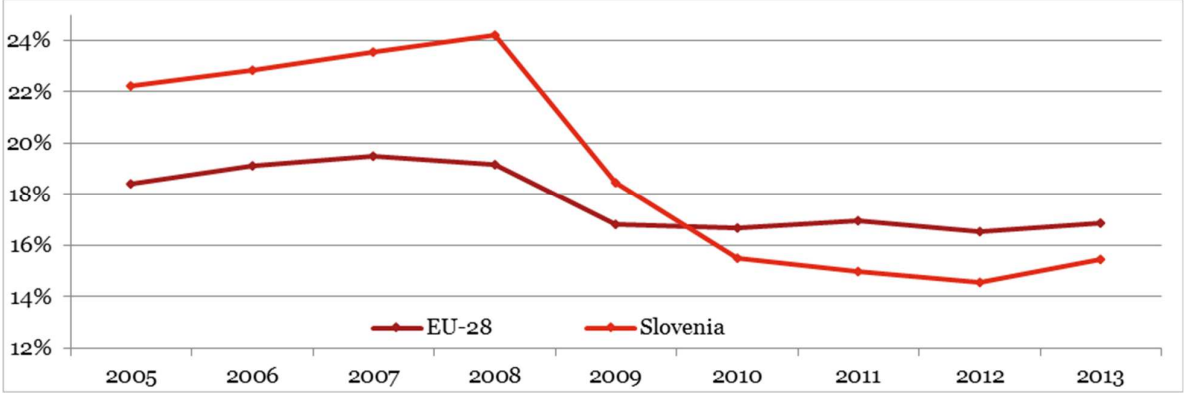
[129] http://ec.europa.eu/economy_finance/eu/forecasts/2015_spring/si_en.pdf.

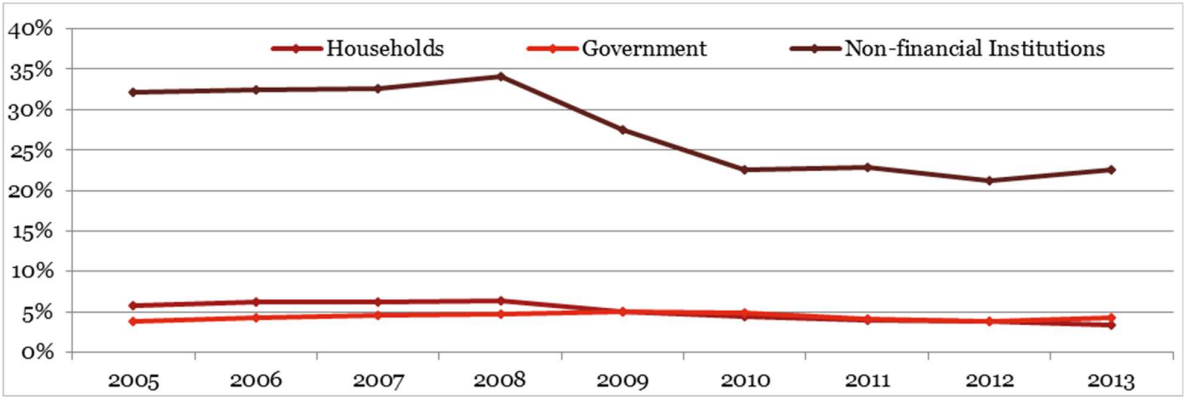
Figure 74: Investment in private sector from 2005–2013 (as % of GDP)



Source: Eurostat, 2015

Both households and non-financial corporations cease to invest significantly when the crisis began, while public investment was reduced at a later stage due to fiscal consolidation. Non-financial corporations and households sharply reduced their investment in terms of GDP by almost 40% between 2008 and 2009. Government expenditure on investment continued to grow until 2009, but as the recession took hold and revenue shortfalls materialised public investment was targeted as a key measure of the required fiscal consolidation. Public investment declined by 22% between 2009 and 2012 and this contraction dampened the tentative export-led recovery experienced by Slovenia in 2010-11. Since 2012, there has been a significant increase in public investment due largely to EU co-financed projects and the 2015 deadline for drawing on funds from the EU 2007—2013 multiannual financial framework. Consequently, public investment amounted to over 5% of GDP in 2014, one of the highest levels in the EU. Strong public investment has been one of the key drivers of the economic recovery experienced in Slovenia in 2014 and it is expected to continue to grow in 2015, albeit at a more modest pace[130].

Figure 75: Investment by Institutional Sector (as % of GDP)



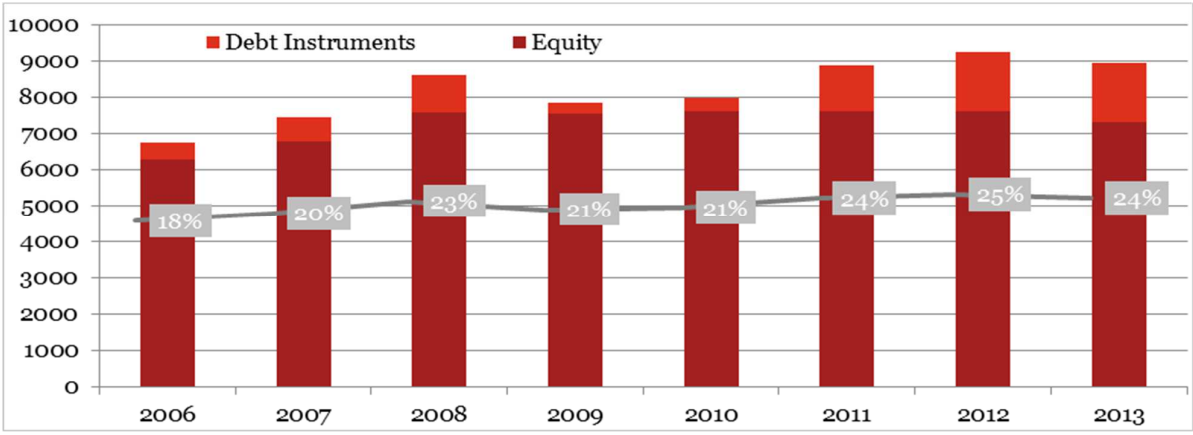
Source: Eurostat, 2015

Foreign Direct Investment (FDI) play an important role as a long-term, stable source of financing for the Slovenian economy. At the end of 2013, the FDI in Slovenia stood at EUR 8.9 billion (24% of GDP), which is 0.8 percentage point lower than in 2012. The accelerated growth before the crisis and relatively stable post-crisis stock show that Slovenia is able to attract FDI, although from low level. FDI is a reasonably stable mode of financing even in crisis times in contrast to portfolio and other investments.

[130] European Commision, Country Report Slovenia 2015. Available at: http://ec.europa.eu/europe2020/pdf/csr2015/cr2015_slovenia_en.pdf

Foreign direct investments declined in 2013, but a considerable increase was estimated for the 2014. In contrast to the pre-crisis period, Slovenia has registered outflows of non-equity capital and reinvestment as companies preferred to pay out dividends rather than reinvest profits. Equity was also affected due to the exit of foreign owners from financial corporations. While slower FDI inflows are to some extent rational due to a deceleration in global activity and FDI flows, Slovenia has been more affected than its peers. However, according to the EC, preliminary data for 2014 show positive flows in equity and debt instruments and an increase in FDI stock by approximately 15% in the first nine months of the year[131].

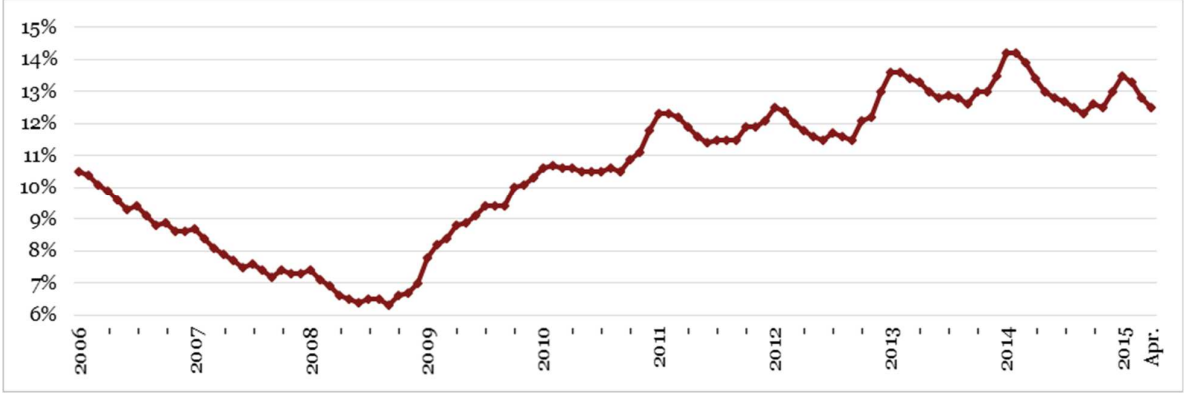
Figure 76: Foreign Direct Investments (EUR mil and in % of GPD)



Source: Bank of Slovenia, 2015

The labour market is showing signs of recovery although structural challenges continue to affect long-term unemployment, and the employment of low-skilled and elderly working force[132]. Before the crisis, Slovenia enjoyed very low levels of unemployment (6.3% in 2008). After inflow of cheap credit from abroad grinded to a halt the bubbles in the construction sector and real estate burst, unemployment started to rise swiftly. Registered unemployment rate reached its highest level at 14.2% in February 2014 but decreased to 12.5% in April 2015. In this month, Slovenia had less than 803,000 persons in employment; around 88.5% of them were in paid employment, employed by legal entities (92.8%) and natural persons (7.2%) and 11.5% were self-employed. Majority of people are employed in manufacturing, wholesale and retail trade and repair of motor vehicles and motorcycles[133].

Figure 77: Registered unemployment rate in Slovenia (in %)

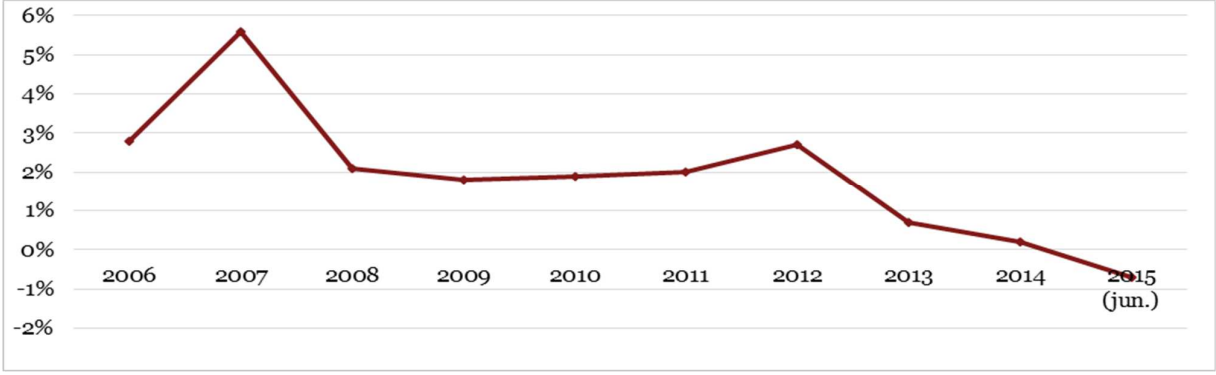


Source: SI-STAT, 2015

[131] European Commission, Country Report Slovenia 2015. Available at: http://ec.europa.eu/europe2020/pdf/csr2015/cr2015_slovenia_en.pdf
[132] http://ec.europa.eu/economy_finance/publications/european_economy/2015/pdf/ee1_en.pdf
[133] http://www.stat.si/StatWeb/en/show-news?id=5260

Slovenia had experienced **increasing inflation before the crisis. Yearly inflation** was above the average of the EU, with the highest yearly inflation of 5.6% in 2007. Between 2009 and 2012, inflation remained at low levels mostly because of the changes in energy and unprocessed food prices. In the following years, it has gradually declined due to weaker domestic demand and deteriorating import prices[134]. In light of recent events, fall in oil prices, similar trends on food and commodity market, historically low **levels of inflation** are expected to remain in 2015. However, it should increase back to 0.9% in 2016 due to the expected recovery of domestic demand and the assumption of slowly rising oil prices[135].

Figure 78: Inflation rate in Slovenia (in %)



Source: SI-STAT, 2015

Public Debt

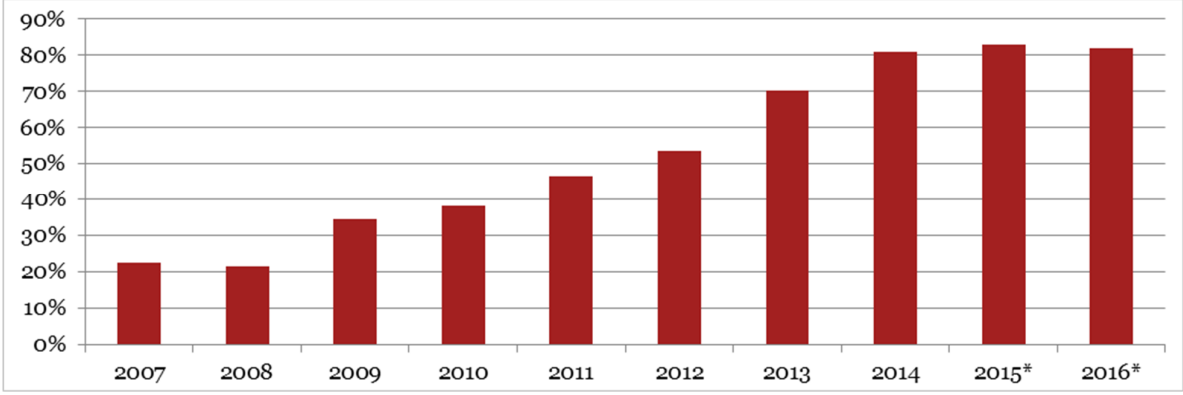
Slovenia's debt has strongly increased in recent years, from 22% of GDP in 2008 to 80.7 % in 2014 and is expected to stand at 83 % of GDP in 2015, according to the European Commission. While exceptional items, particularly bank recapitalisations, have contributed significantly to this increase, sustained primary deficits over the period have also attributed[136].

[134] European Economic Forecast, Winter 2015. Available at: http://ec.europa.eu/economy_finance/publications/european_economy/2015/pdf/ee1_en.pdf

[135] http://www.stat.si/StatWeb/en/show-news?id=5304&naslov=Indeksi-cen-%C5%BEivljenjskih-potreb%C5%A1%C4%8Din-Slovenija-junij-2015

[136] European Commission, Country Report Slovenia 2015. Available at: http://ec.europa.eu/europe2020/pdf/csr2015/cr2015_slovenia_en.pdf

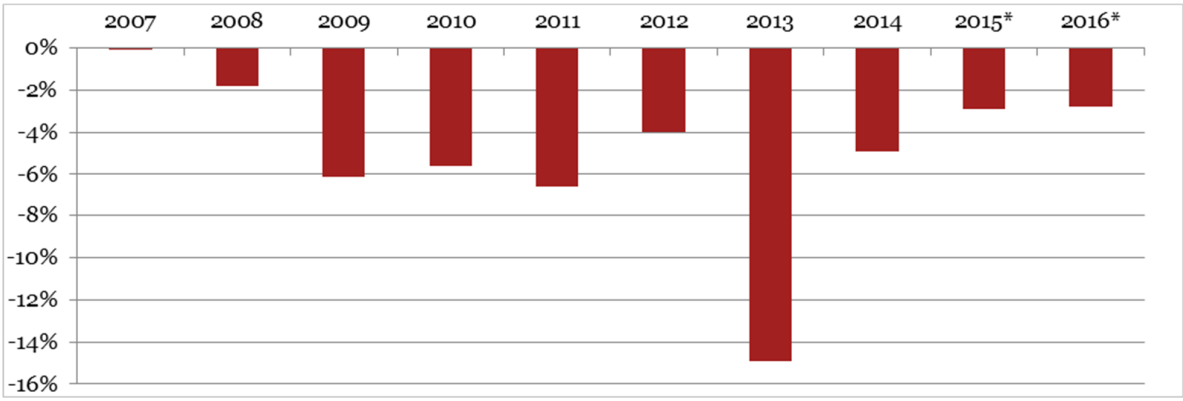
Figure 79: Government gross debt of Slovenia (in % of GDP)



Source: SI-STAT and EC, 2015

The general government deficit in 2014 was 4.9% of GDP (down from 14.9% of GDP in 2013) and almost one percentage point lower than the forecast by the EC. European Commission is forecasting the general government deficit to be 2.9% of GDP in 2015. Reduced deficit is expected mainly because of expenditure savings, subsidy reforms, reductions, and measures taken to reduce the public sector pay bill.

Figure 80: General government budget deficit in Slovenia (as % of GDP)



Source: SI-STAT and EC, 2015

In 2016, under a no-policy-change assumption the general government deficit is expected to decline further to 2.8% of GDP. A significant increase in consumption expenditure is expected to be more than offset by a reduction in gross fixed capital formation due to the end of the drawdown period from 2007—2013 EU programmes[137].

Credit rating

Based on the condition of Slovenian economy Standard & Poor's, Fitch and Moody' increased Slovenian rating in 2013. Slovenian's current credit rating along with ratings of the selected countries is shown in the following table below.

Table 71: Credit rating for selected countries in March 2015

Country	S&P	Moody's	Fitch
Slovenia	A-	Baa3	BBB+
Croatia	BB	Ba1	BB

[137] European Economic Forecast, Winter 2015; Available at: http://ec.europa.eu/economy_finance/publications/european_economy/2015/pdf/ee1_en.pdf

Serbia	BB-	B1	B+
Montenegro	B+	Ba3	
Macedonia	BB-		BB+
Romania	BBB-	Baa3	BBB-
Bulgaria	BB+	Baa2	BBB-
Slovakia	A	A2	A+
Poland	A-	A2	A-
Hungary	BB+	Ba1	BB+
Lithuania	A-	Baa1	A-
Latvia	A-	A3	A-
Estonia	AA-	A1	A+

Source: Trading Economics, 2015

The latest Standard & Poor's credit rating in March 2015 for Slovenia stands at A. In their view, the policy risks in Slovenia have receded since political party SMC won the elections. However, they still believe that prospects for economic growth remain weak due to political patronage, weak institutional and corporate governance, as well as non- parliamentary opposition such as from trade unions[138].

Fitch's rating for Slovenia is BBB+. Their stable outlook is based on reducing sovereign's vulnerability to the banking sector. In addition, the combination of high current account surpluses and private external debt deleveraging is strengthening external metrics from a weak position[139].

According to Moody's Investors Service, which gave a stable Baa3 rating, economic growth prospects and large debts stocks continue to pose challenges for Slovenia. The rating agency expects Slovenia's growth to remain weak, as the recovery of part of the corporate sector will likely take several years[140].

In conclusion, Slovenia continues to battle with excessive macroeconomic imbalances. However, thanks to macroeconomic adjustments and its decisive policy action, imbalances have been unwinding. Problems from economic structure, characterized by weak corporate governance, high level of state involvement in the economy, losses in cost competitiveness, the corporate debt overhang, the increase in government debt are being closely watched and addressed. While considerable progress has been made in repairing the banks' balance sheets, determined action with respect to the full implementation of a comprehensive banking sector strategy, including restructuring, privatisation and enhanced supervision is still required[141].

[138] Standard and Poors's ratings services; Available at http://www.standardandpoors.com/en_US/web/guest/article/-/view/type/HTML/id/1376334
[139] Fitch ratings; available at: https://www.fitchratings.com/creditdesk/press_releases/detail.cfm?pr_id=982090
[140] Moody's: available at http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_1001846
[141] EC European Economy, Macroeconomic Imbalances Slovenia 2014; Available at http://ec.europa.eu/economy_finance/publications/occasional_paper/2014/pdf/ocp187_en.pdf

Appendix C. - *Key Slovenian Commercial banks*

Nova Ljubljanska Banka (NLB)

NLB is the largest Slovenian bank, holding approximately 30% of domestic banking assets. It had received three State recapitalizations; the last was EUR 1,551 million in December 2013. NLB Group's 2013 ended with a loss of EUR 1,442 million, which was largely a result of extremely low quality loan portfolio and the negative macroeconomic trends. However, the NLB Group finished 2014 successfully: with a profit of EUR 62.3 million and, as a consequence, a 4.8% return on the capital it has been entrusted with. After having been absent from the international financial markets for several years, NLB d.d. presented itself again to investors with the highly successful issue of a three-year unsecured bond in July 2014[142].

In 2014, the European Central Bank (ECB) assumed control over systemically important financial institutions, including NLB d.d. Under the auspices of the ECB, the quality of the portfolios was reviewed (as at the end of 2013) and a stress test was performed in system-relevant banks in Europe. NLB d.d. passed the baseline scenario successfully with a solid capital buffer. Under the adverse scenario, however, the ECB identified a capital deficit of EUR 34 million, at the same time noting in its report that by improving its structural profitability NLB d.d. was able to close the gap already in 2014[143].

Providing finance to both public and private institutions, the bank is not specialized in particular industries. However, as far as our investment areas in this analysis are concerned, the bank offers favourable credit lines in cooperation with SID Bank and Slovenian Enterprise Fund.

They are offering two credit lines in collaboration with SEF, both of which are offering guarantees and interest rate subsidy for SMEs. One credit line is for improving business operations and the other for technologically innovative projects.

Nova Kreditna Banka Maribor (NKMB)

Nova KBM has the longest tradition of banking in Slovenia and with sound reputation at home and abroad[144]. After it had been recapitalised in December 2013, Nova KBM managed throughout 2014 to strengthen its role in the de-leveraging and recovery of the Slovene economy. It participated as an important member in several projects that have been set up to ensure short- and long-term restructuring of about 45 companies[145].

In 2014, Nova KBM took part in the most extensive assessment ever made of the resilience of the European banking system. It was carried out by ECB-selected independent international experts, and comprised an asset quality review (AQR) and stress tests[146]. Nova KBM, as the second-largest systemically important bank in Slovenia, actively participated in the execution of this comprehensive assessment[147].

On 30th June the Slovene Sovereign Holding (SSH), Apollo Global Management LLC (Apollo) and the European Bank for Reconstruction and Development (EBRD) signed the agreement concerning the sale of a 100% shareholding of the Republic of Slovenia in Nova KBM[148].

SKB

SKB bank is a part of Société Générale, one of the largest banking groups in the Euro area, which provides support in transferring new technologies, opening new business opportunities and accessibility of

[142] NLB annual report, available at: http://www.nlb.si/nlb/nlb-portal/eng/investor-relations/financial-reports/annual_report_2014.pdf
[143] NLB annual report, available at: http://www.nlb.si/nlb/nlb-portal/eng/investor-relations/financial-reports/annual_report_2014.pdf
[144] NKBM, available at: http://www.nkbm.si/pripravljeninajutri
[145] NKBM annual report, available at: http://www.nkbm.si/financial-reports-and-documents
[146] More on results of stress tests: http://www.nkbm.si/results-of-the-stress-tests
[147] NKBM annual report, available at: http://www.nkbm.si/financial-reports-and-documents
[148] NKBM, http://www.nkbm.si/content/14809/The-agreement-concerning-the-sale-of-Nova-KBM-is-signed

financing sources.[149]. SKB Bank reported consolidated earnings results for the year 2014; the company turned to a consolidated net profit of EUR 35.3 million from a net loss of EUR 30.7 million a year before.

In the end of 2014 The European Investment Bank (EIB) and SKB banka d.d, Ljubljana, have signed a contract for the provision of EUR 100 million in long-term funds to be delivered in two tranches of EUR 50 million. The funds will be used to combat youth unemployment by financing SME and midcap company projects in Slovenia.

In 2014, contracts for long-term funding have been signed with SID Bank for financing development of Slovene economy, growth of SMEs and internationalization of businesses. SKB is also in cooperation with Slovenian Enterprise Fund[150]. Furthermore, it cooperates with EIF through the programme Progress Microfinance, providing micro loans to companies.

Sparkasse

Bank Sparkasse d.d. has over 56,000 customers in Slovenia, and has already exceeded 1 billion in total assets, which ranks it among medium-sized banks. It offers a wide range of services and a network of more than 190-year tradition of the Erste Bank and Sparkasse**.**

Concerning energy efficiency, SMEs and urban development, the bank signed a contract with the EIB in October 2013 for EUR 50 million. The funds have primarily been intended to finance investments in fixed and tangible working capital for small and medium-sized enterprises and public sector investment in the fields of energy, environmental protection, health and education[151].

Sparkasse also offers favourable interest rate for companies that are contributing to the use or development of better energy efficiency. “Energy loans” for financing of renewable energy projects include investment in solar power or small hydroelectric power plants and business development and sales of products and systems in the energy segment, recycling materials, waste collection and processing[152].

UniCredit Bank

UniCredit is a market leader in Central and Eastern Europe with a broad network of roughly 3,600 branches in the region. On the contrary, it possesses only 6.1 % market share in Slovenia. UniCredit Bank is present in Slovenian market since 1991. The year 2014 was a successful one for the Bank, evidencing again a positive result in the amount of 0.6 million euros of net profit after tax and in addition 15.7 million euros of other comprehensive income after tax[153].

Surrounding the investment areas we are exploring, UniCredit Bank cooperates with Slovenian Enterprise Fund. It gives guarantees for bank loans and interest rate subsidy for micro, small and medium-sized enterprises. The loan is intended to finance tangible, intangible investments and working capital, to help improve the company's liquidity, compete in the market, improve market position and expand activities[154].

Banka Celje

Banka Celje has been operating successfully for 150 years and is the seventh largest bank in Slovenia. It has correspondent relations with over 900 banks worldwide and offers comprehensive banking services to domestic and international businesses[155].

In October 2014, the European Commission was sent a new restructuring program, prepared for the merged Abanka and Banka Celje. The state aid approval by the European Commission was granted on 16 December 2014, providing a merger with Abanka to take place no later than 1 January 2016 and the

[149] SKB, available at: https://www.skb.si/en/about-skb/mission-and-vision
[150] SKB, annual report, available at: http://www.skb.si/dms/www-skb-si/Letna-porocila/Annual-reports/ANNUAL-REPORT-2013/ANNUAL%20REPORT%202013.pdf
[151] http://www.sparkasse.si/eib
[152] http://www.sparkasse.si/energetski-kredit
[153] UNICREDIT BANK annual report, avaliable at: http://www.unicreditbank.si/pdf/o_nas/letna_porocila/LP_UniCredit_2014.pdf
[154] Unicredit, Financing, available at: http://www.unicreditbank.si/sl/Pravne_osebe/Standardne_oblike_financiranja/Investicijsko_financiranje
[155] Banka Celje, available at: http://www.banka-celje.si/o-banki/predstavitev/osebna-izkaznica

merged to be sold by 2019. On 16 December 2014, the Bank received the Decision on emergency measures issued by the Bank of Slovenia, on the basis of which all of the Bank's qualified liabilities, which were incurred up until the issue date of the Decision and represented the Bank's share capital and subordinated financial instruments, were written down at the same time increasing the Bank's capital.

Banka Celje has been cooperating with SID Bank successfully for many years. Collaboration strengthened during the global economic and financial crisis, in which SID Bank created specific programs, where it send additional credit resources through commercial banks.

Financing is intended for small, medium and large. Projects include financing energy efficiency, development of a competitive business, development of a competitive economy and internationalization, as well as regional and social development. In addition, together with SID Bank, Banka Celje offers trade credit insurance to foreign buyers.

Appendix D. - ***Existing Financial Instruments in Slovenia***

Area	Source of financing	Instrument name	Instrument type	Financial intermediary	Budget (mEUR)	Disbursements (mEUR)	Eligibility criteria	Main objective of product	Number of SMEs supported	Start date	End date
Slovene Enterprise Fund											
SMEs	Programme on Financial Engineering Instruments (PFEI) and P1 2009	Guarantees for loans with interest rate subsidy	Guarantee	Commercial banks	40	12.1	SMEs	Increasing SMEs competitiveness	97	28.3.2014	Closed
SMEs	Programme on Financial Engineering Instruments (PFEI)	Guarantees for loans with interest rate subsidy	Guarantee	Commercial banks		24.8	SMEs	Increasing SMEs competitiveness	186	30.5.2014	Closed
SMEs	Programme on Financial Engineering Instruments (PFEI)	Guarantees for loans with interest rate subsidy	Guarantee	Commercial banks	30	12.3	SMEs	Strengthening the development of technological solutions in the company	53	28.3.2014	Closed
SMEs	Programme on Financial Engineering Instruments (PFEI)	Guarantees for loans with interest rate subsidy	Guarantee	Commercial banks		17.7	SMEs	Strengthening the development of technological solutions in the company	75	30.5.2014	Closed
SMEs	Fund itself + Programme on Financial Engineering Instruments (PFEI)	Microcredits to micro and small enterprises	Microcredit	/	5	4.99	SMEs	Enabling microfinance for micro and small enterprises	213	3.1.2014	Closed
SMEs /RRI	National budget	Incentives for start of innovative companies	Grants	/	0.8	0.8	SMEs	Incentives for innovative companies	40	7.3.2014	Closed

Area	Source of financing	Instrument name	Instrument type	Financial intermediary	Budget (mEUR)	Disbursements (mEUR)	Eligibility criteria	Main objective of product	Number of SMEs supported	Start date	End date
SMEs/RRI	National budget	Incentives for start of innovative companies	Grants	/	2.2	1.9	SMEs	Incentives for innovative companies	35	26.9.2014	Closed
SMEs	Programme on Financial Engineering Instruments (PFEI)	Seed capital - convertible loan for the start of innovative companies in the amount EUR 75,000	Convertible loan	/	1	1	SMEs		20	20.6.2014	Closed
SMEs	Programme on Financial Engineering Instruments (PFEI)	Seed capital - equity for growth of innovative companies in the amount of EUR 200,000	Equity entry	/	1.4	0.4	SMEs				
SMEs	Programme on Financial Engineering Instruments (PFEI)	Venture capital - in the form of a capital contribution of participating venture capital companies	Capital contributions	Venture capital companies	19	6.6	Venture capital companies	Venture capital and mezzanine capital		Tender in progress	Open
Slovenian Regional and Development Fund											
SMEs	Slovenian Regional and Development Fund	/	Loan	/	5	0*	SME, self-entrepreneurs, cooperatives	Promote the development-investment Projects			
	Slovenian Regional and Development Fund	/	Loan and grants	/	2.1 mil EUR of Loans and 0.2 mil EUR of Grants	0*	SME, self-entrepreneurs, Cooperatives, development institutions, agricultural holdings	Investment incentives for the territories of indigenous communities			
Urban and territorial development	Slovenian Regional and Development Fund	/	Loan	/	3.0 (+3 from funds planned for 2015)	3	Municipalities	For local infrastructure projects	21	12.9.2014	13.10.2014
SMEs, agriculture	Slovenian Regional and Development Fund	/	Loan	/	1	0*	Agricultural holdings (natural and legal persons)	Promoting rural development and. projects that facilitate the development of the rural economy			

Area	Source of financing	Instrument name	Instrument type	Financial intermediary	Budget (mEUR)	Disbursements (mEUR)	Eligibility criteria	Main objective of product	Number of SMEs supported	Start date	End date
	Slovenian Regional and Development Fund, EU funds	/	Pre-financing (loans)	/	1	0.91	Development institutions		13	12.9.2014	15.10.2014
Regional development	Slovenian Regional and Development Fund	/	Loans or guarantees	/	9.0	0*	Regional development agencies and final beneficiaries	Financial incentives for implementation of regional guarantee schemes which will ease the access to financing source	/	/	/
Regional development	Slovenian Regional and Development Fund	/	Loan	/	0.2	0*	Companies, municipalities, individuals	Emergency measures in regional development			
*note: the Fund in 2014 was not able to realize the tenders, whereas the legal basis for the implementation of public procurement procedures in the acceptance and compliance with new programming bases for 2014-2020											
SID Bank											
2014 - Loans with the status of state aid/*de minimis*											
SME	Business and financial engineering and SID Bank		Credit line	Direct financing	83.3	0,79	SME	Financing investments and employment of SMEs	1	23.3.2015	Approval of loans to 31.12.2015, placement to 31.12.2016
RRD/SME	Business and financial engineeringand SID Bank		Credit line	Direct financing	41.7	0	SME	Financing research development and innovation of SMEs	0	6.5.2015	approval of Approval of loans to 31.12.2015, placement to 31.12.2016
SME	Business and financial engineeringand SID Bank		Credit line	Direct financing	291.6	89	SME	Business financing of SMEs	244	27.9.2013	Approval of loans to 31.12.2015, placement to 31.12.2016
SME	Business and financial engineeringand SID Bank		Credit line	Direct financing	41.7	11.3	SME	Microfinance business of SMEs	166	27.9.2013	Approval of loans to 31.12.2015, placement to 31.12.2016
RDI/SME	Business and financial engineeringand SID Bank	Financing of technology-development projects	Credit line	Direct financing	150	94.8	Companies	Financing of technology-development projects	18	21.11.2011	Approval of loans to 31.12.2015, placement to 31.12.2016

Area	Source of financing	Instrument name	Instrument type	Financial intermediary	Budget (mEUR)	Disbursements (mEUR)	Eligibility criteria	Main objective of product	Number of SMEs supported	Start date	End date
EE/SME	EU funds and SID Bank		Loan + grant	Direct financing	5.3 (€ 5 million loans, € 0.3 million of grants; EIB funds directly from the EC "SME FF EE Window")	0.4	SME	Financing of investments in energy efficiency of SMEs	1	7.7.2014	Approval of loans to 31.12.2015
EE/urban and territorial development	SID Bank (EIB and CED funds)		Loan	Direct/ Commercial banks (optional)	100	43	Municipalities	Finance energy performance through banks	25	11.11.2014	Approval of loans till 31.7.2015* * in the process of extension
EE	SID Bank (EIB funds)		Loan	Commercial banks	50	0	Natural persons	Natural persons - Program financing investments of natural persons in energy efficiency in housing (via commercial banks	0	Process of concluding contracts with banks for app. 10 mil	Approval of loans till 31.7.2015* * possibility of extension
Microfinance by commercial banks through Progress Microfinance											
SMEs	EIF	/	Microfinance	Banka Koper	0.49		SME	Micro companies	/	21.10.13	/
SMEs	EIF	/	Microfinance	SKB Leasing Ljubljana	9	2.59	SME	Micro companies	202	19.11.13	/
SMEs	EIF	/	Microfinance	Volksbank Slovenia (Sberbank Slovenia)	8.75	9.89	SME	Micro companies	401	18.7.11	/
Eco Fund											
EE	Eco Fund	Loans to legal entities (tenders in 2012, 2013)	Loans	/	25	21.6	Legal entities	Various investments in all areas of environmental protection	/	/	31.3.2013
					34	27.3				/	30.11.2013
EE	Eco Fund	Loans to citizens	Loans	/	6	5.6	Citizens	Various investments in all areas of environmental protection	/	/	28.2.2013
					12	11.9					31.1.2014
					8	27.3					31.1.2015

Area	Source of financing	Instrument name	Instrument type	Financial intermediary	Budget (mEUR)	Disbursements (mEUR)	Eligibility criteria	Main objective of product	Number of SMEs supported	Start date	End date
EE	Eco Fund	Loans to municipalities	Loans	/	8	5.3	Local government	Various investments in all areas of environmental protection	/	/	30.4.2015

Appendix E. - *Methodology used for quantification of the demand and supply*

Financing gaps calculated with potential supply and potential demand should not be perceived by policy makers as amounts that should be covered in a single year or as gaps, which have to be bridged by Financial Instruments in order to catalyse private financing for the four areas (SMEs, RDI, EE/URE, UTD). They are an indication of the financing needs in the overall economy of Slovenia, according to the methodologies described in the present report and the market constraints experienced in the four areas.

Gaps do not include promotional activities of public institutions, except in cases where they provide the only source of funding for individual areas. Total amount of the ESI funds will not be sufficient to cover all the gaps in individual areas, so a sufficiently high intervention of Slovenian public promotional institutions will be required in the addressed areas.

E.1. SMEs

Methodology to quantify demand

The present Appendix details the main steps of the methodology undertaken in this study to calculate the demand for finance. Financial products are analysed across two size categories of SMEs in the following way:

- Micro-enterprises. The analysis is made for three financial products: short-term loans, medium and long-term loans and microfinance. Demand for microfinance products has been estimated for existing micro-enterprises and potential micro-enterprises; and
- Small and medium-sized enterprises taken together. The analysis groups these two size categories in order to have a sufficient respondent base on the one hand and because the data suggests limited differences between the two size categories. Two financial products are considered: short-term loans, medium and long-term loans.

The demand analysis for equity financing has been computed differently and is carried out for the entire SME population.

For the small and medium-sized enterprises, the entire population of companies as per the SI-STAT data of 2013 has been used: 6,788 small enterprises and 1,988 medium-sized enterprises in Slovenia.

For micro-enterprises, the population has been corrected in order to improve the analysis:

- First, demand for microfinance with the purpose of financial inclusion has been considered only for micro-enterprises that do not exist yet. It is assumed that microfinance for social and financial inclusion is exclusively of interest for people who are currently at risk of poverty, who face social exclusion and who may be willing to initiate a business if they were better financially supported. Existing SMEs (including existing micro-enterprises) would not need such a type of financing since their business is already in place and their owners and/or managers are not socially excluded;
- Second, micro-enterprises with 0-1 employee and existing social enterprises have been considered for microfinance; and
- Third, the population of micro-enterprises with employees has been corrected to calculate demand for the two other financial products: short-term loans, bank overdrafts and credit lines medium and long-term loans.

Demand for short-term loan, medium and long-term loans is estimated in the same manner for micro-enterprises with more than 1 employee on the one hand and for small and medium-sized enterprises on the other hand.

The example of the calculation of the demand of micro-enterprises for short-term loans, bank overdrafts and credit lines is detailed in the following paragraphs in order to illustrate the main steps undertaken. Figure 81 below indicates how the considered population of micro-enterprises is estimated for the calculation. As micro-enterprises with 0-1 employee (i.e. 133,084 micro-enterprises) have low revenues and are unlikely to be financed by commercial banks, they are not considered for short-term loans, but

only for microfinance. After subtraction, 39,899 micro-enterprises remain, constituting the considered micro-enterprise population for loan products.

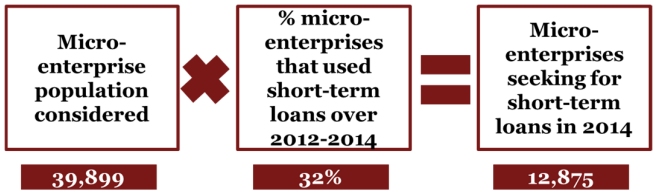
Figure 81: Detailed example of the estimation of the micro-enterprise population used for the calculation of demand for loan products

Source: SI-STAT, PwC analysis, 2015

This micro-enterprise population is considered to potentially look for financing. Followed step has been undertaken to estimate the number of micro-enterprises that would seek short-term loans in 2015, as illustrated in Figure 82 below:

- In order to know how many micro-enterprises whithin this remaining population would seek short-term loans in 2015, the proportion of micro-enterprises that used this specific financing over 2012-2014 has been used as proxy.

Figure 82: Detailed example of the estimation of the micro-enterprise population used for the calculation of demand for short-term loans



Source: SI-STAT, PwC analysis, 2015

The number of micro-enterprises obtained (12,875) is the estimated number of micro-enterprises that would look for short-term loans in Slovenia in 2015. This number is multiplied by the average amount of a short-term loan to be seek by one single micro-enterprise in Slovenia in 2015, according to the results of the online survey conducted among the SMEs in the country. This average amount is EUR 36,650.

This calculation is illustrated in Figure 83 below.

Figure 83: Detailed example of the estimation of the total volume of potential demand for short-term loans for micro-enterprises

Source: PwC analysis, 2015

The result obtained is the total volume of potential demand for short-term loans by micro-enterprises for 2015 (EUR 472 million). A variation of -5% and +5% around this volume is then calculated to take into consideration the potential fluctuation of the demand in 2015 (EUR 448m and EUR 495m).

So in this illustration, the demand for short-term loans from micro-enterprises represents EUR 448 million at the lower end of the estimated range and EUR 495 million at the higher end of this estimated range. The same calculation is conducted for medium and long-term loans. These calculations are

conducted for micro-enterprises with more than 1 employee on the hand and for small and medium-sized enterprises taken together on the other hand.

Quantification for potential demand for SMEs

Micro enterprises in Slovenia in 2015

Demand from existing micro-enterprises has been considered for two categories of companies:

- Micro-enterprises with 0-1 employee;
- Micro-enterprises with between 2 and 9 employees.

It is assumed, to facilitate analysis and quantification of demand, that the most suitable financial product for micro-enterprises with 0—1 employee is microfinance. Similarly, micro-enterprises with employees are expected to require more conventional loans (short-term or medium and long-term). The survey did not provide information on other products at this level of detail.

In the case of micro-enterprises with 0—1 employee, demand has been considered for both existing companies and companies that do not yet exist, in order to provide insights on financing demand for financial inclusion.

Demand from micro-enterprises with 2—9 employees is considered first.

Quantification of demand for loans

The methodology behind quantifying micro-enterprise demand for financing is provided above. The information provided by SMEs in the online survey was used in estimating demand for the following financial products:

- Short-term loans, bank overdrafts and credit lines; and
- Medium and long-term loans.

The average amount in short-term loans sought by micro-enterprises is EUR 36,650 and EUR 111,531 for medium and long-term loans.

To calculate micro-enterprises' total demand for the selected financial product, the total population of micro-enterprises has been identified on the basis of the following considerations:

- First, the number of 0-1 employee companies is removed (133,084) as they tend to have different needs than established companies;
- Second, the obtained number is multiplied[156] by
    - The rate of micro-enterprises that used the financial product in 2012—2014 as a proxy for their respective likely uptake among those seeking finance in the future: 32% for short-term loans and 25% for medium and long-term loans.

In order to estimate the total demand from micro-enterprises, the average amount is multiplied by the total population (12,875 micro-enterprises for short-term loans and 9,904 micro-enterprises for medium and long-term loans). A variation of -5% and +5% around this volume is then calculated to take into consideration the potential fluctuation of demand.

This method is applied for 2015 for the two financial products. The results by product are presented in Table 72 below.

[156]The use of proxies in these calculations is intended to provide a more realistic size sample of population. As a result of the use of proxies, the population is reduced to a number of companies that is more likely to seek a specific financial product, thus allowing a more realistic computation of demand for this product.

Table 72: Annual demand for financial products among micro-enterprises in Slovenia in 2015 (EUR mil)

	Average finance sought by a single micro-enterprise	Finance sought by the total micro-enterprise population
Short-term loans, bank overdrafts and credit lines	0.367	448 – 495.5
Medium and long-term loans	0.114	1,068 -1,181

Source: PwC analysis, 2015

Quantification of demand for microfinance

Demand for microfinance has only been considered for 0-1 employee companies in Slovenia. This is done since microfinance is mostly used for financial inclusion and social entrepreneurship purposes. As already established in this report, most newly created companies are micro-enterprises. Two calculations have been made:

- Demand for microfinance from existing micro-enterprises;
- Demand for microfinance from potential micro-enterprises (financial inclusion); and
- Demand for microfinance from existing social enterprises.

Demand for microfinance from existing micro-enterprises

According to SI-STAT, total number of micro-enterprises with 0-1 employee was 133,084 in 2013. We have deducted from this number the number of State authorities and local communities (223) and Other natural persons (10,007). The adjusted number of micro-enterprises was 122,854.

The average amount of microfinance intended to be sought in 2015 by micro-enterprises has been computed with the methodology described above, except in this case. There was no figure is available on the demand side of microfinance in Slovenia to specifically to conduct triangulation, so the average amount of microfinance has been used by the European Microfinance Network (EMN), where EU average for business loans provided by MFIs in EUR 9,960[157]. However, according to the same survey, there seems to be wide differences from country to country regarding the average loan amounts, ranging from very low amounts of below EUR 1,000 to high amounts reaching EUR 20,000.

The computation of demand for microfinance has been made for 2015. The results are presented in Table 73 below.

Table 73: Annual demand for microfinance in Slovenia in 2015 (EUR mil)

	Average finance to be sought by a single micro-enterprise	Finance to be sought by the total micro-enterprise population
Microfinance	0.010	**1,162-1,285**

Source: PwC analysis, 2015

Micro-enterprises do not make the difference between the microfinance and short-loan products. They feel like using them in an undifferentiated way.

Demand for microfinance from potential micro-enterprises (financial inclusion)

Microfinance can be used for financial inclusion to help people at risk of poverty to create their own company.

Since there is no available data on demand for microfinance in Slovenia, the average amount to be sought by a micro-enterprise for financial inclusion in 2015 may be considered at in EUR 9,960, i.e. the same as the average amount to be sought by existing micro-enterprises.

[157] EMN 2014, Overview of the microcredit sector in the European Union for the period 2012-2013

The population at risk of poverty, who might be the population that would seek this type of finance, consists of people with very different profiles. Such as: (1) young people with no qualification, who have never worked and have difficulties finding a job, (2) people with disabilities, (3) people from unprivileged populations, (4) people living in difficult areas with high rates of unemployment or (5) experienced people who are unemployed for a long period and have difficulty in adapting and finding a new job.

This population may create their own business, if properly supported.

To determine the number of people aged 15-64 years old at risk of poverty that may create their own business. With this approach, the following steps are conducted:

- Consider within the active population of 15-64 years old in Slovenia in 2013 (921,362 people), the people at risk of poverty (13% according to 2013 figures)[158]. This population represents 119,777 people.
- Among these people, consider the percentage of people that prefer to be self-employed to exploit a business opportunity. This percentage among the overall Slovene population is 17%[159]. The population obtained is 20,362.
- Among this population, consider the people who think that starting a business is a desirable career choice but do not have enough capital/financial resources to be self-employed. This represents 16% of the respondent to the Eurobarometer survey conducted in 2012[160]. The population obtained represents 3,258 people.
- Multiply this population of companies by the average amount of microfinance to be sought by a micro-enterprise for financial inclusion in Slovenia in 2015 - EUR 9,960 (EU average by the European Microfinance Network).

The results are presented in Table 74 below and yield a need for microfinance of 32.5 million EUR may be expressed by new business creators who currently face social exclusion and may be willing to initiative a business if better supported in their access to finance.

Table 74: Annual demand for microfinance for financial inclusion in Slovenia in 2015 (EUR mil)

	Average finance to be sought by a single micro-enterprise	Finance to be sought by the total micro-enterprise population
Microfinance	0.01	32.5

Source: PwC analysis, 2015

Demand for microfinance from existing social enterprises

Microfinance can also be required by the existing social enterprises in Slovenia. On 2 June 2015, 81 companies have been registered as social enterprises in Slovenia. The average amount to be sought is 2015 is 9,960 (EU average by the European Microfinance Network). The results are presented in Table 75 and yield a need for finance of EUR 0.81 million that may be expressed by the already existing social enterprises.

Table 75: Annual demand for microfinance for existing social enterprises in Slovenia in 2015 (EUR mil)

	Average finance to be sought by a single micro-enterprise	Finance to be sought by the total micro-enterprise population
Microfinance	0.01	0.81

Source: PwC Analysis, 2015

[158] http://pxweb.stat.si/pxweb/Dialog/varval.asp?ma=0867206S&ti=&path=../Database/Dem_soc/08_zivljenjska_raven/08_silc_kazalniki_revsc/10_08672_stopnja_tveg_revcine/&lang=2

[159] Q6 in Flash Eurobarometer 354, 2012: *Why would you prefer to be self-employed rather than an employee?*

[160] Q8 in Flash Eurobarometer 354, 2012: *Why would it not be feasible for you to be self-employed within the next 5 years?*

Small and medium-sized enterprises in Slovenia in 2015

The quantification of demand for financing for small and medium-sized enterprises has been calculated for the two size categories together. The following quantification of demand from these companies uses the methodology described in above for the following financial products:

- Short-term loans, bank overdrafts and credit lines; and
- Medium and long-term loans.

Similar to micro-enterprises, small and medium-sized companies have not indicated amounts than can be appropriately used for the quantification of the potential demand for other financial products, such as leasing and factoring.

After implementing all the steps of the methodology for 2015, the average potential demand from a single small or medium-sized company for each product is provided. For short-term loans, the average demand amounts to EUR 196,925. A respective amount was also computed for medium and long-term loans EUR 290,789 as presented in Table 76 below.

Table 76: Annual demand for financial products by small and medium-sized enterprises in Slovenia in 2015 (EUR mil)

	Average finance to be sought by a single small or medium-sized enterprise	Finance to be sought by the total population of small and medium-sized enterprises
Short-term loans, bank overdrafts and credit lines	0.197	**1,642 – 1,815**
Medium and long-term loans	0.291	**2,424 – 2,680**

Source: PwC analysis, 2015

In order to estimate the demand in the total population of small and medium-sized enterprises, the average amounts were multiplied by the number of companies (SI-STAT, year 2013) and a variation of -5% and +5% was applied.

Quantification of potential demand for equity financing

According to the results of the survey, the average amount of equity financing to be sought by SMEs in Slovenia in 2015 is EUR 73,599. It is aligned with the needs for equity financing from a population of innovative micro-enterprises on the one hand and the needs of small and medium-sized companies that need to develop in the country on the other hand. Furthermore, the dispersion of the amounts expressed by SMEs is important since they range from EUR 1,000 to EUR 500,000, considering that all size categories of SMEs and all equity products are taken into account in the analysis.

For the calculation of the total demand of SMEs, the total population has been identified on the basis of the following considerations:

- First, only micro-enterprises with 2-9 employees are taken into consideration. There are 39,899 micro-enterprises.
- Second, all small and medium-sized enterprises are taken into consideration: 8,776 enterprises.
- Third, the obtained number is multiplied by the proportion of SMEs that are interested in seeking equity financing in 2015. Lower end of the range may be estimated at 0.5% and the higher end of the range may be considered at 3%.

For 2015, 1% of the SMEs express the intention to seek equity financing from their existing shareholders, while 3.7% intend to seek equity financing from their family and friends. 0.2% of the SMEs plan to source equity financing from Business Angels, 1% from Venture Capital funds and 2.5% from Private Equity funds. Finally, 0.7% of the SMEs intend to use quasi-equity financing (mezzanine financing), funding from

a technology transfer fund or turnaround equity financing[161]. Consequently, equity financing from "external" sources seems relevant to between 0.5% and 3% of the SMEs in the region.

The number of SMEs that may seek equity financing in Slovenia in 2015 is between 264 and 1,320. Following this, the average amount of equity financing that may be sought by all SMEs in Slovenia in 2015 is between EUR 19 and 97 million. The results of equity financing to be sought in Slovenia in 2015 are presented in Table 77 below.

Table 77: Annual demand for equity financing by all SMEs in Slovenia in 2015 (EUR mil)

	Average finance to be sought by a single SME	Finance to be sought by the total SME population
Equity financing	0.074	**19 - 97**

Source: PwC analysis, 2015

Methodology used to quantify supply of financing for SMEs

The anticipated annual supply of the main financial products available to SMEs in 2015 has been calculated based on several sources of information, market trends and projections, allowing for a comprehensive and complementary approach. While specificities have been highlighted for each product, the general approach for the calculation of supply is described in the following steps:

- First, the analysis considers all the amounts provided to the SMEs in Slovenia for the products where data is available for the recent years. The supply information used only concerns the SMEs and excludes large companies;
- Within the supply of the financial products to the SMEs, amounts provided to each size category: (1) micro, (2) small and (3) medium-sized companies are also estimated. This is done by using the information gathered from both the literature and stakeholder interviews. For most products, the supply for small and medium-sized companies is not estimated separately.
    - The amounts to be provided in 2015 are then computed by taking into account:
        - The trends observed during the 2010—2014 period for each financial product;
        - The real GDP growth forecasts for Slovenia for 2015 made by the European Commission in May 2015 (+2.3%);
        - The market dynamics perceived in future for each market by the market stakeholders to define the upside and downside scenarios.

This trend analysis is a necessary component of the methodology, since the development of the future supply of financial products depends, to some extent on the supply characteristics of the past. However, there are known or assumed reasons to believe that there will be a discontinuity in the historical trend, which can be identified or predicted. Economic growth is also taken into account as an important indicator of the economic performance of Slovenia.

Finally, the perception of the market developments provided by the interviewed stakeholders is a more subjective element. Insights obtained from the relevant financial institutions have been used to estimate the growth of their financing offer.

Quantification of supply for financing SMEs

The quantification of the expected supply of financial products takes into account:

- The current supply trend of each product under consideration;
- The GDP growth forecasts for Slovenia provided by the European Commission as of May 2015 (+2.3%) for 2015;
- The perception of the development of each market expressed by stakeholders during interviews.

[161] The number of SMEs that provided an answer: 401

Microfinance

The supply of microfinance in Slovenia in 2015 will range between EUR 9.1—10.1 million. The supply of microfinance is built from the remaining funds via EIB program Progress Microfinance that has been available through three commercial banks (Sberbarnk, Banka Koper, SKB Leasing). Currently the amount of available funds is EUR 6.4 million by SKB Leasing. Furthermore, based on the Strategy programme of the Slovene Enterprise fund, the amount dedicated for microloans in the period 2016—2020 will be EUR 51.2 million.

Adding up those two numbers, we get the supply for microfinance for 2015—2020, which is approximately EUR 57.6 million. Providing an amount per year (i.e. for 2015), we get an approximate range between EUR 9.1 and 10.1 million.

Table 78: Estimated annual supply of microfinance to SMEs in 2015 (EUR mil)

Total supply to micro-enterprises	9.1 – 10.1

Source: PwC Analysis, 2015

Short-term loans, overdrafts and credit lines

According to interviews with banking stakeholder, banks in Slovenia are currently not facing liquidity issues, but may experience problems finding bankable projects. This is consistent with the message received across the European Union.

The present study only considers the loans to non-financial companies.

The quantification of the expected supply of financial products takes into account:

- The current supply trend of each product under consideration;
- The GDP growth forecasts for Slovenia provided by the European Commission as of May 2015 (+2,3%) for 2015;
- The perception of the development of each market expressed by stakeholders during interviews

Based on the computation methodology, the supply of short-term loans for SMEs in 2015 will range from EUR 1,140 million - EUR 1,260 million. The computation has taken into account the trends in the short-term loan supply between 2010—2014 (-28% on average per year between 2010—2014), GDP forecast at 2.3% for 2015 and banks' commonly perception that there are no specific constraints foreseen in the future that could limit the loan supply. This perception has been translated into the calculation with a variation of the supply between -5% and +5%.

This supply of short-term loans for SMEs has been broken down into supply to micro-enterprises on one hand and to small and medium-sized enterprises on the other, using the information from commercial banks.

Table 79 below provides an overview of the supply of the short-term loans to SMEs per company size in 2015.

Table 79: Estimated annual supply of short-term loans to SMEs in 2015 (EUR mil)

Total supply to SMEs	**1,140 – 1,260**
Total supply to micro-enterprises	285 - 315
Total supply to small and medium sized enterprises	855 - 945

Source: PwC Analysis, 2015

Medium and long-term loans

The estimate of the supply of medium and long-term loans for 2015 was calculated using the same approach as for short-term loans. The computation is based on the supply of medium and long-term loans from previous year (-9% on average per year between 2010 and 2014) and GDP growth forecast at 2.3% for 2015. In addition, lack of specific constraints in the supply of medium and long-term loans perceived by bank stakeholders is translated into the variation of the supply between -5% and +5%.

The supply of medium and long-term loans to SMEs in Slovenia in 2015 is estimated to range from EUR 1,696 million – EUR 1,875 million. Table 80 below provides an overview of this supply.

Table 80: Estimated annual supply of medium and long-term loans to SMEs in 2015 (EUR mil)

Total supply to SMEs	**1,696 – 1,875**
Total supply to micro-enterprises	424 - 469
Total supply to small and medium sized enterprises	1,272 – 1,406

Source: PwC Analysis, 2015

Equity financing

The estimate of equity supply from Slovenian Venture capital funds in 2015 follows a different approach than that for loan financing. The decision to use a different method stems from the fact that supply of equity financing is more volatile than in the case of other financing products. It also mainly depends on the capacity of demand to meet supply, including the communication and networks between entrepreneurs and investment funds.

The estimated supply for equity financing in 2015 was computed with the following elements:

- An average amount was computed based on historical amounts for Venture capital;
- Amount provided in 2015 to companies in seed convertible loans through Slovene Enterprise Fund;
- Amount provided in 2015 for companies in direct seed capital investments through Slovene Enterprise Fund;
- A variation of 5% was computed to estimate a potential range of financing; minus 5% for the lower end and an additional 5% for the upper end.

The estimated ranges of supply of equity financing are provided in Table 81 below.

Table 81: Supply of Venture capital to SMEs in the previous years and estimate of the annual supply in 2015 (EUR mil)

	2010	2011	2012	2013	2014	Estimate of annual supply for 2015
Venture Capital - total Amounts invested	1.2	4.11	5.1	3.1	6.5	3.1 – 3.4
Seed convertible loans						0.9
Direct seed capital investments						1
TOTAL						**5 – 5.3**

Source: PwC Analysis, 2015

Methodology of computing financing gaps for SMEs

Below we outline the methodology used to calculate the financing gaps. The first part of the analysis provides estimates on the financing gaps based on the estimated existing supply and the potential demand per SME size category and per financial product. The financing gaps are then calculated based on a recent approach elaborated by the European Commission[162], which takes into account the unmet demand for financial products from "*viable* SMEs" in Slovenia.

[162] European Commission (2013). Ex-ante assessment of the EU SME Initiative. Staff Working Document, November 2013.

Methodology to compute financing gaps with estimated supply and potential demand

The first methodology to calculate the financing gaps uses the estimated supply and the range of potential demand calculated in the previous sections of this study for each SME size category and each financial product.

For each financial product considered per SME size category, two steps have been followed: first, the minimum estimated supply is subtracted from the lower figure of the potential demand. Second, the maximum estimated supply is subtracted from the higher figure of the potential demand.

For each of the subtractions, when a positive number is obtained, a financing gap is identified. If a subtraction provides a negative number, it means that, under certain circumstances, the estimated supply for 2015 may cover the potential demand for the considered financial product.

This computation methodology is followed for two categories of SMEs (micro-enterprises on the one hand and small together with medium-sized companies on the other hand) and two financial products: short-term loans, medium and long-term loans.

Methodology to compute viable financing gaps

A second methodology is used to estimate financing gaps. It follows the approach based on "viable SMEs" that was suggested by the European Commission in a report[163], and the gaps estimated by using this method will be henceforth referred to as Viable Financing Gaps or VFGs. The methodology used by the EC estimates financing gaps by using two elements:

- The identification of the percentage rate of financially viable SMEs that had occurred on several issues when obtaining loan finance in Slovenia; and
- The calculation of a loan financing gap by using an average loan amount that would have been requested by these viable SMEs.

Viable SMEs are defined as SMEs that have registered positive growth in terms of turnover in the period 2012–2014. The proportion of viable SMEs that occurred to different types of difficulties when obtaining external financing is considered as the share of SMEs that stated they had difficulties obtaining external financing.

In order to compute a viable loan financing gap for SMEs in Slovenia which is in line with the EC report's assumptions, the following methodology has been used.

The proportion of financially viable SMEs that had difficulties obtaining external financing has been estimated for the two categories of SMEs. The number of SMEs defining their turnover as better or much better between 2012 and 2014 has been taken from the online survey data. Among the viable SMEs, the share of companies that had difficulties obtaining external financing have been considered. In doing so, the proportion of viable micro-enterprises having difficulties when obtaining external financing has been estimated at 29%. The respective percentage of small and medium-sized companies taken together has been estimated at 36.5%. These percentages are applied to the population figure used to calculate the potential demand previously[164]. The results indicate that all size categories of SMEs in the country face difficulties in accessing finance: viable SMEs in both categories seem to have difficulties in obtaining financing, despite an increasing turnover.

Following this, it has to be noted that the crisis is not the only reason explaining the high percentages of financially viable SMEs that had difficulties obtaining external financing.

For each size category of SMEs, the calculation of the financing demand from a single enterprise is multiplied by the share of viable unsuccessful SMEs. The average loan amounts to be sought by a single enterprise that have been previously computed have been used. A variation of -5% and +5% is then applied to each result to take into consideration the potential fluctuation of the demand.

[163] European Commission (2013). Ex-ante assessment of the EU SME Initiative. Staff Working Document, November 2013.

[164] For example, 12.875 micro-enterprises for short-term loans, 9.904 micro-enterprises for medium and long-term loans and 8.776 small and medium-sized enterprises taken together (6.788 small enterprises and 1.988 medium-sized enterprises).

In order to illustrate the methodology presented above, the following box provides the calculation used to estimate the financing gap of viable micro-enterprises that were unsuccessful in obtaining short-term loans.

Box 1: Example of calculation of a viable financing gap (VFG) for short-term loans for viable micro-enterprises

Step 1: Calculating the share of viable micro-enterprises that experienced difficulties with obtaining external financing

The percentage of micro-enterprises that define their turnover as better or much better between 2012 and 2014, but had difficulties when trying to obtain external financing, represent 29%[165] of all micro-enterprises in Slovenia. The percentage is computed using the micro-enterprise population, which perceive their turnover as better or much better between 2012 and 2014 as a denominator. Only the SMEs that had difficulties obtaining external financing were included in the numerator. The absolute number of micro-enterprises in this situation is 3.747 for short-term loans.

Step 2: Computing the average short-term loan sought by a single micro-enterprise

This computation provides the average demand of short-term loans for micro-enterprises. The average amount is EUR 36,650.

Step 3: Multiplying the average amount by the number of viable micro-enterprises that were unsuccessful in obtaining loan finance

The formula is the following: 3,747*36,650 = 137,316,038[166].

Step 4: Estimate of a reasonable range for the viable financing gap

Based on the calculation in Step 3, a viable financing gap is obtained. In order to take into account of the variation of the demand around this viable financing gap, a variation of -5% and +5% is applied, giving a viable financing gap between EUR 130 million and 144 million.

The same approach is applied to the other category of SMEs and to medium and long-term loans.

E.2. Research, Development and Innovation

Methodology and quantification for demand in RDI

In order to provide an indicative estimation of what the quantified level of demand could be potentially be, the Ex-ante assessment methodology for financial instruments (Vol. II – RDI) suggest that qualitative and quantitative proxies may need to be used. Therefore instead of calculating the expected number of projects/entities in need of financing we use proxy figures from the Statistical office of the Republic of Slovenia (SI-STAT) for the number of entities reporting to be active in the area of innovation (observation period 2010-2012) and business expenditure dedicated for R&D in 2013. The assumptions and calculations are made as follows:

According to SI-STAT, from the latest figures in 2013, there were 182,089 companies registered in Slovenia. This can be further broken to 172,983 micro, 6,788 small, 1,988 medium and 330 large companies.

Furthermore, we have observed the share of the companies that consider themselves as an innovative company based on:

- any type of innovation in the 2010—2012 period
- only technical innovation in the 2010–2012 period

We have obtained the below results:

[165] This percentage corresponds to the micro-enterprises that perceive their turnover as better or much better between 2012 and 2014, who sought finance and had difficulties when obtaining external financing (using Question 4 on turnover and Question 7 on the satisfaction on financing sources; these two questions are present in the questionnaire in Appendix I. -). The percentage is computed based on the micro-enterprise population, which perceive their turnover as better or much better between 2012 and 2014. Among this population, only those that had difficulties of obtaining financing in the same period were taken into consideration. The respective percentage for small and medium-sized enterprises is 36.5%.

[166] The result of this calculation is 137,327,550 but contains rounding errors and the actual result is 137,316,038.

Table 82: Share of companies that considered themselves as innovative, in period 2010—2012

	Innovative companies (any type of innovation)	Innovative companies with technical innovation
Total	**46.5%**	**19.2%**
Small[167]	40.5%	19.4%
Medium	62.0%	21.2%
Large	86.9%	12.5%

Source: SI STAT, PwC calculations, 2015

It should be noted that percentages of Innovative companies (any type of innovation) include organizational and marketing innovation. In most EU countries, including Slovenia, the companies most often at the same time introduce technological and non-technological innovation, which shows the connection between different types of innovation.

Computing the two figures will provides us an approximate range of companies who may potentially need financing for R&D activities:

Table 83: Companies who may potentially need financing for R&D activities

	Number of companies	Number of innovative companies (any type and technical innovation)
Small:	6.788 companies	x 40,5% = 2.751 companies x 19,4% = 1.315 companies
Medium:	2.129 companies	x 62,0% = 1.233 companies x 21,2% =421 companies
Large:	330 companies	x 86,9% = 287 companies x 12,5% = 41 companies

Source: SI-STAT, PwC analysis, 2015

The next step suggested by the Ex-ante assessment methodology is to use a proxy for the expected average amount needed per project/entity. To compute the potential expenditure per entity, we used the business expenditure dedicated for RDI (BERD) that companies annually spend. Based on the data provided by the STAT-SI, the business expenditure per company is the following:

Table 84: Business expenditure per company by size in 2013 (EUR)

	Number of companies	BERD	BERD per company
Micro (0-9)	172,983	19,174,000	111
Small (10-49)	6,788	85,314,000	12,568
Medium (50-249)	1,988	125,045,000	62,900
Large (250+)	330	346,986,000	1,051,473
TOTAL	**182,089**	**576,519,000**	**3,166**

Source: SI-STAT, 2015

Therefore, as suggested in the Ex-ante assessment methodology, we can derive the product of the entities expected to be involved in RDI activity (determined with a range) with their expected average amount of expenditure on RDI, to obtain an approximation of the potential demand for funding from RDI-driven project per year.

Table 85: Potential demand for funding from RDI-driven project in 2015 (EUR)

	Demand for financing in 2015

[167] Due to difficulties in collection, there is no data on the breakdown of R&D expenditure among micro level companies

Small	16.5 – 34.6
Medium	26.5 – 77.5
SMEs	**43.0 – 112.1**
Large (250+)	43.4– 301.4
TOTAL	**86.4– 413.5**

Source: PwC analysis, 2015

This provides an estimated potential demand for financing in the range of EUR 43—112 million for SMEs and EUR 86—413 million for total companies per year.

Methodology and quantification for supply in RDI

The supply of the main financial products available for RDI has been calculated based on several sources of information and market trends, allowing for a comprehensive and complementary approach.

Based on the information provided, we have identified the amount of funds dedicated for RDI. For the year 2015, there are still EUR 41.7 million available from the SID Bank credit line for financing research, development and innovation (state aid - GBER), which opened in May 2015 and will be usable till the end of 2015.

Funds available from commercial banks present the second part of the supply. To provide an approximation of the amount of new loans that are dedicated for RDI financing, we used the data from the Research on of availability of financial resources for enterprises in 2014, conducted by the Bank of Slovenia[168]. The enterprises that participated in the survey have been asked for what purposes have they use their external financing and 4% have dedicated these funds for financing R&D. The percentage did not vary between SMEs and large companies.

Based on this information, we have set a conservative assumption and took the value of 3% of new long-term loans, separately for SMEs and total companies for 2015, which we calculated based on the 2010--2014 growth trend of new loans. We have added a -/+ 5% range.

Table 86: Estimated supply for RDI for SMEs and total companies, 2015 (EUR)

SMEs	
Lower range	92.6
Upper range	97.9
Total companies	
Lower range	154.8
Upper range	166.7

Source: PwC analysis, 2015

E.3. Energy Efficiency

Public sector

Amount of the demand in public sector will be based on the volume of investments identified in the *Long-term strategy to promote investments in the energy renewal of buildings* calculations, where calculations are based on the *Long-term energy balance of Slovenia until 2030*.

Table 87: The total volume of investments for energy renovation of buildings in the public sector (EUR mil)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	**Total**
Public sector	54	36	36	36	36	36	37	37	37	**343**

Source: Long-term strategy to promote investments in the energy renewal of buildings, 2015

[168] Bank of Slovenia, Research on of availability of financial resources for enterprises in 2014

Total amount of investments identified in the Long-term strategy to promote investments in the energy renewal of buildings for the public sector has been adjusted to the period 2015—2020.

Table 88: Demand for energy efficiency in public sector, 2015-2020 (EUR mil)

	Demand
Public buildings renovation	273
Total	**273**

Source: PwC analysis, 2015

The quantification of the expected (theoretical) supply of financial products takes into account:

- The latest available information of financing EE/RE by Eco Fund – soft loans provided to municipalities. We have obtained data from the Eco Fund financial plan for 2015. For further years, up to 2020, we have assumed the same annual amount as for 2015.
- The current supply trend of new loans provided by the commercial banking system to the local government (municipalities) assuming, that a portion of that will be devoted to EE projects. We have taken into consideration average new loans growth to the Slovenian municipalities in the 2010—2014 period (3.6%) and have applied the GDP growth as forecasted by the European Commission in 2015: 2.3% in 2015 and 2.1% in 2016. We have assumed the same GDP growth as for 2016 until the year 2020. Based on the received information from municipalities regarding the allocation of funds for energy efficiency projects, an assumption was set that municipalities annually allocate between 7 and 12% of new loans for energy efficiency projects. Assuming that the amount of funding would not be sufficient to cover the planned renovation in terms of energy efficiency projects, it will be necessary to develop a solution which will enable further implementation of EE projects, while additional borrowing municipalities will not increase the current sovereign debt.

Table 89: Supply for energy efficiency in public sector, 2015—2020 (EUR mil)

	Supply
Eco Fund	273
Commercial banks	62 - 106
Total	**110 - 154**

Source: PwC analysis, 2015

Private sector

Demand in private sector will be similarly evaluated as in public sector as it will be based on the calculations provided *Long-term strategy to promote investments in the energy renewal of buildings*– for residential buildings and private non-residential sector.

Table 90: The total volume of investments for energy renovation of buildings in the private sector (EUR mil)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	**Total**
Residential buildings	231	236	261	274	286	296	303	309	327	2,533
Commercial buildings	55	64	64	64	64	64	68	68	68	580

Source: Long-term strategy to promote investments in the energy renewal of buildings, 2015

Total amount of investments identified in the Long-term strategy to promote investments in the energy renewal of buildings for the private sector has been adjusted to the period 2015—2020.

Table 91: Demand for energy efficiency in private sector, 2015—2020 (EUR mil)

	Demand

Private buildings renovation	1,584
Private commercial buildings renovation	375
Total	**1,959**

Source: PwC analysis, 2015

The quantification of the expected (theoretical) supply of financial products takes into account:

- The latest available information of financing EE/RE by Eco Fund – soft loans provided to citizens and to companies. We have obtained data from the Eco Fund financial plan for 2015. For further years, up to 2020, we have assumed the same annual amount as for 2015.
- The current supply trend of new loans provided by the commercial banking system to the citizens, assuming that the loan of the Eco Funds covers up to 85% of the total investment, so we have made an assumption that range of 15--35% of the investment would be covered by the commercial banks.
- The current supply trend of new medium and long-term loans provided by the commercial banks to the companies. We have taken into consideration average new medium and long-term loans growth to the non-financial corporation in the 2010—2014 period (-9%). Furthermore, based on our survey analysis, 3.3% of the total sample present the companies that dedicated their external financing for EE projects and have been using medium and long term loans in the period 2012—2014 and 5.4% of the total sample present the companies that dedicated their external financing for EE projects and have been using any type of loan in the 2012—2014. We made an assumption that in the future, 4.5% of new long term loans will companies dedicate for EE and applied +/- 5% range.

Table 92: Supply for energy efficiency in private sector, 2015—2020 (EUR mil)

	Supply
Eco Fund - citizens	84
Eco Fund - companies	60
Commercial banks - loans to citizens	15—45
Commercial banks - loans to companies	1,018—1,125
Total	**1,176 – 1,314**

Source: PwC analysis, 2015

Industrial production processes

Please find below the methodological approach used to estimate the demand for EE interventions in the industrial processes.

To quantify the demand, we have taken the average of R&D expenditure dedicated for energy efficiency that the EU countries have reported to the OECD for the year 2012[169]. Based on available data, the following EU countries have been included in the calculation: Austria, Belgium, Denmark, Finland, France, Germany, Hungary, Ireland, Luxemburg, Netherlands, Norway, Poland, Portugal, Slovak Republic, Spain, Sweden, and United Kingdom.

Based on the data obtained by from OECD statistics, the average share of R&D expenditure dedicated to energy efficiency projects in the EU countries was 28.3% in 2012. We have multiply this percentage with the business expenditure of total companies in Slovenia, which accounted for 577 million EUR in 2013 (SI-STAT) and assumed the same yearly amount until 2020.

For the supply side, we have taken into account the amounts that the companies would request from commercial banks. Based on our executed survey, 40% of the companies that invested in energy efficiency in the period 2012—2014 answered that they have been using medium and long-term loans in this period. We have multiplied this percentage with the identified amount of the total demand and added a -/+ 5% range.

[169] http://www.oecd-ilibrary.org/energy/data/iea-energy-technology-r-d-statistics/rd-d-budget_data-00488-en

Table 93: Demand and supply for energy efficiency in industrial production processes, 2015-2020 (EUR mil)

Demand		Supply	
Improving industry production processes in the area of energy efficiency	979	Commercial banks	372
			411

Source: PwC analysis, 2015

E.4. Urban and territorial development

In order to provide an identification of demand, the analysis have drawn upon the guidance provided in the *Ex-ante assessment methodology for financial instruments (Vol. V – Urban and Territorial development)*. Below the methodological approach used to estimate the demand for urban development projects is provided.

Amount of Urban & Territorial development investments is based on the projects identified by the Slovene city municipalities for the time period 2014—2020[170]. The project selection is described in the Appendix F. -.

We have defined the demand with two separate groups of projects – "ready to start projects" (include projects from 9 city municipalities), and "waiting for realization projects" (include projects from 8 municipalities, as Ljubljana did not provide the data for 2017 onward).

Table 94: Demand for Urban and Territorial Development projects by the Slovenian city municipalities, 2015–2020 (EUR mil)

	Demand
Ready to start project of Slovenian city municipalities (2015-2016)	664
Waiting for realization projects of Slovenian city municipalities (2017-2020)	189

Source: PwC analysis, 2015

In the same way as demand, the supply is also divided into two different time periods.

For the years 2015—2016, we have used the average growth of new loans issued to 9 city municipalities in the period 2010—2014 (9%) and applied the GDP growth rates predicted by the European Commission (2.3% in 2015 and 2.1% in 2016). Furthermore, we assumed that city municipalities follow the same logic as all the municipalities. We have assumed in the energy efficiency section that 7—12% of new loans are dedicated for energy efficiency projects. We assume that other 88—93% of new loans are dedicated for urban and territorial development projects.

For the years 2017—2020, we have used the average growth of new loans issued to 8 city municipalities (we have excluded Ljubljana) in the period 2010—2014 (8%) and applied the GDP growth rate predicted by the European Commission (for the period 2017-2020 we assumed the same growth as in the year 2016, which is 2.1%). Furthermore, we assumed that city municipalities follow the same logic as all the municipalities. We have assumed in the energy efficiency chapter that 7—12% of new loans are dedicated for energy efficiency projects. We assume that other 88—93% of new loans are dedicated for Urban and Territorial Development projects.

Table 95: Supply for Urban and Territorial Development projects by the Slovenian city municipalities, 2015—2020 (EUR mil)

	Supply

[170] Please note that all Slovenian city municipalities are currently preparing sustainable urban strategies that could affect the list of projects, which had been prepared in the context of this analysis. The current list of projects will be updated when the municipalities present their list of projects in the context of the implementation of sustainable urban strategies, using the mechanism CTN.

Commercial banks (2015-2016)	70—74
Commercial banks (2017-2020)	115—121

Source: PwC analysis, 2015

Appendix F. - *Methodology for project selection of Slovenian city municipalities*

We have contacted 11 Slovenian city municipalities. Data gathering was the following:

- We have firstly provided the list of projects that Slovenian city municipalities reported during the project JESSICA, which has been implemented by PwC in 2011—2012;
- We asked municipalities to comment on this **existing list of projects**, i.e. were they already implemented, cancelled, postponed, etc.
- We asked municipalities to add **new projects** that they plan to carry out in the programming period 2014—2020 in the area of energy efficiency and urban and territorial development.

We did not receive feedback from municipalities Slovenj Gradec and Koper. For Ljubljana, we received the list of projects from the year 2015 and 2016, which we obtained on their website.

Our selection of relevant project included the following steps:

From the list of project for the Urban and Territorial Development (excluding energy efficiency projects, we have made **two groups** based on feasibility of certain projects.

1. Projects that **we excluded** from our further analyses and are not included in the final table were either already completed or did not provide a sufficient argument that the project will actually be implemented (insufficient documentation, funds not yet guaranteed, interrupted realization of the project…).
2. The other group includes projects:

- That already started but are not yet finished;
- That have sound ground to start in the near future (year 2015 and 2016);
- Have not yet started but they have proper documentation and sufficient funds to realize or start the project from 2017 onwards.

Furthermore, among the projects from the second group, we allocated projects into two groups, based on proximity of the initiation of the certain project. If the project already started, but has not yet finished or has available funds and proper documentation and is about to start in year 2015 or 2016, it was labelled as **"ready to start",** but if the project has a proper reasoning of realization and is about to start in 2017 or later, it was labelled as "**waiting for realization**".

Moreover, projects were also categorized based on their type and area covered. Projects in Urban and territorial development were divided on the following categories:

- Urban infrastructure;
- Tourist and cultural facilities;
- Restoring brownfields;
- Business facilities;
- University facilities;
- Public facilities.

Appendix G. - *Options for structuring a Financial Instrument*

G.1. Structuring a FI directly with a financial intermediary (i.e. without a Fund-of-Funds)

In the case where a single FI is established, a simple financial structure may be the most suitable strategy. As shown in the figure below under this scenario the MA would directly feed investment into the selected financial intermediary or intermediaries, which would then transfer this into the different projects eligible under the respective Priority Axes. Here, in the absence of the Fund-of-Funds structure, the MA would have greater responsibilities and liabilities for the implementation of the FI (e.g. ensuring the selection of the financial intermediary or intermediaries was aligned with public procurement rules).

If the MA lacks the internal resources and expertise regarding the operation of FIs, management of EU funds and/or PPPs, it is recommended that the MA secures technical assistance to develop the in-house capacity to set up and implement such an instrument.

Figure 84: Functional diagram of an FI implemented directly with the financial intermediary

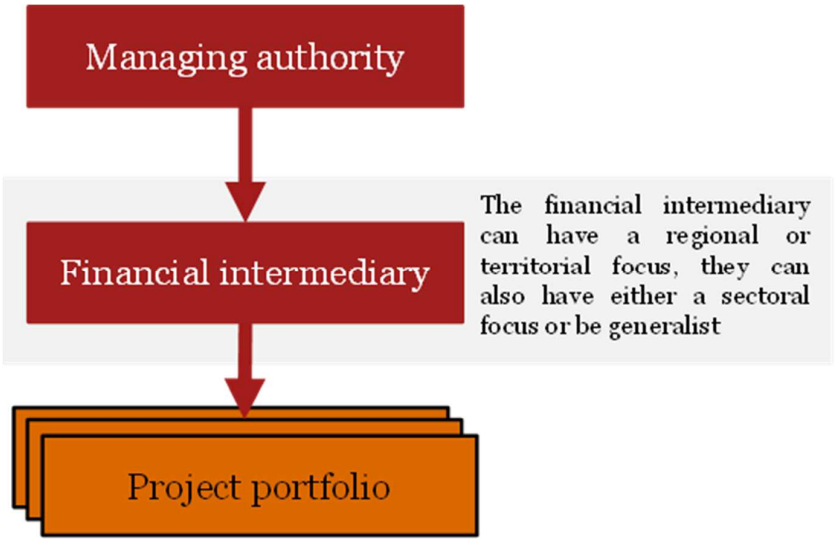


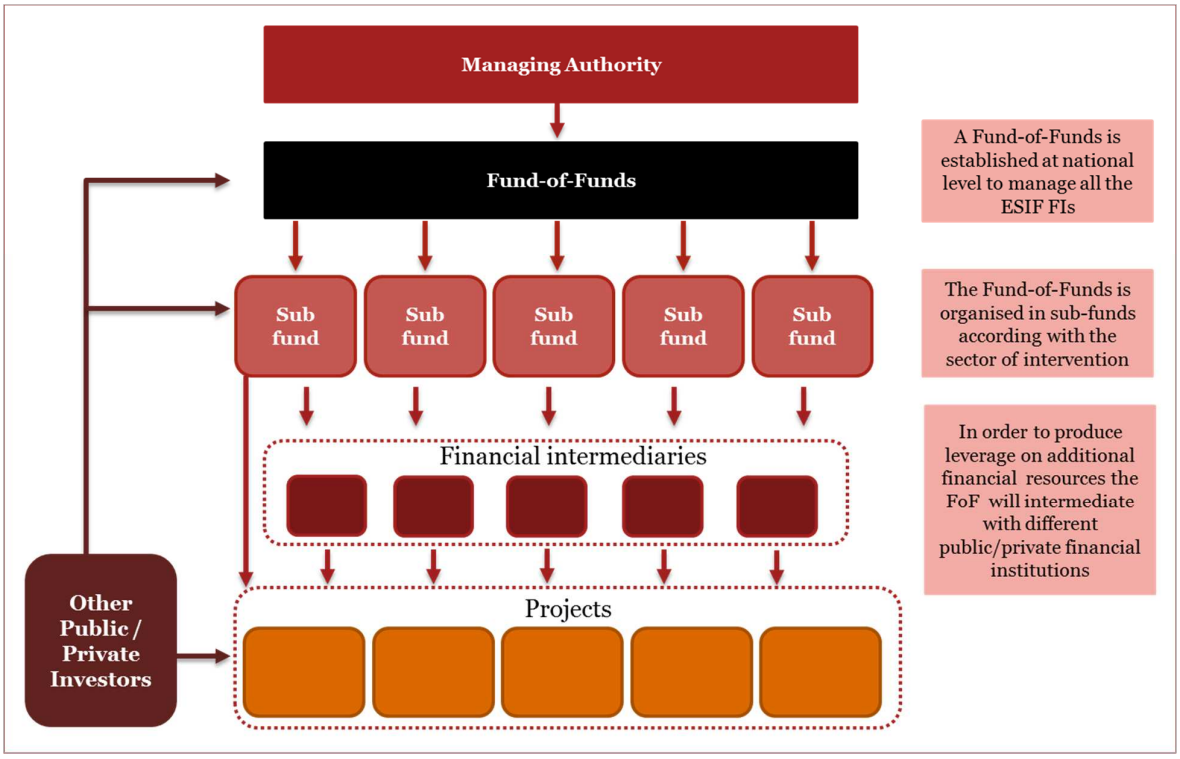
Table 96: Advantages and disadvantages of a governance structure without using a Fund-of-Funds

Advantages	Weaknesses
• **When the financial intermediary is an already existing entity, then implementation and operation can be achieved rapidly.** • **MA has direct interaction with the financial intermediary over the implementation conditions.**	• Difficult to operate and remain in line with Article 38 "Implementation of FI". • If multiple FIs are implemented in this form, there may be limited synergy and a loss of strategic vision between them. • Multiple FIs in this form could result in a lack of flexibility, and a fragmented monitoring and reporting process. • Risk of conflict of interest, political influence, and limited deployment possibilities. • Elevated audit risks, and of ineligible expenses.

G.2. Structuring a Financial Instrument with a Fund-of-Funds and Financial Intermediaries

The second possible option is structuring several FIs together under a Fund-of-Funds. Based on past experience, this is the recommended option when dealing with FIs covering several investment areas. Through the appointment of a body implementing the Fund-of-Funds, the MA is provided with a robust structure, which is well equipped and used to manage funds and investments according to recognised standards of independence and professional management. A further added benefit being that the Fund-of-Funds can be a beneficiary of both EU funds and national co-financing.

Figure 85: Functional diagram the structuring of a Financial Instrument with a Fund-of-Funds



The Fund-of-Funds option also provides greater flexibility for the MA as it allows investment to be directed towards several different sub-funds with different features and investment goals (e.g. RDI, SMEs, EE/RE, urban development) under one governance structure. The Fund-of-Funds option may also prove advantageous in a situation where there is an uneven level of demand anticipated across several investment areas, or where demand for an FI in one sector is expected to evolve more slowly than others.

Under this structure, the MA firstly negotiates a funding agreement with the body implementing the Fund of Fund and then the body implementing the Fund of Fund negotiates one or more agreements with financial intermediaries. As noted above, the CPR states that there are several ways to manage such a fund including entrusting management to the EIB or another similar organisation.

Table 97: Advantages and disadvantages of a governance structure using a Fund-of-Funds

Advantages	Weaknesses
• **Delegation of tasks to a financial entity with experience in the management of ESIF resources and sector-specific funds (e.g. EE/RE).** • **Possibility for direct appointment of the EIB to streamline set up (in other cases national public procurement procedure**	• MA does not have sole control of the implementation of instruments. • Terms and conditions for the management of the fund need to be negotiated. • Dependant on conditions proposed by the fund manager.

Advantages	Weaknesses
to be followed). • **Fund-of-Funds governance structure facilitates better coordination of multiple sub-funds to prevent overlaps/gaps among investment priorities under OP.** • **Fund-of-Funds manager has a good strategic overview of the different sub-fund instruments as a collective, allow for greater flexibility between these, as well as the consolidation of reporting.** • **Allows for the possibility of financial contribution from the entity managing the Fund-of-Funds.** • **Unlike separate classes of shares, separate sub-funds offer, by virtue of law, a full segregation between the assets of each sub-fund, which means that each sub-fund is only responsible for its own liabilities and obligations** • **Reduced risk of conflict of interest between experienced fund managers and financial intermediaries.**	

G.3. MA providing FI support directly to final beneficiaries without Financial Intermediaries

The third option provided by Article 38 (4)(c) of the CPR is that the MA undertakes implementation tasks related to the FI directly themselves rather than using a financial intermediary or a Fund-of-Funds structure. However, this option is only available if the envisaged FI consists only of loans or guarantees.

One advantage is that management fees are not a consideration due to the absence of a fund manager/financial intermediary, although some fee may be required if the MA is expected to provide Technical Assistance services. Nevertheless, under this option the MA will have greater roles, responsibilities and liabilities (e.g. monitoring and reporting) which may prove burdensome for an MA with less experience and/or lower in-house capacity. This option is shown in the figure below.

Figure 86: MA providing support to projects

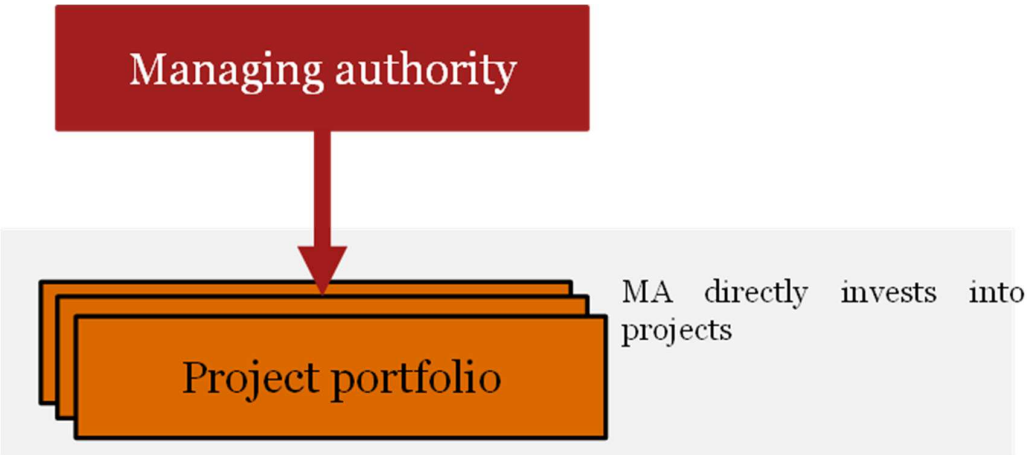


Table 98: Advantages and disadvantages of direct funding from the MA

Advantages	Weaknesses
• **Possibility to draw non-grant finance from ESIF without setting up a dedicated FI structure.** • **May lead to quicker establishment and operation of funding activities provided the MA possesses the necessary capacity.** • **Greater direct control on operations.**	• If MA does not possess the necessary capacity and expertise, the establishment and operation of the FI would be problematic. • Limited synergies with other FIs set up in the same MS. • No advances possible. • Greater audit risks for the MA in addition to risks from ineligible expenses. • Greater risk of conflict of interest, political influence and limited deployment options. • Not eligible for management fees, with the exception of Technical Assistance.

This option may be suitable when the MA has sufficient experience and technical knowledge in the matter of loans or in guarantees. It should be noted that this option is not possible in all MS due to regulatory restrictions as it is subject to national law.

Appendix H. - *Described individual steps of the action plan for the implementation of the Financial Instruments*

H.1. Validation of the Financial Instrument

The implementation of a dedicated Financial Instruments for SMEs, RDI, EE and UTD must be linked to the strategies set out in national policy and must be consistent with the regulatory framework for cohesion policy and rural development policy 2014—2020 to receive a portion of the funds allocated through operational programs.

Consistency with the strategy of the 2014-2020 cohesion policy and the OP-ECP in Slovenia

For the Financial Instruments to receive funds under the Common Strategic Framework (CSC), including the ERDF in the field of SMEs, RDI, EE and UTD, and for the projects it finances to be eligible for these funds, it must be consistent with:

- The Europe 2020 strategy for smart, sustainable and inclusive growth;
- The Common Strategic Framework and the 11 thematic objectives that it provides. The investment strategy of the FI will contribute to the fulfilment of the "thematic concentration[171]" which obliges each Member State to allocate at least 80% of ERDF resources to one or more of the following thematic objectives:
  - TO 4: Supporting the shift towards a low-carbon economy in all sectors;
  - TO 5: Promoting climate change adaptation, risk prevention and management;
  - TO 6: Protecting the environment and promoting resource efficiency;
  - TO 7: Promoting sustainable transport and removing bottlenecks in key network infrastructures;
  - TO 9: Promoting social inclusion and combating poverty;
  - TO 10: Investing in education, skills and lifelong learning.
- The priorities of the OP—ECP 2014—2020 for Slovenia, which has been approved by the European Commission;
- The priorities of the RDP 2014—2020 for Slovenia, approved by the European Commission.

The investment of the dedicated FIs should be consistent with the elements presented above.

Launching an awareness campaign for the different actors

In some investment areas, there is limited experience in Slovenia in the use of Financial Instruments. The use of such a tool requires the ability to analyse the projects, and an understanding of the concept of return on investment and business plan.

As such, it is vital to launch an awareness campaign early in the process. Local and regional actors who are potentially involved in the implementation of the FI need to be familiar with the integrated approach of the project's structures, the principle of return on investment, and the recycling of funds in order to deliver on their "revolving" nature.

Conducting an ex-ante evaluation

The GODC has initiated this ex-ante assessment of the Financial Instruments, as it is required for the MA, the bodies implementing funds of funds, and the bodies implementing financial instruments by the CPR to have a ex-ante assessment in order to identify any market failures, situations of sub-optimal investment,

[171] Article 9 of the ERDF Regulation project

determine the respective investment needs, the possible involvement of the private sector and the added value of any implemented FIs. This process is subject to the current report.

H.2. Creation of the Fund-of-Funds

As explained, it is possible that the establishment of dedicated Financial Instruments for SMEs, RDI, EE/URE, and UTD could include a Fund-of-Funds. This will enable a rapid implementation of the FI and may, if necessary, be removed after an initial phase of implementation if the MA is able to demonstrate the ability to take over these the duties.

Constitution of the governing body of the Financial Instrument

The governance of the FI is provided by Strategic supervisory committee, which is the supervisory body of the management of the Fund-of-Funds. Strategic supervisory committee would incorporate representatives of the MAs and affected public stakeholders and ministries, as well as other co-investors.

The governing body of the FI must have a structure that brings political, administrative, and financial competence in the country. It must at least encompass representatives of the State, the main partners of the priority areas (SMEs, RDI, EE/URE and UTD).

Development of the investment strategy

The investment strategy of the Fund-of-Funds is to set the policy and the investment targets that are in line with the objectives of the OP-ECP and RDP, and where possible, with existing national strategies. The goal of the strategy is to define the choice of investment for the programming and the implementation of the dedicated Financial Instruments.

At a minimum, the investment strategy should include[172]:

- Target sector and territories;
- Preliminary identification of projects;
- Investment products offered;
- Coordination with grant schemes;
- Estimates of the amounts to be invested;
- Limitations of investments and investment controls;
- General Criteria for the selection and evaluation (e.g., types of appropriate structure for managing a fund);
- Provisions relating to the recycling of funds.

The Fund-of-Funds' investment strategy is usually part of the investment agreement concluded between the managing authority and the manager of the investment fund.

Selection of the Fund-of-Funds manager

According to Article 38, paragraph 4b) of the Common Provisions Regulation, the Managing Authority is allowed to entrust the implementation tasks to the:

- European Investment Bank;
- International financial institutions of which Slovenia is a shareholder, or financial institutions established in Slovenia that pursue public policy objectives under the control of a public authority, selected in accordance with EU rules and national rules;
- A body governed by public or private law selected in accordance with EU rules and national rules.

At present, few Fund-of-Funds have a structure that does not involve the EIB. Indeed, it has the technical and financial expertise to assist management authorities and other stakeholders to launch dedicated FIs. In addition, the Bank has in place internal structures that are particularly suitable and experienced to

[172] JESSICA – Holding Fund Handbook. EIB-DG Regio, November 2010

assume the management of an investment fund. The EIB could be a temporary partner involved in the launch of the FI and will aim to transfer the administration of the fund to participate in a national body after an initial phase of implementation.

Establishing a financing agreement with the managing authority

Once the fund manager is selected, it is then necessary to establish a financing agreement between the MA and the Fund-of-Funds.

The CPR (Article 33, paragraph 6) states that entities (like Fund-of-Funds' managers) that have been delegated implementation tasks will have to open fiduciary accounts in their name and on behalf of the managing authority. Assets held in the trust accounts must be managed in accordance with the principle of sound financial management, in compliance with the appropriate prudential rules, and must have sufficient liquidity.

H.3. Selection of the specific funds

It is recommended that five thematic funds are created and will invest in:

- SME financing;
- Rural development;
- RDI;
- Energy Efficiency;
- Urban & Territorial Development.

Identification of the contributors

In order to implement the funds, public and private actors should be identified to contribute to their co-financing and co-investment, as well as the nature of these contributions (financial or in kind).

Potential contributors could be private banks that have been involved in public projects in the past.

Choice of methods for selecting the financial intermediaries

A transparent and non-discriminatory selection process for the financial intermediaries must be organised. According to Article 33, paragraph 5 of the Regulation on common provisions, the Fund-of-Funds manager may entrust part of the implementation to financial intermediaries[173]. The financial intermediaries should be selected through open, transparent, proportionate and non-discriminatory procedures while ensuring that there are no conflicts of interest. As such, the selection of a financial intermediary should be done through a public procurement procedure. The choice of this procedure depends on the target of the financial intermediary and the level of competition among potential candidates. The most commonly used procedures are the open or restricted procedures.

Selection process

The Fund-of-Funds launches calls for expressions of interest by publishing the corresponding terms of reference, receives proposals from various candidates and based on the public procurement procedure selects the manager.

Establishing the financing agreements between each financial intermediary and the Fund-of-Funds

Subject to confirmation by the implementing Regulations of the Regulation with common provisions, a financing agreement will be established between the investment fund and each of the financial intermediaries. It will define the modalities of contribution of the Fund-of-Funds in each of the selected financial intermediary, the investment plans, and modes of operations of the latter.

[173]Provided they take responsibility to ensure that these financial intermediaries meet the criteria set out in Article 57 and Article 131, paragraph 1, point 1 a) and paragraph 3 of the Financial Regulation.

Once the financing agreement is established, the managing authorities can contribute with ERDF and EAFRD to the Fund-of-Funds, which in turn will invest in the financial intermediaries according to their respective investment plan. The financial intermediaries will then raise additional funds from other public and private contributors. Subject to confirmation by the final regulations for the period 2014—2020, the national public counterpart completing the ERDF or EAFRD may be made at different levels (Fund-of-Funds, financial intermediary or at the project portfolio level).

H.4. Operations

Procedures for selecting projects

Once created, the financial intermediaries will define the eligibility criteria and the procedures for the selection of the projects, while respecting the eligibility rules and the priorities of the OP-ECP and RDP.

Informing potential beneficiaries

Communication activities targeting potential beneficiaries of the financial intermediaries should be organised to inform them correctly of the functioning of the FI and the eligibility criteria of the different funds. It will be especially necessary to assist them in preparing their project so they can benefit from the mechanism.

Technical support for the recipients could well be required in the preparation of the project. Organisations could possibly provide this technical support, while ensuring that they avoid potential conflicts of interest with respect to their role in the FI. Given the lack of experience with FIs in some areas in Slovenia, this role could be provided by an external consultancy or the EIB's advisory services.

H.5. Monitoring and evaluation

Monitoring

The Fund-of-Funds in collaboration with the financial intermediaries will create a system of monitoring and evaluation of the Financial Instruments dedicated to four investment areas. This system should include:

- Procedures to ensure transparency in the operation of the instruments;
- Indicators of socio-economic benefit arising from projects invested into;
- Indicators of physical monitoring;
- Indicators of financial monitoring. In terms of financial monitoring, the CPR (Article 34, paragraph 1) states that the dedicated funds and Fund-of-Funds managers should produce regular transactions monitoring reports and transmit them to the management and expenditure control organisation at the beginning of the accredited programme period.

Regular monitoring

With a view to regular monitoring of the Programmes and to making any adjustments needed to its policy and funding priorities, the Commission shall draw up an initial qualitative and quantitative monitoring report covering the first year, followed by three reports covering consecutive two-year periods.

The total of the regular reports shall cover:

- The Programme's results and particularly;
- The extent to which the principles of equality between women and men and gender mainstreaming have been applied; as well as
- How anti-discrimination considerations, including accessibility issues, have been addressed through its activities.

The engagement and assistance of local MAs shall be required, whereby the latter may use these reports to evaluate and analyse the achievements and shortcomings of the Programme, and initiate change to employment of FIs or introduce other structural and operational alterations in order to facilitate the smooth running and result-oriented nature of the Programme. The chosen operational structure and

selected FIs in use will be in focus in earlier reports as well as tangible effects and outcomes of the programme.

Annual Reports

Due to the specific procedures and delivery structures of the FIs, the provision of information control on the use of budgetary resources from the ESI funds are crucial for all stakeholders, as they provide indications about the actual performance of supported instruments and, if necessary, the adjustments required to ensure their effectiveness. As such, the CPR (Article 40) states that the MAs must forward to the Commission a "special report on the activities related to Financial Instruments" in the form of an annex to the annual implementation report of the Operational Programme or Rural Development Programme.

This report will contain the following information:

- The name of the programme and the priority under which support from the ESI Funds are granted;
- A description of the financial arrangements and the implementation methods;
- Identification of the organisations to which the implementation tasks have been entrusted;
- The total disbursement, by programme, priority or measure, of the FI mentioned in the claims submitted to the Commission;
- The total amount of assistance disbursed or committed for guarantee contracts by the FI to the final beneficiaries, by program and priority or measure, included in the requests for payment submitted to the Commission;
- The income of the FI and repayments thereof;
- The multiplier effect of investments made by the FI and the value of investments and participations;
- The contribution of the FI to the achievement of programme indicators and of the concerned priority.

Evaluation

The regulation for the 2014—2020 ESIF[174] represents a radical change for operational programmes. The Common Provisions Regulation (CPR) emphasises programme objectives, the logic of intervention to achieve the expected results and the evaluation of effectiveness and impacts. Furthermore, it requires from Managing Authorities and the Commission annual reporting on outputs and results, including findings of evaluations where available. In previous programming periods, evaluations have tended to focus more on implementation issues than capturing the impacts. For 2014—2020, the CPR requires Managing Authorities to carry out evaluations which assess the effects of the ESIF programmes.

Evaluations should serve to improve the effectiveness and efficiency of programmes as well as to assess their effects. They are meant to increase knowledge of what works and what does not in order for decision makers to make timely decisions to support the implementation of programmes and to draw conclusions for policy making.

Mid-term evaluation

A mid-term evaluation of the Programmes shall be carried out by July 1 2017 to measure, on a qualitative and quantitative basis:

- Progress made in meeting the Programme's objectives;
- The social environment within the Union and any major changes introduced by Union legislation;
- Whether the resources of the Programme have been used efficiently and to assess its Union added value.

[174] Regulation (EU) No 1303/2013 of the European Parliament and the Council of 17 December 2013 laying down common provisions on the ESI Funds, referred to throughout this document as the CPR (Common Provisions Regulation)

The results of that mid-term evaluation shall be presented to the relevant EU-level institutions, and will incorporate all countries within the Union, where the Programme is active. This will require the input and facilitation of local MA, and will represent the first deeper review of the progress of the Programme. On the basis of the composed report, necessary changes here may be identified and implemented on EU-level as well as on local level by the MA.

End-period evaluation (2020)

Before submitting any proposal for a prolongation of the Programme beyond 2020, the Commission shall present to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions an evaluation of the conceptual strengths and weaknesses of the Programme in the period 2014 to 2020.

By 31 December 2022, the Commission shall evaluate ex-post the impact and Union added value of the Programme and shall forward a report containing that evaluation to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions.

The assistance of MA's shall be sought in the preparation of the report, whereby the focal point will be the end results and achievements of the Programme during the programming period. The overall success of the Programme as well as the business case for extending its use beyond 2012 including the employment of FIs currently in place will be assessed at this stage.

H.6. Use of the results for corrective actions

Following the monitoring and evaluation system, the expected results will be evaluated and corrective actions could be implemented based on the defined indicators measurement.

If any type of evaluation reveals that the Programme has major shortcomings, the Commission shall, if appropriate, submit a proposal to the European Parliament and to the Council, including appropriate amendments to the Programme to take account of the results of the evaluation.

According to article 37(2),(g) of the Regulation 1303/2013, the MA may consider for the ex-ante assessment to be reviewed and updated as required during the implementation of any financial instrument, which has been implemented based upon such assessment, if during the implementation phase it has been considered that the ex-ante assessment may no longer accurately represent the market conditions existing at the time of implementation.

In order to prevent the need of such actions, it is necessary that MAs utilize evaluations for reassessment and implementing change across current FI schemes. In this process, indicators may be modified; financial intermediaries may be reassessed and reselected as well as the implementation of the Programmes itself within the framework and guidelines pre-set by the EC.

H.7. Guidelines to establish and quantify the expected results

In order to successfully assess the achievement of Programmes objective, it is imperative to conduct evaluations across all instruments of the Programmes, especially inclusive of operational solutions and practices. Even though the unbiased assessment of the impact and effects of the Programme activities as a whole in relation to the established IPs and TOs should be the primary goal, in order to obtain an accurate snapshot of the Programme's benefits and short-comings, MAs should first concentrate on the evaluation of the operational framework of FIs in use, whereby monitoring their separate impact through relevant and specific indicators and then, aggregating their cumulative effects to reach a complete assessment of the entire Programme.

Thus, setting-up result targets and a practical monitoring process of the envisaged FIs is essential for MAs to monitor FIs performance and contribution to the corresponding investment priority (ies) under the ESI Funds and to the overall objective(s) of the related Programme(s). MAs must aim at assessing the relevant result, outcome and performance indicators so that a clear and all-encompassing picture of FI suitability and effects may be drawn.

The main methodological steps for the execution of such assessment for any given FI are presented in figure below.

Figure 87: Main methodological steps for the execution of an assessment for any given FI.

Source: PwC Ex-ante assessment methodology for financial instruments for 2014—2020

H.8. Insights for the monitoring and reporting system of the Financial Instruments

The MA will need to define series of specific indicators for each FI in use. These should be targeted to measure performance of the particular FIs; they should be clearly measurable and should account for the adherence to the pre-defined TOs and IPs of the Programme.

Depending on the needs of the MAs and the applicable requirements, 3 types of indicators should be defined:

- Output indicators
  - MAs should use the set of common indicators already predetermined in the fund-specific Regulations or complementary documents provided by the Commission. Indicators could cover the different forms of support to beneficiaries (including technical support) through FIs;
- Performance indicators
  - could be defined with regards to measuring the operational efficiency of FI implementation (e.g. management costs, expected credit loss);
- Result indicators
  - Following the new results-oriented approach, there should be special attention paid to the definition of clear and measurable result indicators. The result indicators must be clearly interpretable, statistically validated, truly responsive and directly linked to the specific objectives of the investment priority or focus area the FI is contributing to.

General overview of monitoring system and evaluation of expected results

At this stage in the planning process, it is not possible to go too far into detail regarding the results based indicators that must be used to monitor FI performance and inform investment strategy updates as well as in the funding agreements, but a brief presentation of three basic elements is necessary that FIs indicators need to include:

- Indicators defined by the OP-ECP and RDP to monitor the progress of the FIs;
- Standard financial indicators to assess the performance of the funds;
- Additional indicators to monitor and assess whether the objectives specific to the target groups are achieved.

As far as the reporting is concerned, it could be done:

On a monthly basis for key data such as total amounts disbursed, number of loans approved/signed/disbursed, total number of projects supported.

On a quarterly basis for more fine-tuned information such as split between different types of projects under each investment priority, the volume of savings for energy consumption, number of approved projects by region.

If some of the defined indicators are not at the expected level of achievement in relation to the periodicity stated, the MA might consider to either revising the funding agreement, launch another request for proposal to select other financial intermediaries and/or modify the products' offer.

In the following sections are presented tables of indicators for the chosen FIs, as described in Section 8.2 of this report. These should be as specific guidance to the MA regarding the measurement of the effectiveness and progress of each specific FI. That being said, these may need to be revised during the implementation of each FI, depending on elements of each FI needing to be assessed.

Indicators for the use of Guarantee Instrument (including micro-guarantees)

Guarantee instrument would be among preferred option in terms of FI use. Often companies are restricted when seeking financing due to lack of collateral or due to high level of risk of the projects, hence the guarantee is expected to facilitate and promote entrepreneurship, job creation, reduction of unemployment and poverty and improve job and life quality.

Table 99: Indicators for the use of Guarantee Instrument (including micro-guarantees)

Type of FI	**Guarantee instrument (including micro—guarantees)**				
Source of financing	ERDF				
Funds budget	EUR 244 million + co-financing/leverage				
Specific objective of corresponding IP/focus area	3a - Promoting entrepreneurship, in particular by facilitating the economic exploitation of new ideas and fostering the creation of new firms, including through business incubators: 3a1 - Promote the creation and activities of new enterprises, especially start-ups 3a2 - Increase the added value of SMEs; 3b - Developing and implementing new business models for SMEs, in particular with regard to internationalisation: 3b - Enhance international competitiveness of SMEs; 1b – Promoting business investment in R&I, developing links and synergies between enterprises, research and development centres […]: 1b - Increased share of innovation active enterprises;				
Result indicator	**Indicator**	**Unit**	**Baseline (2013)**	**Target (2023)**	**Source**
	Improved entrepreneurial activity index (TEA index)	index	6.45	7	GEM
	Investment in micro-enterprises	%			Financial intermediary/FoF
	Share of SME's net turnover in total net turnover of all enterprises	share	(2012) 47.38	49.5	Agency of the Republic of Slovenia for Public Legal Records and Related Services
	Added value per employee in SMEs	EUR	31,175	38,000	Agency of the Republic of Slovenia for Public Legal Records and Related Services

	Indicator	Unit	Baseline (2013)	Target (2023)	Source
Output indicator	Number of new enterprises supported	Number			MA
	Number of enterprises receiving loans	Number			Financial Intermediary/FoF
	Number of supported investment projects for physical/business infrastructure	Number	(2014)	12	Monitoring
	Employment increase in supported enterprises	Number	(2014) n.a.	1,000	Monitoring
Performance indicators	**Indicator**	**Unit**	**Baseline (2013)**	**Target (2023)**	**Source**
	Absorption rate	%			MA
	Volume of loans under guarantee	mEUR			Financial Intermediary/FoF
	Current default rate of the guaranteed loans	%			Financial Intermediary/FoF
	Management cost (% on volume of total loans guaranteed)	%			Financial Intermediary/FoF
	Leverage brought by the instrument	%			Financial Intermediary/FoF + MA

Source: OP-ECP 2014—2020, PwC Analysis, 2015

Indicators for the use of Microfinance Instrument (business + personal)

This instrument will support enterprises as well as individual, which need financing to create a company, micro-enterprises that need financing to keep their business alive, micro-enterprises that want to expand their business activities, social enterprises (including existing social enterprises and social entrepreneurs).

Table 100: Indicators for the use of Microfinance instrument

Type of FI	**Business and personal Microfinance instrument**				
Source of financing	ERDF				
Funds budget	EUR79 million + co-financing/leverage				
Specific objective of corresponding IP/focus area	3a - Promoting entrepreneurship, in particular by facilitating the economic exploitation of new ideas and fostering the creation of new firms, including through business incubators: 3a1 - Promote the creation and activities of new enterprises, especially start-ups 3a2 - Increase the added value of SMEs; 3b - Developing and implementing new business models for SMEs, in particular with regard to internationalisation: 3b - Enhance international competitiveness of SMEs;				
Result indicator	**Indicator**	**Unit**	**Baseline (2013)**	**Target (2023)**	**Source**
	Improved entrepreneurial activity index (TEA index)	index	6.45	7	GEM
	Number of emerging enterprises	number	(2012) 3,725	5,000	Agency of the Republic of Slovenia for Public Legal Records and Related Services
	Reduction of unemployed people willing to create a business and unable to access financing	%			MA/Employment Agency
	Investment in micro-enterprises and SMEs	mEUR			Financial intermediary/FoF
	Volume of loans for working capital for micro-enterprises and SMEs	mEUR			Financial Intermediary/FoF
Output indicator	**Indicator**	**Unit**	**Baseline (2013)**	**Target (2023)**	**Source**
	Number of enterprises receiving microfinance	Number			MA

	Number of micro-enterprises created	Number			MA
	Number of micro-enterprises supported	Number			MA
	Number of new social enterprises	Number			MA/employment agency
Performance indicators	**Indicator**	**Unit**	**Baseline (2013)**	**Target (2023)**	**Source**
	Credit loss (volume of defaulted loans/volume of total loans outstanding)	%			Intermediary/FoF
	Management costs (% on volume of total loans outstanding)	%			Intermediary/FoF
	Leverage (Private investment matching public support to micro-enterprises/total public support)	%			Intermediary/FoF

Source: OP-ECP 2014—2020, PwC Analysis, 2015

Indicators for the use of Equity financing Instrument

This instrument will support with equity and quasi-equity financing companies in all stages (seed, creation, development and turnaround stage), based on a prepared business plan with good quality and high potential. The purpose is to strengthen the existing equity market in Slovenia and to encourage further structuring and growth, including higher number of private stakeholders.

Table 101: Indicators for the use of Equity financing Instrument

Type of FI	**Equity financing instrument**
Source of financing	ERDF
Funds budget	EUR 30 million + co-financing/leverage

Specific objective of corresponding IP/focus area	3a - Promoting entrepreneurship, in particular by facilitating the economic exploitation of new ideas and fostering the creation of new firms, including through business incubators: 3a1 - Promote the creation and activities of new enterprises, especially start-ups 3a2 - Increase the added value of SMEs; 3b - Developing and implementing new business models for SMEs, in particular with regard to internationalisation: 3b - Enhance international competitiveness of SMEs; 1b – Promoting business investment in R&I, developing links and synergies between enterprises, research and development centres […]: 1b - Increased share of innovation active enterprises;				
Result indicator	**Indicator**	**Unit**	**Baseline (2013)**	**Target (2023)**	**Source**
	Improved entrepreneurial activity index (TEA index)	index	6.45	7	GEM
	Number of emerging enterprises	number	(2012) 3,725	5,000	Agency of the Republic of Slovenia for Public Legal Records and Related Services
	Amount of investment (in start-ups, SMEs and large companies)	mEUR			Financial intermediary/FoF
	Number of successfully implemented projects	number			Financial Intermediary/FoF
Output indicator	**Indicator**	**Unit**	**Baseline (2013)**	**Target (2023)**	**Source**
	Number of enterprises receiving financial support other than grants	number	n.a.	100	Monitoring
	Number of enterprises supported to introduce improved or new products and services to the market	number	n.a.	200	Monitoring
	Number of enterprises getting equity financing from a private (recorded for different development stages)	Number			MA
Performance indicators	**Indicator**	**Unit**	**Baseline (2013)**	**Target (2023)**	**Source**
	Investment loss (volume of unsuccessful investment/volume of total investments)	%			Intermediary/FoF
	Management costs (% on volume of total investments)	%			Intermediary/FoF
	Leverage (Private investment matching	%			Intermediary/FoF

	public support to enterprises/total public support)				

Source: OP-ECP 2014—2020, PwC Analysis, 2015

Indicators for the use of Guarantee Instrument for agriculture and agri-business companies

This pilot FI is aiming at reducing the risk taken by a financial institution when lending to the company, working in the agriculture, companies from rural development areas and natural persons with supplementary activity on a farm. This instrument covers companies of all sub-sectors, sizes and age and supports all types of loans (short-, medium and long-term loans with various amounts and maturity).

Table 102: Indicators for the use of Guarantee Instrument for agriculture and agri-business companies

Type of FI	**Guarantee instrument for agriculture and agri-business**				
Source of financing	EAFRD				
Funds budget	EUR 88 million + co-financing/leverage				
Specific objective of corresponding IP/focus area	Rural Development programme: 4.2. Support for investments in processing/marketing and/or development of agricultural products, 6.4. Support for investments in establishing and developing non-agricultural activities, 8.6. Support for investments in forestry technology and processing, mobilisation and marketing of forest products				
Result indicator	**Indicator**	**Unit**	**Baseline (2013)**	**Target (2023)**	**Source**
	Investment in micro-enterprises/SMEs/large companies[175]	%			Financial intermediary/FoF
	Added value per employee in SMEs	EUR	31,175	38,000	Agency of the Republic of Slovenia for Public Legal Records and Related Services
Output indicator	**Indicator**	**Unit**	**Baseline (2013)**	**Target (2023)**	**Source**
	Number of new enterprises supported	Number			MA

[175] Up to 750 employees and 200 million of turnover

	Number of micro/SMEs/large companies receiving loans	Number			Financial Intermediary/FoF
	Number of supported investment projects for physical/business infrastructure	Number			Monitoring
	Employment increase in supported enterprises	Number			Monitoring
Performance indicators	**Indicator**	**Unit**	**Baseline (2013)**	**Target (2023)**	**Source**
	Absorption rate	%			MA
	Volume of loans under guarantee	mEUR			Financial Intermediary/FoF
	Current default rate of the guaranteed loans	%			Financial Intermediary/FoF
	Management cost (% on volume of total loans guaranteed)	%			Financial Intermediary/FoF
	Leverage brought by the instrument	%			Financial Intermediary/FoF + MA

Source: OP-ECP 2014—2020, PwC Analysis, 2015

Indicators for the use of a Loan instrument, dedicated for RDI projects

This instrument is dedicated to Individuals creating their companies and innovative start-ups, SMEs as well as large companies. Two prerequisites have to be fulfilled before using this FI. First is a clear pipeline of "ready-to-start-projects" and well-structured "innovation eco-system" able to source such projects.

Table 103: Indicators for the use of a Loan instrument, dedicated for RDI projects

Type of FI	**Loans for start-ups, SMEs and large companies**
Source of financing	ERDF
Funds budget	EUR 30 million + co-financing/leverage

Specific objective of corresponding IP/focus area	1b – Promoting business investment in R&I, developing links and synergies between enterprises, research and development centres [...]: 1b - Increased share of innovation active enterprises;				
Result indicator	**Indicator**	**Unit**	**Baseline (2013)**	**Target (2023)**	**Source**
	Share of business expenditure on R&D as a percentage of GDP	%	(2012) 1.76	2	SI-STAT
	Share of innovation active enterprises	%	(2012) 46.5	55	SI-STAT
	Improved entrepreneurial activity index (TEA index)	index	6.45	7	GEM
	Number of emerging enterprises	number	(2012) 3,725	5,000	Agency of the Republic of Slovenia for Public Legal Records and Related Services
	Investment in micro-enterprises, SMEs and large companies	mEUR			Financial intermediary/FoF
	Amount dedicated for investments in RDI	mEUR			Financial Intermediary/FoF
Output indicator	**Indicator**	**Unit**	**Baseline (2013)**	**Target (2023)**	**Source**
	Number of enterprises receiving financial support other than grants	number	n.a.	100	Monitoring
	Number of enterprises supported to introduce improved or new products and services to the market	number	n.a.	200	Monitoring
	Number of enterprises (start-ups, SMEs, large companies) receiving loans	Number			MA
Performance indicators	**Indicator**	**Unit**	**Baseline (2013)**	**Target (2023)**	**Source**
	Credit loss (volume of defaulted loans/volume of total loans outstanding)	%			Intermediary/FoF

	Management costs (% on volume of total loans outstanding)	%			Intermediary/FoF
	Leverage (Private investment matching public support to enterprises/total public support)	%			Intermediary/FoF

Source: OP-ECP 2014—2020, PwC Analysis, 2015

Indicators for the use of a Loan instrument for energy efficiency (public and private) projects

Table 104: Indicators for the use of a Loan instrument for energy efficiency (public and private) projects

Type of FI	**Loans for Energy Efficiency projects (public + private)**				
Source of financing	ERDF				
Funds budget	EUR 56 million + co-financing/leverage				
Specific objective of corresponding IP/focus area	IP 4a Supporting EE, smart energy management and RE use in public infrastructure, including in public buildings, and in the housing sector: SO 4a1: Improve energy efficiency in the public sector and SO 4a2: Improve energy efficiency in households.				
Result indicator	**Indicator**	**Unit**	**Baseline (2013)**	**Target (2023)**	**Source**
	Annual energy consumption in the public sector buildings	GWh	1.87	1.63	Long-term energy balance 2030
	Annual energy savings in households	GWh	198	300	Eco Fund
Output indicator	**Indicator**	**Unit**	**Baseline (2013)**	**Target (2023)**	**Source**
	Number of households with improved energy consumption classification	Number	n.a.	2,5	Estimate
	Decrease of annual primary energy consumption of public buildings	kWh/year	n.a.	23,000,000	Implementing authority

	Renovated useful floor area of buildings owned or occupied by the public sector	m²	n.a.	1,800,000	NEEAP 2020
	Renovated useful floor area of renovated buildings owned or occupied by the central government	m²	n.a.	180	Implementing authority
	Number of implemented energy renovation demonstration projects for different categories of buildings	Number	n.a.	5	Implementing authority
	Estimated annual decrease of GHG (in the public and household sectors)	t CO2 eq	n.a.	32	Implementing authority
	Number of enterprises that have introduced energy efficiency measures	Number			Monitoring
Performance indicators	**Indicator**	**Unit**	**Baseline (2013)**	**Target (2023)**	**Source**
	Absorption rate	%			
	Leverage	%			MA, FoF, Specific fund
	Credit loss (Volume of defaulted loss)/ (Volume of total loans)	%			MA, FoF, Specific fund
	Current default rate of the guaranteed loans	%			MA, FoF, Specific fund
	Management costs	% on volume of total loans & guarantees outstanding			Financial intermediary/FoF
	Saved GHG per 1,000 invested	Kg of CO2 eq per year			Municipalities

Source: OP-ECP 2014—2020, PwC Analysis, 2015

Indicators for the use of a Loan instrument for Urban and territorial development products

This instrument is dedicated for regional and local authorities, municipalities, public service companies (e.g. electricity), local transport managers (public authorities, private companies and consortiums) and real-estate project developers.

Table 105: Indicators for the use of a Loan instrument for Urban and territorial development products

Type of FI	**Loans for Urban and Territorial development**				
Source of financing	EDRF				
Funds budget	EUR 16.7 mil + co-financing/leverage				
Specific objective of corresponding IP/focus area	IP 6d Taking action to improve the urban environment, to revitalise cities, regenerate and decontaminate brownfield sites (including conversion areas), reduce air pollution and promote noise-reduction measures: 6d1 - Efficient land use in urban areas and 6d2 - Improve air quality monitoring to provide better support to the development of plans in this field IP 4a Supporting EE, smart energy management and RE use in public infrastructure, including in public buildings, and in the housing sector IP 4d Promoting low-carbon strategies for all types of territories, in particular for urban areas, including the promotion of sustainable multimodal urban mobility and adequate mitigation and adaptation measures				
Result indicator	**Indicator**	**Unit**	**Baseline (2013)**	**Target (2023)**	**Source**
	Land not revitalised in cities implementing sustainable urban strategies	Ha	(2016) 0	45	Authority responsible for urban development
	Share of implemented ambient air quality plans which comply with Directive 2008/50/EC *	share	(2014) 17	100	Ministry of the Environment and Spatial Planning
Output indicator	Population living in areas with integrated urban development strategies	number	n.a.	700	SURS
	Open space created or rehabilitated in urban areas	m2	n.a.	20,000	Authority, responsible for urban development
	Public or commercial buildings newly built or renovated in urban areas	m2	n.a.	20	Authority, responsible for urban development

	Rehabilitated housing in urban areas	Number of units	n.a.	200	Authority, responsible for urban development
Performance indicators	**Indicator**	**Unit**	**Baseline (2013)**	**Target (2023)**	**Source**
	Absorption rate	%			SI-STAT
	Leverage	%			MA, FoF, Specific fund
	Credit loss (Volume of defaulted loss)/ Volume of total loans	%			MA, FoF, Specific fund
	Current default rate of the guaranteed loans	%			MA, FoF, Specific fund
	Management costs	% on volume of total loans			MA, FoF, Specific fund

Source: OP-ECP 2014—2020, PwC Analysis, 2015

H.9. Proposed schedule for the evaluation of the expected results

The definition of indicators is the cornerstone of a feedback system that will allow the fund to adapt over time. The next step is to create a mechanism for these data to filter up to the management process, and ultimately to inform changes to the investment strategy, if needed.

The MA may consider the content of the required specific report is listed in Article 46 (2). Fiche No. 4B 'Reporting on financial instruments to the Commission under the annual and final implementation reports' provides, on a provisional basis, much more detailed information concerning the reporting obligations of the MA. This information will be part of the Implementing Act under preparation. However, the requirements for reporting to the Commission do not limit the reporting requirements that the MA may consider necessary to get from the Fund-of-Funds or the financial intermediary.

In order to be able to respond to its obligations towards the Commission, MAs have to make sure that all the necessary information is available. For that, the overall data set should be part of the funding agreement between the MA and the financial intermediary. In this context, also the requirements regarding the monitoring system allowing for IT-based data collection and reporting might be specified.

Annex IV of the CPR provides **secondly** another element of the reporting for the MA (via funding agreement). This second element is about the steering of the FI. The MA may pilot the FI to some extent through conditions in the funding agreement about targeted results, leverage, reutilisation of resources and responses of the FI, when things develop differently and deviations occur.

The MA could, therefore, decide to set up a monitoring and reporting system that provides them with information on the performance of the FIs in shorter intervals, e.g. with **quarterly** monitoring reports. A closer monitoring would allow the MA to identify possible hinders and issues in FI implementation and to facilitate its management. As an example, the MA should include the amount of eligible expenditures incurred (in line with Article 42(1) (a)(b)(d) in payment requests. A bottom-up reporting approach could be implemented as defined below:

Figure 88: Main monitoring steps

For ensuring **data collection** and availability, the overall data set should be part of the funding agreement between the MA and the financial intermediary. In this context, it is advisable to define a standard reporting format, for instance an IT-based system or a common template. This will make data aggregation more efficient.

For the **operational information,** reports on items such as like deal flow, addressed target groups, uptake of the FI (to phase inter alia the payments of the contribution) and/or risk profile of the implemented investments might be necessary. More generally, such a reporting is to document the progress made in implementing the FI over the preceding period. Progress reports should include elements such as analyses of progress made in comparison with the established investment strategy as well as the provisions of the funding agreement.

For the **financial reporting** element**,** the information with respect to **accountability** is important. Annex IV states that minimum requirements of such documentation are included in the funding agreement. As there are different regimes to implement FIs, the minimum requirements are expected to be different and adapted to the situation. If the MA has entrusted the implementation of the FI to a financial intermediary, the documentation and the audit of the escrow account (normally a part of the audit of the whole entity where the escrow account is located) will be important. A system to document the current payments for the management and liabilities for present and future fees will be needed as well. If the FI is implemented by a dedicated entity such as a fund with its own legal personality and defined

governance for different groups of investors (who may have different non-*pari passu* arrangements) then a complete set of financial statements will be needed, including:

- Economic out-turn account;
- Balance sheet and P&L;
- Management costs statement;
- Various notes to financial statements.

The funding agreement has to fix appropriate documentation requirements.

H.10. Periodicity

Proposed is a structure with a Fund-of-Funds for different areas (SMEs, RDI, EE and UTD) thus the defined indicators for each sub-fund concerned need to have aligned periodicity for accuracy, relevance and practical management.

The Fund-of-Funds will be the direct recipient of ESI funds and is responsible for selecting and signing funding agreements with financial intermediaries, and for monitoring and controlling FI implementation activities.

The funding agreement is required to contain provisions for the monitoring activities and revision of the investment strategy. Typical practice is to establish a biannual monitoring report and accompanying FoF investment board meeting dedicated to monitor these indicators and their level of results' achievement to further on make potential changes to the investment strategy.

The MA has to pay a particular attention to the schedules of monitoring the progress and performance of each FI to ensure a proper timing in order to facilitate decision-making and overall view of the achievement of all the FIs.

As a general recommendation, the monitoring and evaluation system of the FIs needs to be designed in such a way that it avoids administrative burden for the financial intermediaries and a relevant amount of quantitative data to enable reporting on a monthly basis and quick decision-making.

When considering the reporting schedule that the MA has to adopt vis-à-vis the EC, the MA could envisage performing an evaluation of the performance of each FI after 2 years of existence, corresponding to the mid-term evaluation, which shall be carried by 1 July 2017 for the OP-ECP and RDP. The performance evaluation of all the FIs may be based on the compilation of the monthly or quarterly reports produced (so-called progress reports), according to the funding agreement and the arrangements with the financial intermediaries. These progress reports may substantiate the mid-term evaluation of the FIs to be conducted, if relevant, in parallel with the mid-term evaluation of the OP-ECP and RDP.

Appendix I. - *Questionnaire for the online survey for SMEs*

Questions on general information for the SME

1. In which sector does your business primarily operate? (Please select from the list below)

- Agriculture, forestry and fishing
- Mining and quarrying
- Manufacturing
- Electricity, gas, steam and air conditioning supply
- Water supply; sewerage, waste management and remediation activities
- Construction
- Wholesale and retail trade; repair of motor vehicles and motorcycles
- Transportation and storage
- Accommodation and food service activities
- Information and communication
- Financial and insurance activities
- Real estate activities
- Professional, scientific and technical activities
- Administrative and support service activities
- Public administration and defence; compulsory social security
- Education
- Human health and social work activities
- Arts, entertainment and recreation
- Other service activities
- Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use
- Activities of extraterritorial organisations and bodies

2. How many people are employed (FTE) in your company?

- 0
- 1 to 9
- 10 to 49
- 50 to 249
- More than 250

3. At which growth phase would you currently position your company / activity?

- Initiation [business model is created, no commercial activity]
- Creation [commercial activity initiated, product not marketed]
- Post-creation [activity has begun, no profit]
- Development on domestic market
- Development on foreign market
- Maturity [stable activity with frail or stagnant growth]
- Reorganisation
- Takeover / transfer to new ownership/ buy-out

4. How did the following factors change between 2012 and 2014, in your opinion?

	Very Bad	Bad	Unchanged	Better	Much Better	No opinion
The financial situation of the company						
Turnover						

The cost (interest and other) of obtaining finance for your business						
The debt / turnover ratio of your business						
The burden or effort to obtain finance for your business						
The willingness of banks to provide finance						

5. Over the last three years (2012, 2013, 2014), which source(s) of funding has your company used? (Please select one or more options)

- Micro-credit by microfinance institutions (<25,000 euros)
- Short-term loans, bank overdrafts and credit lines (<1 year)
- Medium and long-term (> 1 year)
- Loans guaranteed by a public or private entity
- Loan provided with interest rate subsidy
- Loan obtained from parent company
- Leasing
- Bank guarantees (including export guarantees)
- Factoring
- Investment funds
- Venture capital funds
- Business Angels
- Capital seed fund by national public institutions
- Equity from national, regional or foreign institutions
- Mezzanine or hybrid financing
- Public grants
- Corporate Bonds
- Other private investors
- Private contributions or grants
- Retained earnings
- Capital Contribution by shareholders of companies
- External capital contributions (family or friends)
- Other sources of funding

6. For what purpose did you seek finance in the last three years (2012, 2013, and 2014)? (Please select one or more options)

- Finance working capital
- Ensure debt consolidation
- Acquire another company
- Acquire land / building
- Rent land / building
- Acquire machinery / equipment
- Rent machinery / equipment
- Launch a new product / service
- Develop international activities / enter a new market (geographic expansion)
- Finance export sales
- Finance R&D and innovation
- Transfer ownership
- Acquisition of an intangible asset
- Improve energy efficiency of your company
- Other needs

7. During the last three years (2012, 2013, 2014), in your opinion, what were the reasons for any difficulties in obtaining finance that you experienced? (Please select one or more options)

- The financial situation of your company

- Price (interest and other) of obtaining finance for your business
- The debt/turnover ratio of your business
- Other terms of finance (maturity, collateral, guarantee, covenants)
- The burden or efforts to obtain finance for your business
- Lack of expertise of your team to finds or negotiate the best options
- Limited availability of equity investors
- Difficulties related to file the application
- The willingness of banks to provide finance
- Corruption
- Not relevant: our company did not encounter any problems

8. Over the last three years (2012, 2013, 2014), what type of guarantee did you provide for your loan(s)? (Please select one or more options)

- Resources of the owner
- Family and friends
- Resources companies
- Business partners
- Mutual guarantee schemes, such as. cooperative
- Other guarantee schemes (private, public, national or regional)
- Not relevant: our company did not need debt financing
- Not relevant: our company was not required to provide insurance
- Other

9. When looking for finance, do you feel you lacked support from:

	Yes	No	Did not Ask
Your City			
Your Region			
State authorities			
Guarantee Funds			
Public funds			
Venture capital funds			
Business Angels			
Commercial Banks			
Chambers and Associations			
Your accountant or consultant			
Mentors			
A support network			

10. What amount of each of the following financing sources have you already requested or do you intend to request in 2015? (Amount in thousands of EUR)

	Amount in thousand €
Micro-credit by microfinance institutions (<25,000 euros)	
Short-term loans, bank overdrafts and credit lines (<1 year)	
Medium and - long-term (> 1 year)	
Loans guaranteed by a public or private entity	
Loan provided with interest rate subsidy	
Loan obtained from parent company	
Leasing	

Bank guarantees (including export guarantees)	
Factoring	
Investment funds	
Venture capital funds	
Business Angels	
Capital seed fund by national public institutions	
Equity from national, regional or foreign institutions	
Mezzanine or hybrid financing	
Public grants	
Corporate Bonds	
Other private investors	
Private contributions or grants	
Retained earnings	
Capital Contribution by shareholders of companies	
External capital contributions (family or friends)	
Other sources of funding	

11. Is your company registered as a Social Enterprise?

- Yes
- No

Energy Efficiency

12. Did you invest in energy efficiency in previous year?

- Yes
- No

13. If you have financed and implemented a project aiming at improving the energy efficiency of your company in the last three years (2012, 2013, 2014), what were the reasons for doing so? (Please select one or more option)

- Savings due to reduced energy consumption
- Savings due to the use of renewable energy or cogeneration
- Improve production process with an aim to reduce energy footprint of your company
- Higher environmental taxes and regulation
- Achieving higher standard and advanced technologies

14. If you intend to finance and implement a project aiming at improving the energy efficiency of your company in the next three years (2015, 2016, 2017), what are the reasons for doing so? (Please select one or more option)

- Savings due to reduced energy consumption
- Savings due to the use of renewable energy or cogeneration
- Improve production process with an aim o reduce energy footprint of your company
- Higher environmental taxes and regulation
- Achieving higher standard and advanced technologies

Optional Questions

15. *Smart specialization strategy (S3) is a document that defines the areas in which Slovenia will invest funds in the next five years.*

Does your company carry out research and development in the areas that are defined in the Smart specialization strategy? Learn more at:

http://www.svrk.gov.si/si/delovna_podrocja/evropska_kohezijska_politika/ekp_2014_2020/strategija_pametne_specializacije/

- No, and will not in the future
- No, but will in the future
- Yes

16. In which area, defined in the (S3), operates your company? (if second or third choice was selected to question 15)

- Healthy working and living environment
- Natural and traditional resources for the future
- (S)industry 4.0
- Don't know

17. Option 1 (if Healthy working and living environment was selected to question 16)

- Smart cities and communities
- Smart buildings and homes, including wood chain

18. Option 2 (if Natural and traditional resources for the future was selected to question 16)

- Networks for the transition to circular economy
- Sustainable food production
- Sustainable tourism

19. Option 3 (if (S)INDUSTRY 4.0 was selected to question 16)

- Factories of the Future
- Health – medicine
- Mobility
- Development of materials as end products

20. Please provide answer (if second or third choice was selected to question 15)

Numbers of researchers involved	
Funds invested in RDI (in thousands of EUR)	
Revenue (in thousands of EUR)	
Expected annual growth in the next period (in %)	

Appendix J. - *Questionnaire for the online survey for agriculture companies*

1. In which sector does your business primarily operate? (Please select from the list below)

- Agriculture, forestry and fishing
- Mining and quarrying
- Manufacturing
- Electricity, gas, steam and air conditioning supply
- Water supply; sewerage, waste management and remediation activities
- Construction
- Wholesale and retail trade; repair of motor vehicles and motorcycles
- Transportation and storage
- Accommodation and food service activities
- Information and communication
- Financial and insurance activities
- Real estate activities
- Professional, scientific and technical activities
- Administrative and support service activities
- Public administration and defence; compulsory social security
- Education
- Human health and social work activities
- Arts, entertainment and recreation
- Other service activities
- Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use
- Activities of extraterritorial organisations and bodies

2. Do you have a registered gainful activity on farm in accordance with national law?

- Yes
- No

3. Is your company's activity present in a city with less than 5.000 inhabitants

- Yes
- No

4. Is your company registered as a Social Enterprise?

- Yes
- No

5. How many people are employed (FTE) in your company?

- 0
- 1 to 9
- 10 to 49
- 50 to 249
- More than 250

6. Over the last three years (2012, 2013, 2014), which source(s) of funding has your company used? (Please select one or more options)

- Micro-credit by microfinance institutions (<25,000 euros)
- Short-term loans, bank overdrafts and credit lines (<1 year)
- Medium and long-term (> 1 year)
- Loans guaranteed by a public or private entity
- Loan provided with interest rate subsidy
- Loan obtained from parent company
- Leasing
- Bank guarantees (including export guarantees)
- Factoring
- Investment funds
- Venture capital funds
- Business Angels
- Capital seed fund by national public institutions
- Equity from national, regional or foreign institutions
- Mezzanine or hybrid financing
- Public grants
- Corporate Bonds
- Other private investors
- Private contributions or grants
- Retained earnings
- Capital Contribution by shareholders of companies
- External capital contributions (family or friends)
- Other sources of funding

7. For what purpose did you seek finance in the last three years (2012, 2013, and 2014)? (Please select one or more options)

- Finance working capital
- Ensure debt consolidation
- Acquire another company
- Acquire land / building
- Rent land / building
- Acquire machinery / equipment

- Rent machinery / equipment
- Launch a new product / service
- Develop international activities / enter a new market (geographic expansion)
- Finance export sales
- Finance R&D and innovation
- Transfer ownership
- Acquisition of an intangible asset
- Improve energy efficiency of your company
- Other needs

8. During the last three years (2012, 2013, 2014), in your opinion, what were the reasons for any difficulties in obtaining finance that you experienced? (Please select one or more options)

- The financial situation of your company
- Price (interest and other) of obtaining finance for your business
- The debt/turnover ratio of your business
- Other terms of finance (maturity, collateral, guarantee, covenants)
- The burden or efforts to obtain finance for your business
- Lack of expertise of your team to finds or negotiate the best options
- Limited availability of equity investors
- Difficulties related to file the application
- The willingness of banks to provide finance
- Corruption
- Not relevant: our company did not encounter any problems

9. What amount of each of the following financing sources have you already requested or do you intend to request in 2015? (Amount in thousands of EUR)

	Amount in thousand €
Micro-credit by microfinance institutions (<25,000 euros)	
Short-term loans, bank overdrafts and credit lines (<1 year)	
Medium and - long-term (> 1 year)	
Loans guaranteed by a public or private entity	
Loan provided with interest rate subsidy	
Loan obtained from parent company	
Leasing	
Bank guarantees (including export guarantees)	
Factoring	
Investment funds	
Venture capital funds	
Business Angels	
Capital seed fund by national public institutions	
Equity from national, regional or foreign institutions	
Mezzanine or hybrid financing	
Public grants	
Corporate Bonds	
Other private investors	
Private contributions or grants	
Retained earnings	
Capital Contribution by shareholders of companies	
External capital contributions (family or friends)	

10. Does your business activity involve processing, mobilization or marketing of forestry products?

- Yes
- No

(If choice Yes was selected)

Are you involved in any of the small-scale operations in forestry sector written below?

i. sawmill plant capacity up to 10,000 m3 of input for a the manufacture of sawn wood or un-impregnated poles, annually,
ii. pellet production as an additional activity within the sawmill plants, up to 5,000 tons of annual production of pellets,
iii. production of wood chips as an additional activity in the sawmill plants up to 15,000 heaped m3 (equivalent to processing 5,000 m3 of round wood) annually,
iv. production of wood chips in the forest up to 25,000 heaped m3 (equivalent to processing 7,500 m3 of round wood) annually,
v. production of firewood up to 10,000 loose cubic meters of logs (equivalent to 5,000 m3 of round wood) annually.

- Yes
- No

11. Are you engaged in a processing or marketing of agricultural products:

- Yes
- No

(If choice Yes was selected)

12. You are engaged in a processing or marketing of agricultural products as :

- Company
- Cooperative
- Sole proprietor
- Farm
- Farm with gainful activity
- Pasture, which carries out production of milk in the mountains
- Economic Interest Grouping
- Other (Specify: _____)

Appendix K. - *Note on the sampling methodology of the online survey*

The online survey was conducted in Slovenia where there 181.759 SMEs were operating in 2013 (SI-STAT, 2015).

The SME population in Slovenia was defined and stratified on the basis of two dimensions:

- Sectors, using the NACE – Nomenclature rev. 2 classification;
- Size of companies (micro, small, medium-sized), using the SI-STAT figures as of 2013

Number of total invitations send is not available as the online survey was distributed through numerous Email databases and was published on several websites. 553 SMEs provided valid answers.

The questionnaire used for the online survey included 20 questions and is presented in Appendix I. -. The online survey opened on 4 May 2015 and closed on the 29 May 2015.

Responses were monitored and the survey was closed when the respondent population had achieved a representation of each stratum, based on the two dimensions, with a sufficient degree of freedom to implement a relevant statistical analysis.

Table below provides a detailed description of the stratification with:

- The number of SMEs per size of enterprise and per sector at the national level; along with the related percentage compared to the total SME population in Slovenia;
- The number of SMEs that answered the online survey (respondents) per size of enterprise and per sector at the national level. The related percentages are also provided.

Table 106: Stratification of respondents to the online survey for Ex-ante in Slovenia compared to the population of SMEs in the country

	SME population in Slovenia		Respondents	
	Number	Percentage	Number	Percentage
SIZE OF ENTERPRISE				
Micro-enterprises	172,983	95.2%	282	51%
Small enterprises	6,788	3.7%	176	32%
Medium-sized enterprises	1,268	0.6%	95	17%
SECTOR				
A (agriculture, forestry and fishing)	2,763	2%	15	3%
B (mining and quarrying)	109	0%	0	0%
C (manufacturing)	18,611	10%	138	25%
D (electricity, gas, steam and air conditioning supply)	1,528	1%	4	1%
E (water supply; sewerage, waste management and remediation activities)	457	0%	7	1%
F (construction)	20,281	11%	45	8%
G (wholesale and retail trade; repair of motor vehicles and motorcycles)	26,848	15%	48	9%
H (transportation and storage)	8,881	5%	14	3%
I (accommodation and food service activities)	10,830	6%	17	3%
J (information and communication)	7,462	4%	45	8%

K (financial services and insurance companies)	2,197	1%	8	1%
L (real estate activities)	2,515	1%	5	1%
M (professional, scientific and technical activities)	28,623	16%	69	12%
O (public administration and defence; compulsory social security)	6,328	3%	50	9%
N (administrative and support service activities)	2,166	1%	5	1%
P (education)	5,243	3%	13	2%
Q (human health and social work activities)	4,779	3%	10	2%
R (arts, entertainment and recreation)	12,256	7%	8	1%
S (other service activities)	19,882	11%	52	9%

Source: SI-STAT, PwC, 2015.

As detailed above, the sample of SMEs that have answered to the online survey in Slovenia is statistically representative. The differences with the population of SMEs in the country as indicated in the data of SI-STAT (in terms of size categories of SMEs as well as of activity sectors) cannot distort the analysis conducted in the Ex-ante assessment report; despite the fact that some dimensions (size categories or sectors) may be over-represented or under-represented in the sample of respondents.

The representativeness of the population of respondents compared to the population of SMEs in the country needs to be considered in light of the entire number of SMEs that have answered to the online survey (and consequently not by size category or by sector taken individually). Thanks to the representativeness of the respondent population *vis-à-vis* the SI-STAT data, the analyses conducted by size category of SMEs were possible.

Moreover, the quantification of demand for financing and the analysis of financing gaps have been conducted for small and medium-sized enterprises together.

Note on the sampling methodology of the online survey for agriculture and agri-business companies

We have executed a separate survey, where we wanted to cover the companies that would be eligible to use the Financial Instruments for the specific areas defined in the RDP 2014—2020. Online survey was open on 13 May and closed on 3 June 2015.

64 companies replied to this survey, where 27 have specified their primary activity to be agriculture.

For the purpose of our analysis we have combine this 27 answers with the answers from the above mentioned SME survey, where 15 companies replied that their primary activity is agriculture.

Appendix L. - *Note on the methodology for Social Entrepreneurship*

For the analysis of Social Entrepreneurship economic environment in Slovenia, we contacted registered Slovenian social enterprises. Questionnaire, consisting out of four questions, was sent to the contact person. Prior to sending the questions, a phone call was made to the recipient of a questionnaire, informing him regarding the objectives of the analysis. In case the call could not be made, email was sent.

Contacts were acquired on the internet with the names from the registry of social enterprises. Thirty SEs were contacted, while the rest were either unavailable or did not have contact information available online. Out of 30 contacted social enterprises during the 15 - 22 June 2015, 5 enterprises answered.

Contacted Social Enterprises:

1. Center ponovne uporabe, izvajanje postopkov za ponovno uporabo rabljene opreme, d.o.o., so.p.
2. Fundacija Vincenca Drakslerja za odvisnike - ustanova za zdravljenje odvisnikov, pomoč odvisnikom in njihovim svojcem, so.p.
3. Kulturno umetniško društvo prvi plan - socialno podjetje
4. Brinjevka, socialne storitve, pridelava in predelava hrane d.o.o., so.p.
5. Zavod Pec Murska Sobota so.p.
6. Razvojna zadruga Etri, ekologija, ergonomija in ekonomija, z.o.o., so.p
7. Zavod za pomoč pri razvoju otrok in mladostnikov ter za uveljavljanje ljubiteljskih fotografov - korak naprej murska sobota, socialno podjetje
8. Turistično gastronomski razvojni zavod Matjaž so.p.
9. Ab Pomurje, socialno podjetje, d.o.o. - so.p.
10. Zavod utrinek - pomoč na domu ostarelim, invalidom in pomoči potrebnim osebam, socialno podjetje
11. Kooperativa konjice, z.b.o., socialno podjetje
12. Sotra plus trgovina z živili d.o.o., so.p.
13. Znanstveno - raziskovalno združenje za umetnost, kulturne in izobraževalne programe in tehnologijo epeka, socialno podjetje
14. Center Stonoga - zavod za povezovanje in medgeneracijsko sodelovanje - socialno podjetje
15. Društvo brezposelnih Slovenije - servis dela, socialno podjetje
16. Sonček-zveza društev za cerebralno paralizo Slovenije so.p.
17. Slokva, zavod za razvoj neizkoriščenih potencialov, so.p.
18. Zavod Varen sem, socialno podjetje-svetovanje, izobraževanje in promocija varnosti v bivalnem in delovnem okolju
19. Bolje, družba za odgovorno ravnanje z odpadki, d.o.o., so.p.
20. Zveza socialnih društev in zavodov Zasavja so.p.
21. Zadruga golf Lipica-zadruga za razvoj golfa in turizma lipica z.b.o., socialno podjetje
22. Združenje center alternativne in avtonomne produkcije, socialno podjetje
23. Mladinski center Prlekije-pokrajinski center nvo, slovensko nacionalno združenje, delujoče v javnem interesu, socialno podjetje
24. Frekvenca, socialno združenje nemirnih in aktivnih, socialno podjetje
25. Društvo Terne Roma - mladi romi, socialno podjetje
26. Društvo dnevni center aktivnosti za starejše Maribor, socialno podjetje

27. Replikateh, napredne tehnologije d.o.o., socialno podjetje
28. Mozaik - društvo za socialno vključenost, socialno podjetje
29. Zadruga Konopko, zadruga za razvoj trajnostne pridelave in predelave konoplje, z.o.o., socialno podjetje
30. Pupillam, društvo za razvoj potencialov, socialno podjetje

Question used in the questionnaire:

1. What are the main activities of your company, operating within the framework of social entrepreneurship?
2. What are the main problems in financing companies that operate as social enterprises (your experiences)?
3. What kind of public support would be the most favourable for social enterprises?
4. What type of financing do you use (loans, grants, etc.)?
5. Please provide general comment about the support to social entrepreneurship in Slovenia.

Appendix M. - *Slovenian Smart Specialization Strategy (S4)*

Smart Specialisation Strategy (S4) focuses on sustainable technologies and services for a healthy life on the basis of which Slovenia will become a green, active, healthy and digital region with top-level conditions fostering creativity and innovation focused on the development of medium- and high-level technological solutions in niche areas.

The key S4 objectives are raising the value added per employee, increased share of high-tech intensive products and knowledge-intensive services, and increased entrepreneurial activity. Objectives for each of the nine priorities have been identified with clearly specified focus areas and technologies where Slovenia has the competitive advantages. In these areas Slovenia will no longer act as a follower but as a co-creator of global trends. S4 priority areas are:

A. HEALTHY WORKING AND LIVING ENVIRONMENT

1. Smart cities and communities with IT platforms and conversion, distribution and energy management: raising the value added per employee by 15%.
2. Smart buildings and homes, including wood chain with smart building units, building management systems, smart appliances and advanced materials and elements: raising the value added per employee by 25%.

B. NATURAL AND TRADITIONAL RESOURCES FOR THE FUTURE

3. Networks for the transition to circular economy with biomass transformation and new bio-based materials, technologies for use of secondary raw-materials and reuse of waste, and production of energy based on alternative sources: raising the material efficiency index from 1.07 to 1.50.
4. Sustainable food production with functional foods and sustainable agricultural production (livestock and plants) in the framework of at least three value chains which will provide the critical mass of consumption and which will be supported by long-term contractual partnership based on economic initiative: raise the value added per employee of companies participating in value chains by 20%.
5. Sustainable tourism with technology-based marketing and networking, investments for enhancing the quality of services, technological solutions for sustainable use of resources in accommodation facilities and a green Slovenian tourism scheme: raising the value added of tourism by 15%, increasing the inflow from export of travel services by 4-6% annually, and reducing CO2 emissions from tourism by 20% by 2023.

C. (S)INDUSTRY 4.0

6. Factories of the Future with optimisation and automation of production and production processes, including enabling technologies:

c. Raising the value added per employee in tool industry by 25%, i.e. on the average EUR 45,000 per employee by 2023.

d. Raising the level of robotisation and automation in manufacturing: in the automotive industry the rate of robotisation is comparatively high so emphasis will primarily be put on introducing automation. In all other areas automation as well as increasing the number of robots is key with the target standing at a 50% increase, i.e. an increase from 48 to 72 per 10,000 employees. In the framework of demonstration factories the value added per employee will rise by at least 20%.

e. Connect knowledge and creativity of stakeholders in the field of photonics for new impetus and new market opportunities in the global markets with the aim of achieving the average value added of EUR 75,000 by 2023.

f. Increase export of automated industrial systems and equipment by at least 25% by 2023, in particular in tool industry, robotics and smart industrial mechatronic systems.

7. Health – medicine with biopharmaceuticals, diagnostics and therapeutics in translational medicine, cancer treatment, resilient bacteria and natural medicines and cosmetics: 2023 objective: increase export of participating partnership companies by over 30% of which small and medium-sized

enterprises should increase export by at least EUR 250 million. In addition to promoting the establishment of at least 20 new companies the objective is also to attract at least one foreign direct investment which will employ over 50 people.

8. Mobility with niche components and systems for internal combustion engines, e-mobility and energy storage systems, systems and components for security and comfort (interior and exterior), materials for the automotive industry: raising value added of partnership companies by 20%, and increasing the number of pre-development partnership suppliers from 15 to 22 (45% increase).
9. Development of materials as end products with sustainable production technologies in metallurgy, and multi-component smart materials and coatings: raising value added per employee in companies manufacturing alloys and metals from EUR 45,000 to at least EUR 55,000 by 2023, increasing exports and value added per employee in the field of smart coatings by 20%, increasing investment in development by 15%, value added by 5% and exports of multi-component smart materials by 10%.

S4 identifies a comprehensive package of measures defining the method of achieving the set objectives. Investments, implemented on the basis of the Strategy, amount to EUR 750 million annually of which public funding amounts to over EUR 400 million, or EUR 575 million if including the financial leverage under financial instruments. The measures pertain to the area of research, development and innovation, human resources, entrepreneurship and rural development as well as to promoting development (public procurement, tax relief, economic diplomacy and promotion, as well as to issuing permits and eliminating regulatory barriers).