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PART 7/8

COMMISSION STAFF WORKING DOCUMENT

Reindustrialising Europe

Member States' Competitiveness Report 2014

3.21 Poland

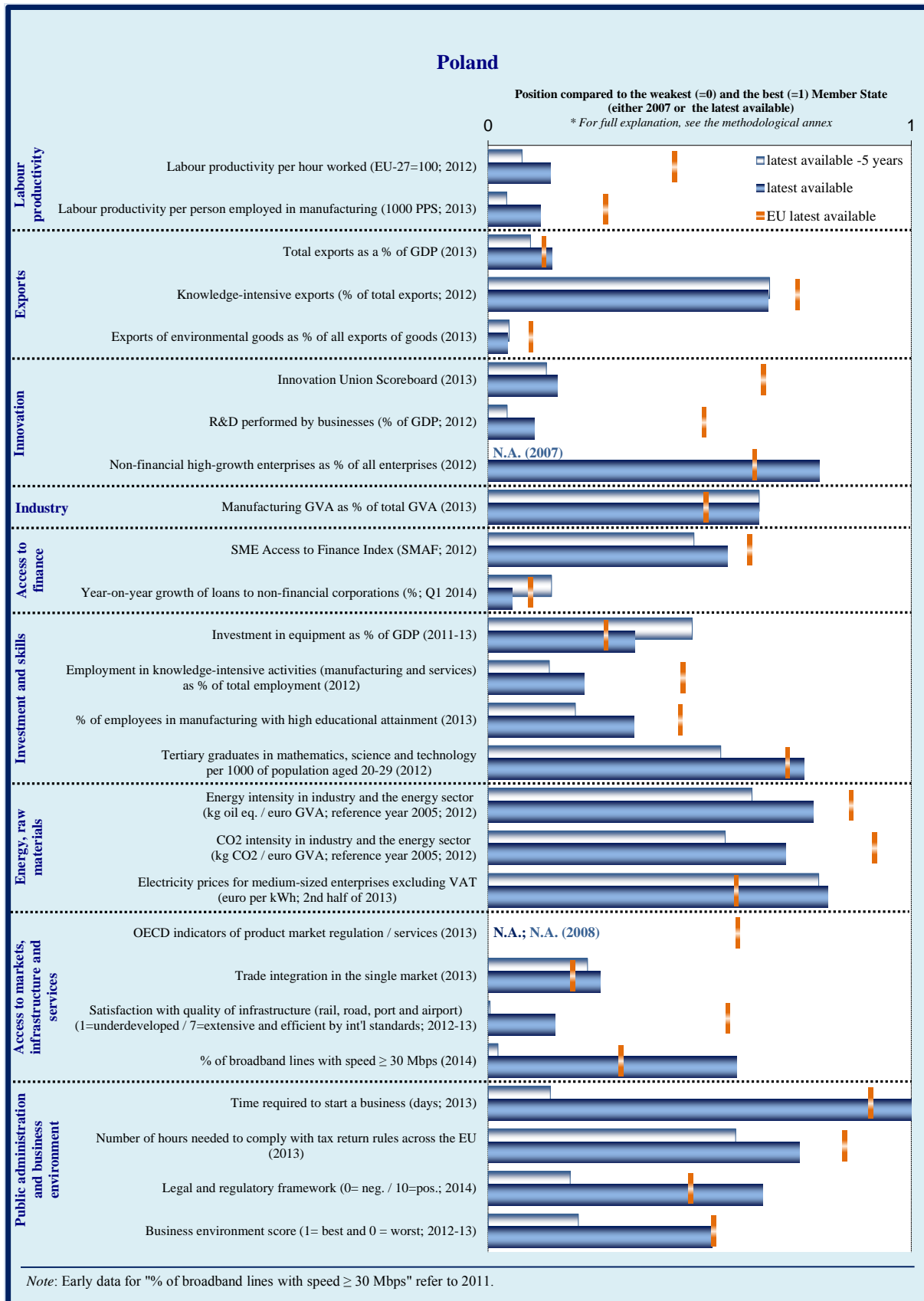
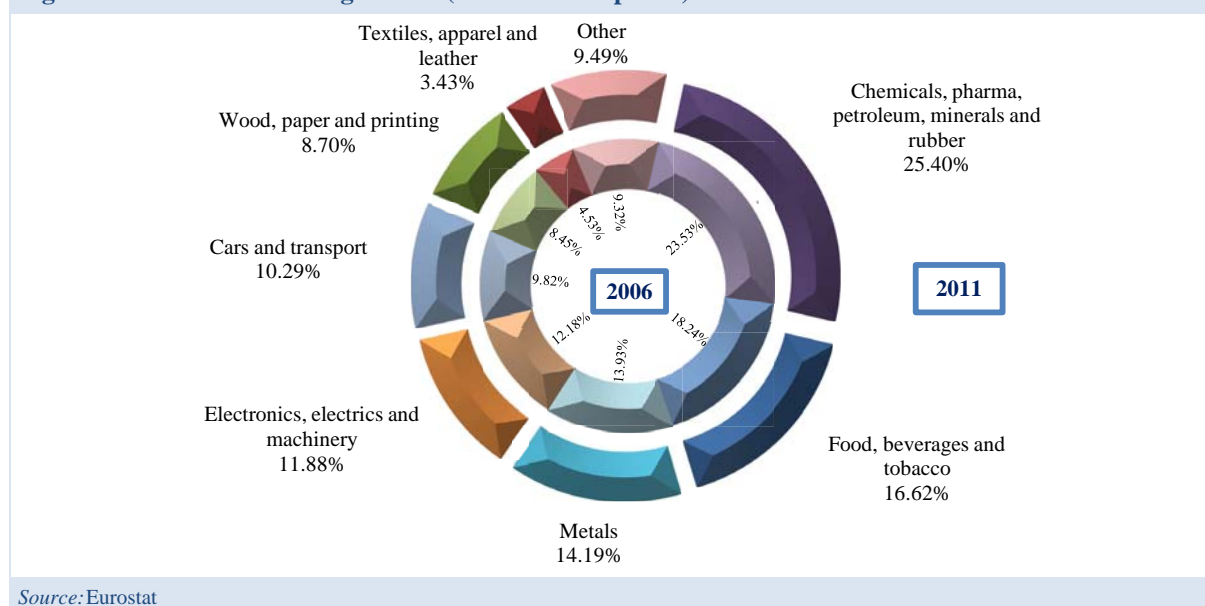


Figure 3.21.1: Manufacturing sectors (GVA at basic prices) - Poland



Source: Eurostat

3.21.1 Introduction and performance

Poland's economy is less developed than those of its western neighbours, especially considering innovation and sustainability. Although growth has been rapid, there was a slowdown in 2013, with growth of 1.6%.⁽⁴²⁵⁾ Nevertheless, labour productivity continues to rise, achieving 73.6% of the EU average in 2013. In May 2014 industrial production has grown by 2.2% over the last year, after an increase of 5.6% in the previous month. The confidence index for Polish industry in June 2014 fell to 50.3. Manufacturing plays an important role in the Polish economy and contributes 17.7% of total value added, as compared with an average of 15.1% in the EU as a whole.

Manufacturing accounts for 30.2% of employment (EU average 22.7%). In 2013, the current account deficit continued to diminish to -1.3% of GDP, although high-tech exports were still very low at 5.9%. Innovation performance is weak, although some signs of improvement can be seen in private R&D expenditure. This has risen from 0.23% of GDP to 0.33% (EU average 1.31%) in 2012. The full implementation of the Enterprise Development Programme, aiming to increase the quality of research and commercialisation of Polish technologies, would

⁽⁴²⁵⁾ Eurostat (Eurostat will be used throughout as the default source of data unless otherwise specified) <http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/>.

make an important contribution to improving Poland's competitiveness.

3.21.2 Access to finance and investment

Access to finance is relatively good and continues to improve. In this area, the World Bank Doing Business 2014 report ranks Poland second in the EU.⁽⁴²⁶⁾ The banks provide some finance for SMEs and, in general, do not ask prohibitive interest rates on loans.⁽⁴²⁷⁾ According to the EC/ECB access to finance survey, 10% of SME loan applications were rejected, compared to 13% in the EU as a whole.⁽⁴²⁸⁾ On interest rates, 42% of Polish SMEs reported a fall and only 14% a rise, compared with 20% and 34% in the EU as a whole. On the other hand, equity finance remains underdeveloped, as total venture capital investment to GDP is 10 times lower than the EU average. The EC/ECB survey shows that only 2% of companies use equity financing.

In March 2013, Poland started a programme of *de minimis* guarantees for loans on working capital as a counter-crisis measure, replacing an earlier ineffective system. The scheme was very well

⁽⁴²⁶⁾ World Bank Doing Business 2014, <http://www.doingbusiness.org/reports/global-reports/doing-business-2014>.

⁽⁴²⁷⁾ SBA Performance Review 2013, DG ENTR, http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index_en.htm.

⁽⁴²⁸⁾ ECB Access to finance survey 2013, http://ec.europa.eu/enterprise/policies/finance/files/2013-safe-analytical-report_en.pdf.

received and in November was extended to cover investment loans. The scheme provided EUR 7 billion of guarantees for almost 39 000 SMEs, covering EUR 12 billion of credit over 2013. The programme is expected to continue until the end of 2015.

Actions were also taken to support equity financing. The Polish Growth Fund of Funds, established to stimulate equity investment in venture capital, private equity and mezzanine funds with a target size of EUR 180 million, came into operation, signing transactions with two private funds. The National Capital Fund is being refocused on venture capital funds supporting the start-up phase of innovative SMEs. By the end of 2013, it had provided co-financing to 16 funds (total capitalisation PLN 933 million) and has shares in 54 companies. The Polish growth stock market NewConnect is expanding 445 companies were listed as of 2013.

The state development bank of Poland ⁽⁴²⁹⁾ is planning to increase the effectiveness of regional and local guarantee and loan funds by standardising their procedures and products.

Investment

At 18.4 % (2013), gross fixed capital formation was higher than the EU average of 17.3 %, but has been on a downward trend since 2008. A major state investment fund focusing mostly on large-scale energy infrastructure has come into operation. ⁽⁴³⁰⁾ The fund is in the process of selecting its first projects — so far, 1 000 projects have been submitted, out of which 50 went through to the second selection stage. Three or four are expected to be selected in 2014. The fund offers very long term financing (25 years) and is independent of the treasury.

3.21.3 Innovation and skills

Innovation

The low level of innovation is one of the most problematic aspects of Polish competitiveness. R&D expenditure is less than half of EU average (0.9 % of GDP, EU average 2.06 %), and comes mostly from the public sector, with only 37.2 % of research performed by the business sector (EU average

63 %)(2012). In the 2014 Innovation Union Scoreboard, Poland's ranking has not changed. However, due mostly to rising private R&D expenditure, Poland was classified as a moderate innovator. ⁽⁴³¹⁾ The Regional Innovation Scoreboard shows improvement for four southern regions. ⁽⁴³²⁾

The main weaknesses of the Polish research and innovation system continue to be: a low degree of commercialisation of research, weak links between academia and business, and low levels of genuine innovation by enterprises — the tax system favours technology transfer and absorption. The high-tech sector of the Polish economy employs 2.9 % of workers (2013), ⁽⁴³³⁾ compared with 3.8 % in the EU.

The National Centre for R&D operates a number of programmes motivating companies to invest in scientific projects and to commercialise research. These include programmes for the medical sector and aeronautics, the development of shale gas technology solutions and ecological technologies.

The National Smart Specialisation Strategy was approved by the government in April 2014. The Enterprise Development Programme (EDP) adopted in 2014 is intended to make the business environment more innovation-friendly through a holistic approach, encouraging commercialisation of new technologies.

Plans for strengthening innovation performance rely on the use of European funds. The EDP forms a coherent framework with the 2014-2020 smart growth operational programme for European structural funds. It aligns public support to the level of risk, providing grants for more risky early stages of innovation and using financial instruments for later stages, commercialisation and internationalisation. The innovative economy programme will be more cohesive, with half the number of instruments and more focus on results.

Amendments have been proposed to the act on higher education, covering the system of intellectual property rights, in particular strengthening the position of researchers.

⁽⁴²⁹⁾ Bank Gospodarstwa Krajowego.

⁽⁴³⁰⁾ Polskie Inwestycje Rozwojowe.

⁽⁴³¹⁾ 2014 Innovation Union Scoreboard, http://ec.europa.eu/enterprise/policies/innovation/files/iuss-2014_en.pdf.

⁽⁴³²⁾ 2014 Regional Innovation Scoreboard, <http://ec.europa.eu/enterprise/policies/innovation/policy/regional-innovation/>.

⁽⁴³³⁾ GUS, Main Statistical Office of Poland, <http://www.stat.gov.pl/gus>.

Skills

The level of tertiary education attainment in Poland is higher than in the EU on average, but there is a problem of skills mismatch, with insufficient ICT and soft skills. Because of the mismatch between the outcome of education and the needs of the labour market, the number of vacancies is high, even though unemployment is still above two million.

Recent reforms have focused on introducing pro-qualitative incentives for the education system and increasing the number of university students in science, technology, engineering and mathematics. An evaluation of the science and higher education reform of 2010/11 is underway, indicating positive results. Proposed amendments to the act on higher education seek to foster closer cooperation with industrial partners through incentives in funding allocation. There are still shortcomings in provision of dual studies linking academic with practical training in companies.

3.21.4 Energy, raw materials and sustainability

Poland performs poorly on sustainability aspects. Resource productivity is very low at EUR 0.4 per kg (EU average 1.59) (2011).⁽⁴³⁴⁾ Greenhouse gas emissions per capita are slightly higher than in the EU on average, 10.37 tonnes of CO₂ equivalent (EU average 9.03 in 2011). A national emissions auction platform was planned to come into operation by the end of 2013, but is still in early development. The share of renewable energy in energy consumption is still below the EU average (11 % vs. 14.1 % in 2012) as Poland continues to rely on domestic coal and imported oil and gas; however, domestic gas production accounts for almost 27 % of total national gas consumption. Electricity prices for medium enterprises are EUR 0.0963 per kWh, in line with EU levels on average, but have been rising at a faster rate. Gas prices are below the EU average.

A new regulation on waste systems and a new action plan for water management were adopted in July 2013. Further amendments to the waste regulation entered into force in January 2014, improving the implementation of extended producers'

responsibility, providing incentives for recycling, and raising fees for landfilling.

A three-pack of energy reforms was adopted in July 2013, belatedly transposing the gas and electricity directives. In the area of renewables, a support programme was started for small and micro installations and a system of guarantees of origin was introduced, together with a requirement for large industrial users to source a proportion of their energy from renewable sources. Other planned elements concerning renewable energy were not included, and the relevant regulation is still under consultation in government. Infringement procedures concerning the directive on renewables are still a possibility, as the draft regulation does not go far enough in streamlining administrative procedures for new renewable energy source investments and non-discrimination and transparency in grid connection for prosumers.

The National Energy Efficiency Action Plan 2014 is being finalised, to complement the National Programme for Development of a Low Emission Economy adopted in 2013, aiming to improve coordination in raw material policies.

3.21.5 Access to markets, infrastructure and services

Internal market and internationalization

Poland is a net importer, but the current account deficit improved from 5 % in 2011 to 3.7 % in 2012 and to 1.3 % in 2013. Exports consist mainly of electromechanical products, chemicals, furniture and foodstuffs, with only 5.9 % high-tech exports (EU average 15.6 %). Exports to the EU account for 75.7 %, although exports to non-EU countries, especially China, Brazil, Russia and Ukraine, are increasing.

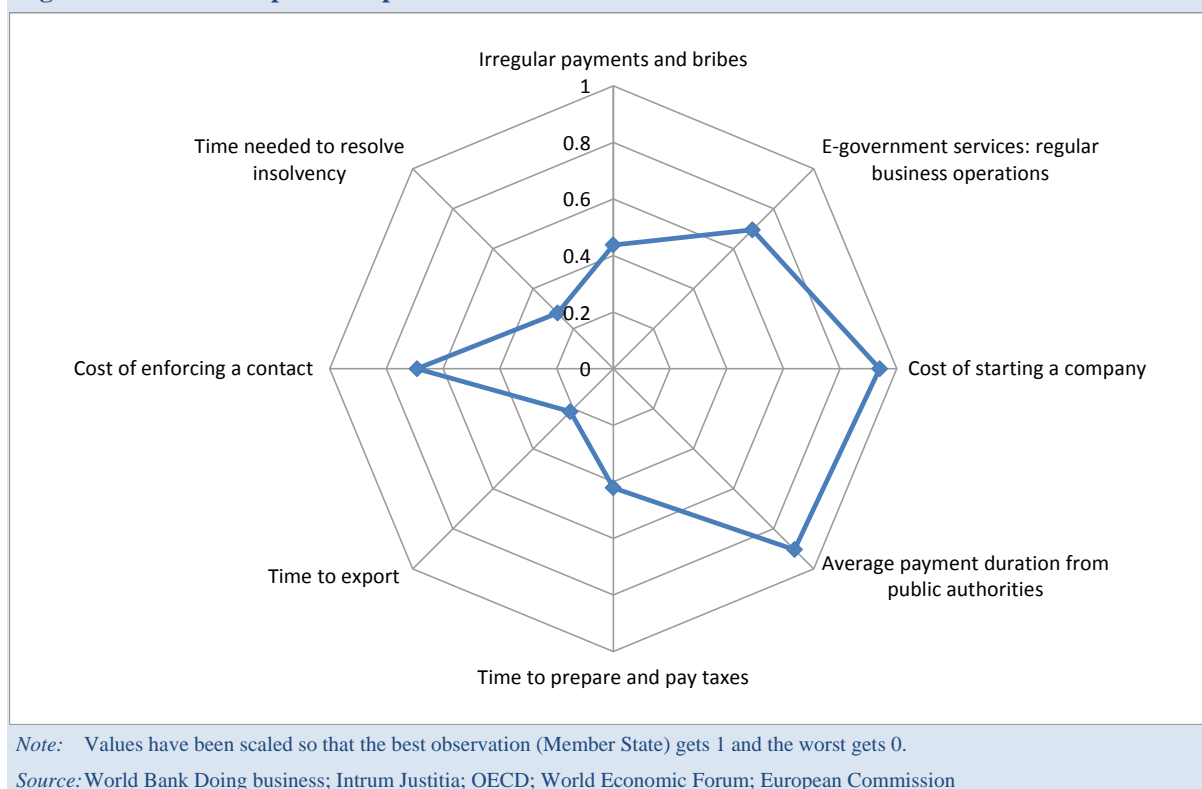
Business services and network industries

Market concentration is low for electricity, with a 17.8 % market share for the largest company, but it is high for the gas market, with the largest company holding a 94.42 % market share.⁽⁴³⁵⁾ ICT infrastructure is underdeveloped, with the lowest

⁽⁴³⁴⁾ Eurostat, Resource Efficiency Scoreboard, http://epp.eurostat.ec.europa.eu/portal/page/portal/europe_2020_indicators/ree_scoreboard.

⁽⁴³⁵⁾ President of Energy Regulatory Office Activity Report 2013, <http://www.ure.gov.pl/en/about-us/reports/67,Reports.html>

Figure 3.21.2: Overall profile of public administration - Poland



broadband coverage in the EU (71 % vs 96 %) (2013), and a concentrated market of Internet Service Providers.

In 2013, measures were implemented to increase competitiveness in the gas sector, including gradual phasing out of regulated prices. It is now obligatory to trade an increasing proportion of gas on an exchange opened in 2012 (2GW were traded in 2013). Market entry was facilitated by an amendment to the act on reserves, and in December 2012 and February 2013, wholesale and gas exchange trades were exempted from tariff approval.

A national broadband plan was adopted in 2013, launching four projects in the regions, with the objective of developing 16 000 km of broadband cable and reaching eight million people by 2016. A digital skills workshop for people over 50 was organised, attracting 150 000 participants. Telecommunication connections were made obligatory in new buildings.

Infrastructure

Transport infrastructure is a problem. There is significant investment from European structural funds, though this is mostly in the road network.

More investment is needed for infrastructure maintenance, for which European funds are not available.

There are substantial delays with timely implementation of railway infrastructure projects. In November 2013, a multiannual railway programme for 2013-2015 was adopted, implementing investment monitoring across all projects, new procedures for tenders and pre-assessment of project quality. The budget of the railway market regulator has been increased and the number of safety system inspections has since gone up by 20 %. A new contract for railway infrastructure maintenance was signed in January 2014, detailing specific rules and standards for the state railway operator and broadening possible state funding resources. Following a ruling of the European Court of Justice of May 2013, track access charges to rail infrastructure were reduced by 20 %, on average. This still needs to be fully transposed in the relevant legal acts so that the system of track access charges can provide a stable, competitive basis for the rail sector, looking ahead to the mid- and long-term.

3.21.6 Public administration and business environment

There is a scope to improve the business environment in Poland. In particular, a burdensome public administration and a complex, inefficient tax system continue to be the main shortcomings, though there has recently been substantial progress in reducing administrative barriers in some areas. In the 2013 SBA Performance Review indicators for entrepreneurship intention in Poland are the highest in the EU, with 49 % of adults polled believing self-employment was feasible (EU average 30 %), and 22 % intending to start a business within three years (EU average 13 %).⁽⁴³⁶⁾

Poland has made progress in reducing the cost and time to start up a business now that it has introduced streamlined online procedures. Although recent government initiatives envisage much greater use of e-administration and e-taxation, in other areas, digitalisation has been slow and fragmented. In 2013, the 'Better Regulation Programme 2015' was adopted, to improve transparent law-making, the regulatory environment, and communication with stakeholders. The better regulation programme has introduced an SME test (though this is still a pilot) and more formalised regulatory impact assessments. New guidelines for impact assessment are to be published in 2014. Plans for longer-term reform are unclear, as there is still no implementing document for the efficient state strategy 2020 adopted in early 2013. A national digitalisation integrated programme was adopted in January 2014, including measures for digitalisation, interoperability and data exchanges of public registers.

The government is committed to extensive deregulation reforms. For construction permits, the length of procedures was shortened to 161 days (EU average 179). Amendments to construction law, including the introduction of a 14-day limit on procedures dealing with public authorities are planned in 2014. A codification committee for construction law is scheduled to present its findings in November 2014 on a broad legislative reform.

On contract enforcement, electronic procedures have been introduced and the complaints procedure has been speeded up. Amendments to the code of civil

procedure are expected in 2014. Substantial progress has been achieved in the deregulation of access to professional services (about 240 professions to be deregulated). The first reforms are now fully in effect, the second round was adopted in May 2014 and a third is planned in 2015. A fourth round of reforms has also been announced, with 40 possible further professions proposed through an open consultation. On bankruptcy, two laws are planned for 2014, reducing the time of proceedings and increasing the use of restructuring. The fourth law on reduction of administrative barriers is being adopted, focusing on reduction of information obligations for businesses, standardisation of 71 forms, and simplification of export and import procedures in sea ports. A law on sub-contracting, improving SME access to public procurement, came into force in December 2013.

Tax compliance imposes a significant administrative cost on businesses, due to low thresholds applied for compulsory VAT registration, inefficient and bureaucratic authorities and complex laws. There are plans to increase the use of electronic procedures, introducing further e-filing procedures in 2014 and, in 2015, automatic pre-filling of tax forms.

3.21.7 Conclusions

Manufacturing accounts for a large proportion of the Polish economy, but the country has a lower level of technology specialisation than the EU on average. Poland continues to rely on technology transfer and absorption, but plans to strengthen innovation, commercialisation and internationalisation of domestically-developed technologies. Further reforms are desirable in the area of sustainability, especially in terms of improving energy efficiency.

Concerning investment in infrastructure, innovation and sustainability, there is a large potential in EU structural funds. Businesses have good access to debt finance, but equity finance needs to be developed to support the growth of innovative SMEs. Poland has the fourth highest proportion of high-growth companies in the EU at 4%. Despite an ongoing deregulation reform programme, there is scope to increase the efficiency of the public administration and improve the business environment especially as regards the complex tax system.

⁽⁴³⁶⁾ SBA Performance Review 2013, DG ENTR, http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index_en.htm.

3.22 Portugal

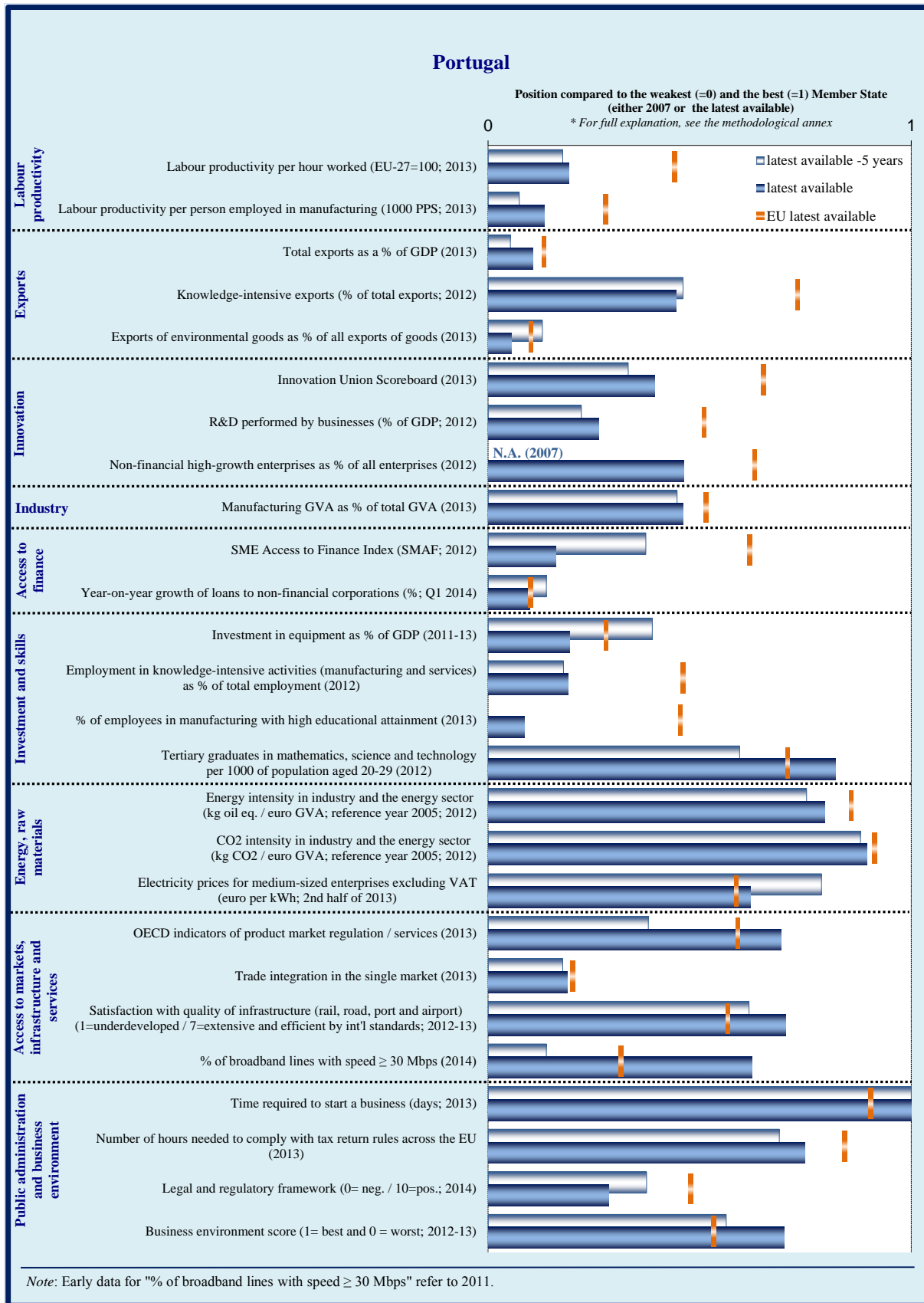
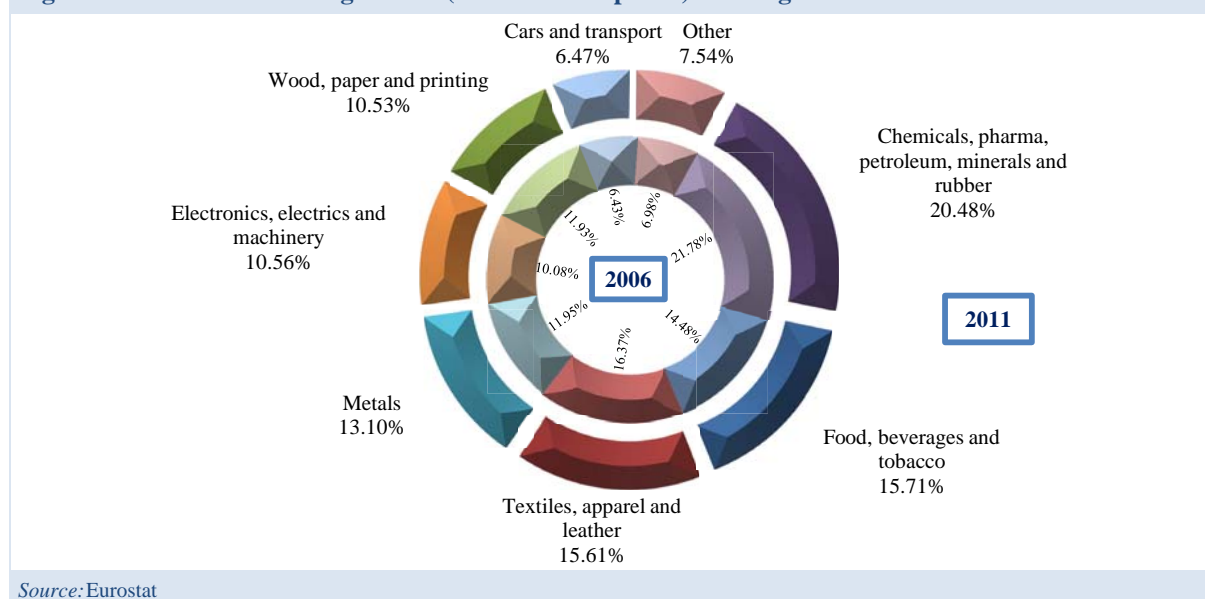


Figure 3.22.1: Manufacturing sectors (GVA at basic prices) - Portugal



Source: Eurostat

3.22.1 Introduction and performance

Portugal's biggest challenge is to increase the competitiveness of its economy after a decade of low productivity growth and growing indebtedness. ⁽⁴³⁷⁾ Future economic growth should be based on the ability to boost the export of goods and services with high added value, together with the capacity to attract foreign investment. In this sense, net exports remain a key growth driver and are expected to continue to contribute positively to economic growth, although knowledge-intensive exports remain low.

Portugal successfully concluded its Economic Adjustment Programme ⁽⁴³⁸⁾ in May 2014. The programme has contributed to the implementation of a wide array of reforms to improve competitiveness. The reform process must continue, as recognised by the Commission in its assessment of the 2014 national reform programme and stability programme for Portugal, as well as in the proposed country-specific recommendations. The Portuguese growth strategy for 2014-2020 ⁽⁴³⁹⁾ also recognises the need to continue the implementation reforms. Moreover it

⁽⁴³⁷⁾ Cf. The economic adjustment for Portugal, Occasional paper 79, Directorate-General for Economic and financial affairs, European Commission, June 2011.

⁽⁴³⁸⁾ In April 2011, the European Commission, the European Central Bank and the International Monetary Fund, negotiated with Portugal an economic adjustment programme. The programme covered the period 2011-14 and was agreed by the European Council on 30 May 2011.

⁽⁴³⁹⁾ Strategic plan for growth, employment and industrial promotion 2014-2020.

includes various measures aimed at reindustrialising Portugal that would contribute to mainstreaming industrial competitiveness aspects across various policy fields.

Productivity as measured by unit labour costs relative to the euro-area average has improved significantly over the last three years, though this is partly due to labour shedding. Though the share of employment in knowledge-intensive activities has increased, it is still relatively low. In terms of innovation, Portugal continues to underperform overall with respect to the EU average, despite improvements over the last decade. There is a significant gap between knowledge creation, knowledge transfer and its translation into economic value through innovation.

3.22.2 Access to finance and investment

Access to credit remains costly and difficult, in particular for SMEs. Freshly granted loans to SMEs fell by 4.8% in 2013 compared to 2012 and the stock of corporate loans decreased further in 2013. Interest rates have slightly eased but remain significantly higher than in other euro area Member States. As a result, businesses are increasing their financing through capital markets, although only this only applies to large businesses. The tight credit conditions are hampering the creation and development of start-ups and technology-based SMEs, both critical for spurring long term growth.

The government is trying to ease current credit constraints by strengthening existing instruments and fostering the use of alternative financing mechanisms. In 2013, Portugal allocated EUR 2 billion to a credit line to support the financing of SMEs (PME Crescimento 2013) and EUR 500 million to a line supporting exporting companies (PME exportações). Measures have been taken to enhance the effectiveness of government-guaranteed credit lines, develop a commercial paper market for SMEs, and improve information-sharing on credit quality through the credit registry. The state-owned bank CGD was also asked to release over EUR 1 billion in 2013 and more than EUR 2.5 billion in 2014 to finance the economy.

The Portuguese authorities are also setting up a specialised development financial institution to support the financing of the corporate sector, in particular SMEs. This new institution is expected to operate mainly through intermediated credit lines and risk-sharing instruments and guarantees.

Under the 'Revitalizar Programme', Portugal has also launched three 'Revitalizar funds', which are private equity instruments designed to capitalise SMEs with sustainable business models that pursue growth strategies and expansion. The three regional funds created in 2013 have an overall budget of EUR 220 million.

Improvements to the functioning of the corporate insolvency and restructuring framework have been adopted. A strategic plan on corporate restructuring to facilitate debt workouts has been prepared. This plan focuses particularly on viable SMEs, with a view to supporting the necessary capital reallocation towards productive sectors of the economy.

The liquidity problems of enterprises have been aggravated by long delays in payments, in particular by the public sector. ⁽⁴⁴⁰⁾ Although the public sector arrears have been significantly reduced, further efforts are needed as new arrears are still accumulating. The Late Payments Directive has not been properly transposed, as the relevant national law foresees exemptions in the public sector (e.g. healthcare) until 2016.

Portugal has introduced tax measures to encourage private investment and reducing the debt bias to

encourage the capitalisation of firms, including an extraordinary investment tax credit, and the introduction of limits to the tax deductibility of corporate interest costs. It has facilitated timely adjustments of state debt to SMEs among others by allowing faster depreciation of assets and reduced payment terms for tax returns.

3.22.3 Innovation and skills

Innovation

Portugal's innovation performance has improved over the last decade, though it has been relatively steady since 2010. While this has been reflected in positive developments on several indicators, the country continues to underperform overall with respect to the EU average. Coordination between science and innovation and knowledge commercialisation remains very weak. There is still a significant gap between knowledge creation, knowledge transfer and its translation into economic value through innovation, partly due to the low share of knowledge-intensive sectors in the economy.

The Portuguese growth strategy for 2014-2020 ⁽⁴⁴¹⁾ recognises the above-mentioned weaknesses and aims to foster the commercialisation of knowledge through: refocusing and strengthening existing measures to support R&D investment; enhancing coordination between the research and innovation system and businesses; and reinforcing international partnerships on applied research. The existing system of tax incentives (SIFIDE II) remains the main policy instrument to support business R&D investment. Three advisory councils have been created ⁽⁴⁴²⁾ to enhance stakeholders' involvement in research and innovation policies and to improve coordination of the system. Furthermore, the government has put forward a national strategy for smart specialisation in the context of programming European structural and investment funds for the period 2014-2020).

Finally, following an evaluation of its clustering strategy, the country is redrafting its clustering policy instruments to maximise the strategy's contribution to

⁽⁴⁴¹⁾ Strategic plan for growth, employment and industrial promotion 2014-2020.

⁽⁴⁴²⁾ National Council for Science and Technology, National Council for Entrepreneurship and Innovation, and National Council for Industrialisation.

⁽⁴⁴⁰⁾ Source: European Payment Index 2014, Intrum Justitia,

generating value and skilled employment, and to internationalise the Portuguese economy.

Skills

There is a mismatch between the education/training systems and labour market demand for people with lower and higher levels of qualification. The educational level of young people remains relatively low compared to the EU average. Furthermore, the economy is not absorbing more qualified young people and the unemployment of university graduates has persistently increased in recent years.

The Portuguese growth strategy adopted in May 2014 identifies 'training and education' as one of the nine axes for government action. It foresees introducing training vouchers and continuing the reform of the vocational education and training system. Regarding training, some of the measures adopted so far include increasing the amount of 'on-the-job' training and creating short-cycle training courses in cooperation with local businesses. A decree revising and harmonising the rules governing professional schools of reference has been adopted. A decree harmonising the vocational education and training system has been also passed.

3.22.4 Energy, raw materials and sustainability

With a view to ensuring the efficiency and sustainability of the energy sector and lowering the energy cost for the economy, under the macroeconomic adjustment programme the Government has implemented two packages of measures, including a new levy on energy operators. A third package of measures aiming at reducing the increasing tariff debt and existing rents has been recently announced. The remuneration scheme for co-generation is being revised. Renewable electricity production reached over 50 % in 2013 and enabled Portugal to reduce its dependency on imported fossil fuels.

Portugal has also adopted legislation transposing the EU Directive on the energy performance of buildings, implementing its plan for promoting efficiency in energy consumption, and setting the legal framework for the use of liquefied petroleum gases and compressed and liquefied natural gas as fuel in vehicles. The measures planned for 2014 include the

transposition of the EU Directive on energy efficiency, implementation of national and municipal waste management plans, and the launch of an eco-innovation roadmap. In 2013, Portugal launched its National action plan for energy efficiency 2013-2016 and its National action plan for renewable energy 2013-2020.

To reduce the fragmentation of the Iberian electricity market, tariffs for the use of the gas interconnection were reduced and interconnectors built. Also, Portugal and Spain are conducting a study on the possibilities for Iberian gas market integration, due to be finalised in 2014.

3.22.5 Access to markets, infrastructure and services

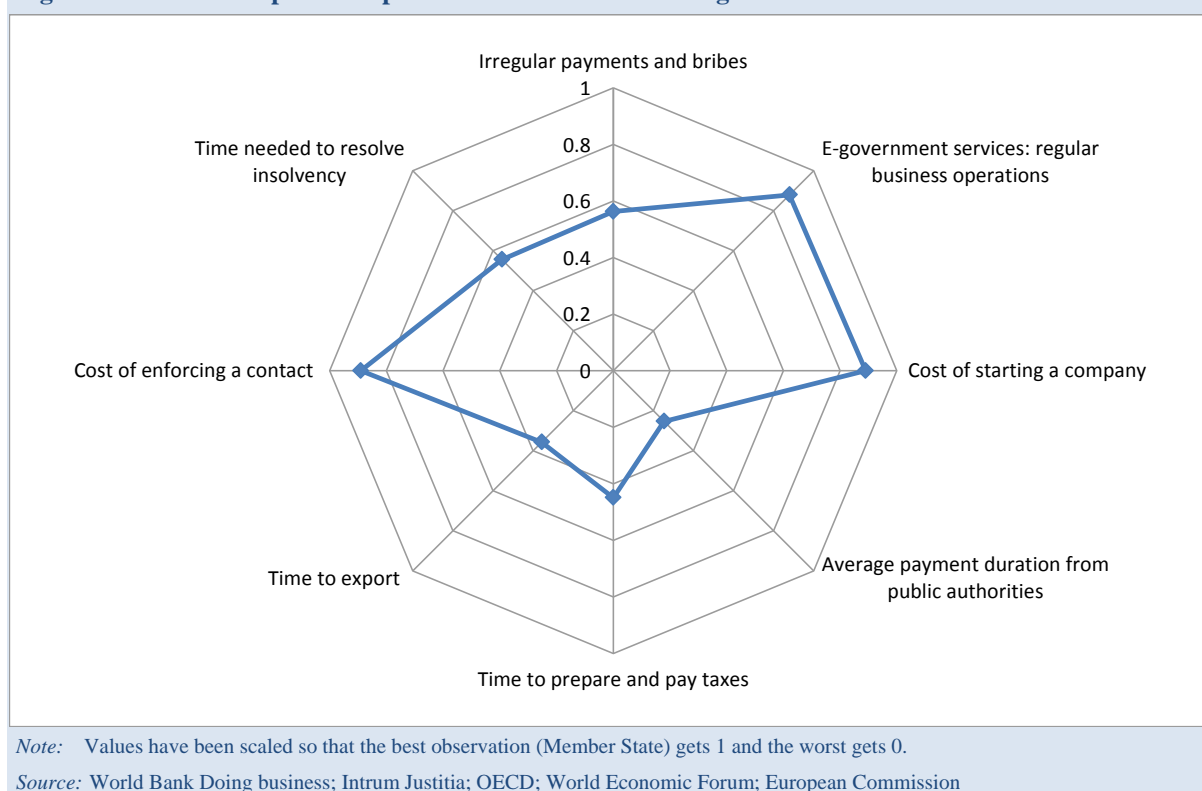
Export performance remains strong and continues the upward trend of previous years. The share of exports in GDP has progressed from 28.0 % in 2009 to 40.6 % in 2013, and they have become more diversified both in terms of products and of target markets. The number of firms and the percentage of exporting businesses have also increased. The tourism and machinery and tools sectors were the main Portuguese exporters in 2013.

Various measures to support the internationalisation of businesses have been put in place. Short-term lines of credit insurance have been set up to enable enterprises to cover the commercial credit risk of external transactions by means of a public guarantee. A new port labour law has been adopted, reducing port tariffs. A new exporter programme was launched in September 2013, providing 20 SMEs with training to develop products and to enter the US market. Other measures include projects aimed at promoting diplomatic and business visits with a view to facilitating business contacts. In addition, simplified procedures for obtaining proof of export certificates and accelerating VAT refunds for exporting firms were implemented. The streamlined online platform for exporters to request VAT exemptions has reduced the average time to complete an application for reimbursement from 42 days to eight.

Portugal also implemented an export training programme, ⁽⁴⁴³⁾ a training programme for companies

⁽⁴⁴³⁾ Formexport.

Figure 3.22.2: Overall profile of public administration - Portugal



wishing to start or to enhance their internationalisation or export activity.

3.22.6 Public administration and business environment

Public administration

Portugal has made significant progress in rationalising and modernising its public administration. A new general public administration labour law has been adopted which introduces a new requalification scheme and working time rules. Furthermore, the number of management positions and administrative units has been reduced and shared services have been set up in the areas of financial resources, human resources and ICT. A network of public spaces ('Espaços do Cidadão') is being expanded in which citizens will be assisted in the use of online public services.

In early October 2013, an anti-corruption legislative proposal was submitted to Parliament, including amendments to the criminal code, the law on the responsibility of political and senior public officials, and the law on bribery of foreign officials.

Business environment

The business environment has been enhanced through the implementation of a large number of structural reforms, including: facilitating licensing procedures, improving insolvency laws, liberalising regulated professions, reinforcing competition and regulatory authorities, facilitating the enforcement of contracts, and increasing the efficiency of the judicial system.

In the area of licensing, a comprehensive programme was launched in 2012 to tackle excessive procedures, regulations and other administrative burdens. The overall goal is to move to a new system of *ex-ante* declarations by firms with *ex-post* control by the authorities for most activities. Only specific and justified cases (e.g. hazardous industries) would be subject to more onerous procedures.

An inter-ministerial working group, coordinated by the ministry of economy, has been established with a view to setting up the SME test. A new government Council for economic affairs and investment meets every two weeks to monitor tax reforms and the timely approval of large investment projects. The efficiency of the land registry has also been significantly improved.

Portugal has continued to adopt legislation to strengthen the role of key regulators and to foster competition. A new framework law setting out the main principles of the functioning of competition and regulatory authorities is being implemented, although some by laws are still pending.

The business environment has also been enhanced by a thorough reform of the justice system. The new Code of Civil Procedure, in force from September 2013, helps expedite the court processes in commercial and civil litigation. The new Judicial Organization Act, which aims to enhance the efficiency and professionalism of court management, thus accelerating the court proceedings, was approved in June 2013. An audit of pending debt enforcement cases has also been carried out, with all backlogged and inactive cases being closed.

In 2014, Portugal plans to further liberalise professional services, enhance the regulatory regime for mergers and acquisitions, reduce the administrative burden for exports, enhance the functioning of the single point of contact for firms, ensure the effective implementation of the zero licensing project, review expropriation rules and launch a simplex programme to reduce further the administrative burden at local level. Approval of the one in, one out principle took place in May 2014. An inventory of the administrative burden was finalised in May 2014 and an analysis of the related costs of regulations has been presented. The government defined a plan to cut red tape based on this. Work is ongoing to expand the scope of the current inventory to cover additional sectors notably tourism, construction and agriculture. Portugal is working on other simplification measures, including the identification of challenging bureaucracy via an open online public participation and a newly established Inter-Ministerial Network for Administrative Modernisation (RIMA). Also in 2014, Portugal will implement a new judicial reform that will rationalise the nation's court network and facilitate the specialization of judges in several areas of expertise, namely in enforcement cases.

3.22.7 Conclusions

Portugal is making progress in enhancing its competitiveness, though further efforts are needed. The government needs to maintain reform momentum after the successful conclusion of the economic

adjustment programme. Full and effective implementation of the measures adopted is required to achieve their full potential benefits. This is crucial to continue rebalancing the economy and to boost its growth potential.

Significant progress has been observed in the area of business environment. Although it is too early to assess their impact, various indicators are showing positive trends. However, the financing of businesses, in particular SMEs, remains difficult and costly and the implementation of a comprehensive strategy is necessary to address the debt overhang of Portuguese enterprises and to help ensure access to credit for viable companies. This situation continues to be aggravated by long delays in payments, in particular by the public sector.

Major challenges remain in various areas. Regarding skills, the current mismatch between the education/training systems and labour market needs to be tackled, especially given the high level of unemployment. Also, more efforts are needed to create an innovation-friendly environment which supports the transition towards a knowledge-based economy. In the energy sector, additional efforts are necessary to ensure the long-term sustainability, the elimination of the tariff debt as well as the reduction of costs of services and excess rents. In the transport sector, significant parts of the policy agenda, especially in the railways and ports sector, remain to be implemented.

3.23 Romania

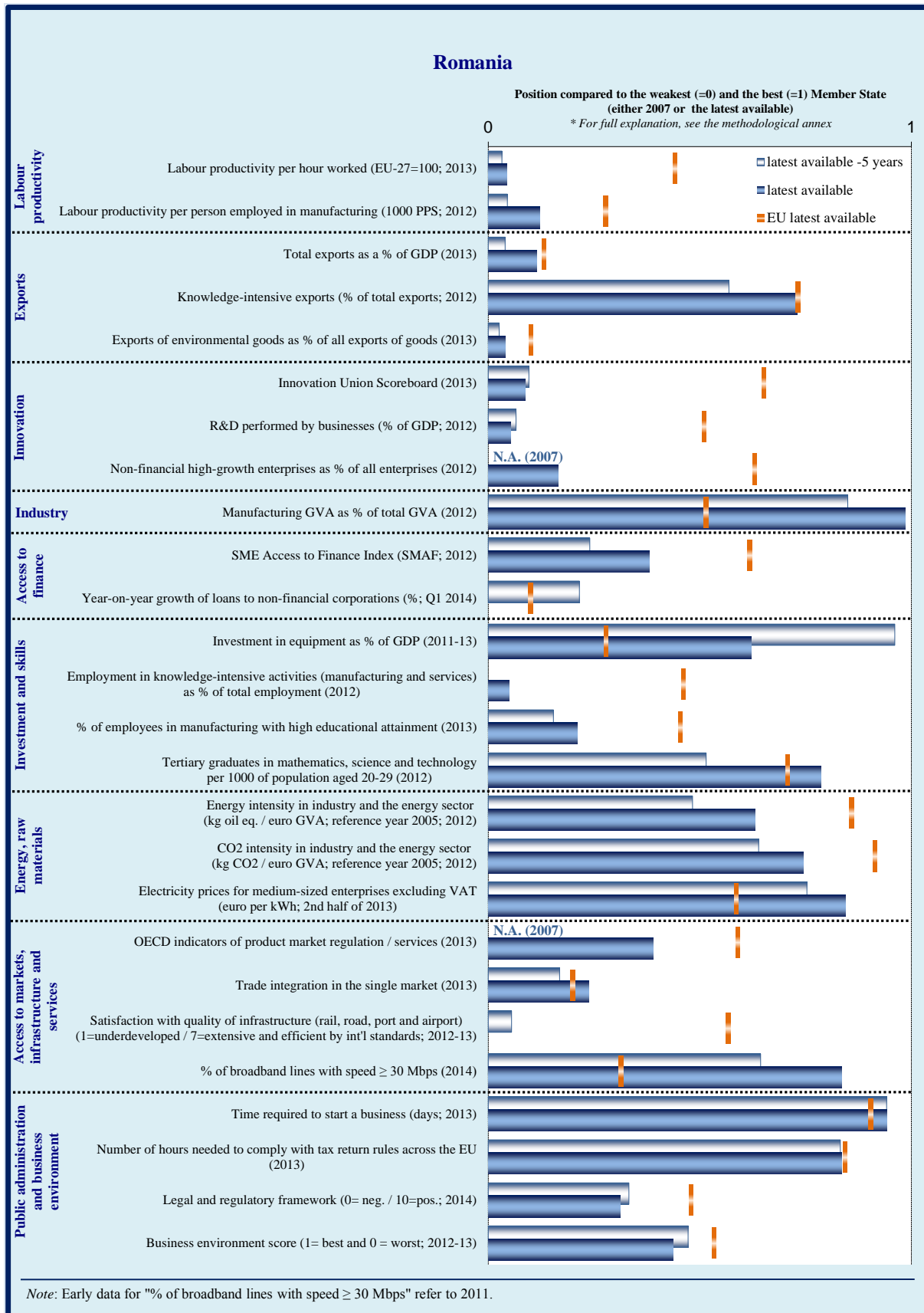
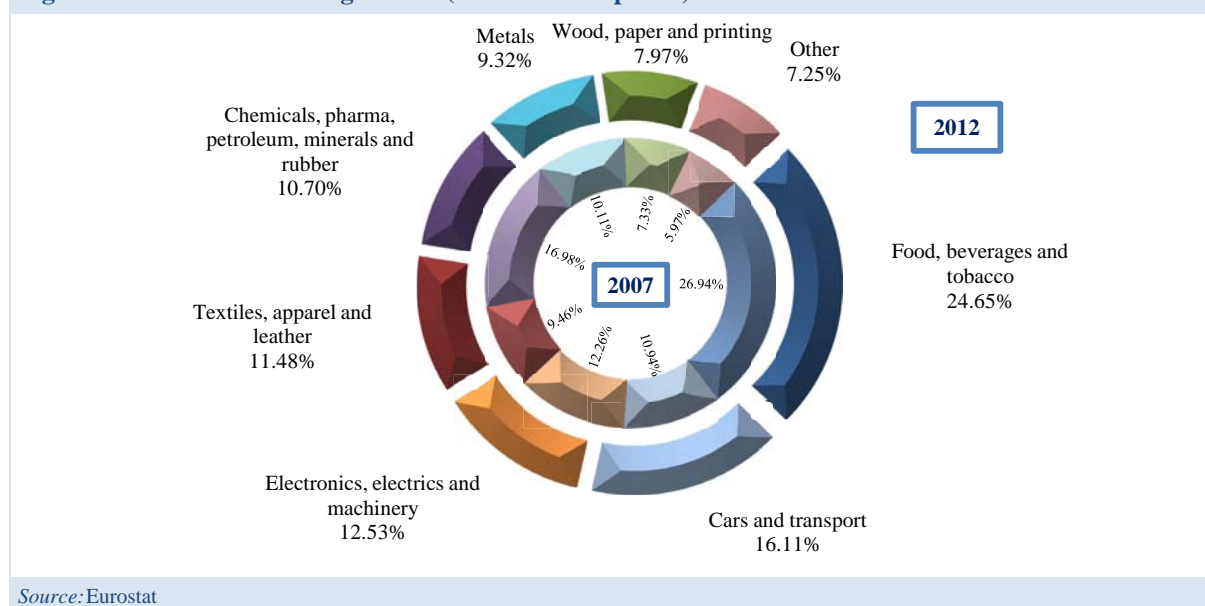


Figure 3.23.1: Manufacturing sectors (GVA at basic prices) - Romania



3.23.1 Introduction and performance

Romania belongs to the catching-up group of EU countries in terms of competitiveness performance. Manufacturing plays an important role in the economy, accounting for about 30 % of total value added (as compared with the EU average of 15.5 %). Manufacturing has grown during the crisis years and is now the main driver of exports (accounting for 75 % of total exports). Its potential contribution to growth is, however, hampered by low productivity and a lack of competitiveness. The price-competitive intermediate inputs (including labour costs) are still an important competitiveness factor.

Although manufacturing represents a higher proportion of total value added in Romania than in any other Member State, the country has been lacking a strategy for industry since 2009. In 2013, the government started work on an industrial policy document and a strategy for competitiveness. These efforts were delayed, however, partly due to the lack of political continuity and resources. ⁽⁴⁴⁴⁾ According to the 2014-16 national reform programme, both strategies should be finalised by the end of 2014. They are expected to identify the strategic thematic

⁽⁴⁴⁴⁾ The structure and areas of responsibility of the Ministry for the Economy have been changed a number of times in recent years, and the Ministry lacks the necessary (human, technical and financial) resources to meet its current responsibilities. In light of this, strengthening the Ministry's administrative capacity to develop and implement policies should be of concern.

and sectoral priorities where public support will be concentrated.

3.23.2 Access to finance and investment

Access to finance for SMEs remains difficult and expensive. Romania ranks 22nd out of 28 countries in the 2013 access to finance index (10 percentage points below the EU average). The average interest rate for loans up to and including EUR 1 million is the second highest in the EU. The cost of credit for small businesses (for loans under EUR 1 million) is about 17 % higher than for larger firms. A survey conducted by the National Bank of Romania in 2013 identified the following as the main problems encountered by SMEs in contracting bank loans: the cost of credit, collateral requirements, contractual clauses, bureaucracy and the lack of transparency. ⁽⁴⁴⁵⁾ Furthermore, national and EU-funded support programmes continue to be difficult to access due to lengthy bureaucratic procedures.

In recent years, public support for SMEs has mainly taken the form of state guarantees to help businesses obtain credit from banks. ⁽⁴⁴⁶⁾ The scheme was

⁽⁴⁴⁵⁾ The National Bank of Romania's survey on non-financial companies' access to finance and their resilience to negative financial conditions, September 2013.

⁽⁴⁴⁶⁾ The value of state guarantees for SMEs relative to total economic activity (measured as the volume of outstanding guarantees as a percentage of GDP) is comparatively high in Romania at 1.3 %. This places the country fourth out of the 19 EU Member States included in the 2012 data published by the European Association of Mutual Guarantee Societies.

re-launched in 2014, a number of changes having been made to its conditions — specifically as regards the maturity and price of loans and possible rollovers — in order to make the scheme more efficient. The SMEs that were supported by credit guarantee funds posted better-than-average performance. ⁽⁴⁴⁷⁾ Other government measures included the *de minimis* scheme for SMEs, a support programme for young entrepreneurs and a programme to encourage female entrepreneurship. Nonetheless, some of the programmes offering support to private companies continue to be managed inefficiently. ⁽⁴⁴⁸⁾ Making these programmes more effective requires not only efficient management, but also, and crucially, regular monitoring and evaluation in order to allocate resources more effectively.

Romania's risk capital market remains chronically underdeveloped, and the low level of investment in new businesses in particular is hampering the growth of innovative companies. Venture capital investment has been in constant decline since 2007, falling by almost 74 % between 2007 and 2012. In 2012, Romania was the fourth worst performer out of all Member States in terms of total venture capital investment. This is the result of both demand-side and supply-side factors. On the demand side, one of the main issues is the lack of entrepreneurial skills in the area of good financial management. Measures to address this should include support to boost SMEs' investment readiness and accelerator programmes. On the supply side, conditions for the development of early-stage and growth venture capital need to be made more attractive. This could be achieved by means of appropriate incentives, support for business angels networks and investor and entrepreneur protection legislation.

Investment

By the end of 2012, foreign direct investment had reached EUR 2 138 million (an 18.7 % increase on 2011 levels). A number of state-aid schemes offer

⁽⁴⁴⁷⁾ The ex-ante assessment of the EU SME initiative presented data on the performance of Romanian SMEs supported by credit guarantee funds. The main findings included the following: (i) the overall return on equity was 23.5%; (ii) the interest coverage ratio was above average for SMEs, at a comfortable level of 2.1; (iii) asset use was also above average, with an asset turnover ratio of 125%; and (iv) the non-performing loan ratio was significantly below the average level for SMEs (10.9%, compared to 23.2% as of July 2012).

⁽⁴⁴⁸⁾ This was the case, for example, with the *de minimis* scheme. In 2013, management of the scheme was transferred from the Ministry of Finance to the Ministry for the Economy.

support to large investment projects (in the form of grants, tax exemptions and green certificates). The sectors promoted most strongly to foreign investors are the automotive sector, including manufacturing of car components, information and communications technology, renewable energy and construction. The government is in particular seeking to attract investment from emerging markets.

3.23.3 Innovation and skills

Innovation

Romania lags significantly behind other EU Member States, including neighbouring countries, in terms of the level of resources it invests in research and development (R&D). Businesses' expenditure on R&D was equivalent to 0.19 % of GDP in 2012 (almost 86 % less than the EU average, and placing Romania 26th out of the 28 Member States). The 2014 Innovation Union Scoreboard classifies Romania as a 'modest innovator', ranking it 25th out of the 28 Member States. Furthermore, its innovation performance deteriorated between 2010 and 2012 (falling by 5.1 %), which slowed the country's convergence. Romania is the worst performing EU country in terms of the proportion of SMEs introducing product or process innovations (almost 65 % less than the EU average), which is falling sharply (-4.2 % less than in 2013).

The government has introduced a number of policy measures to increase the economy's capacity for research and innovation. Some of these are, however, not yet in place or rarely used. Further action is therefore needed in this area. Possible measures for developing firms' research and innovation capacity include providing SMEs with tailored high-quality services to facilitate innovation, supporting knowledge-based start-ups, funding the development and launch of new products, and developing incentives for collaboration between large firms, innovative SMEs and universities.

Skills

Romania is suffering from both skills shortages, in particular in the manufacturing sector, and skills mismatches. The number of mathematics, science and technology graduates is above the EU average (as a percentage of the population), but employment in knowledge-intensive activities is among the lowest in

the EU. The massive labour force migration and ‘brain drain’ seen over the last twenty years is expected to have long-lasting consequences for the country’s skill base.

Steps have been taken towards setting up a dual apprenticeship system. A number of pilot projects are being implemented at the initiative of the private sector, but government support will be critical for bringing about a systemic change. As a way of promoting entrepreneurial education, the government is running competitions for which students have to develop business plans. Entrepreneurial skills have also been included in the curricula and the assessment criteria for initial vocational education and training. Similarly, including entrepreneurship, innovation, marketing and management skills in university curricula could help to create closer links between academia and the business world. In addition, the private sector could become more involved in teaching activities.

3.23.4 Energy, raw materials and sustainability

Romania has the fourth most energy-intensive economy in the EU (with an energy intensity of more than twice the EU average). This is mainly due to the size of the manufacturing industry relative to the economy as a whole and to the high proportion of energy-intensive industries. Effective action is therefore needed in these industries in particular, and incentives could be envisaged to encourage businesses to become more energy efficient.

The government has given its support to a number of controversial foreign investment projects in energy and non-energy raw materials, including a gold mining project using cyanide and shale gas exploration, despite serious concerns about environmental consequences, transparency and lobbying. The mining law, which has been before Parliament since 2013, has not yet been adopted.

3.23.5 Access to markets, infrastructure and services

Access to markets

Romanian SMEs’ access to markets is affected by a number of non-cost factors, including product quality

and design, after-sales service and the distribution network. They often struggle to perform well on these criteria due to their low profitability and lack of business sophistication. ⁽⁴⁴⁹⁾

Romania has introduced a number of measures to improve its export performance. In May 2014, it adopted a national export strategy for 2014-20. Effective implementation of the strategy will require an action plan with clear priorities and an implementation timeline.

The SME export development programme was introduced to facilitate access to international markets. It provides services for trade missions, part-finances participation in international trade fairs, operates a trade portal and commissions market studies. There continue to be significant difficulties, however, in the implementation of these measures, and no evaluations have been carried out to assess their effectiveness.

A project to develop integrated export services for SMEs is being implemented with Swiss support. As part of this, two pilot regional export centres are being set up. They will be operational by March 2016. In addition, there are plans for more active promotion of Romanian exports in the United Arab Emirates. The challenge is to make these initiatives sustainable and to extend their scope and geographical coverage beyond that of the pilot phase.

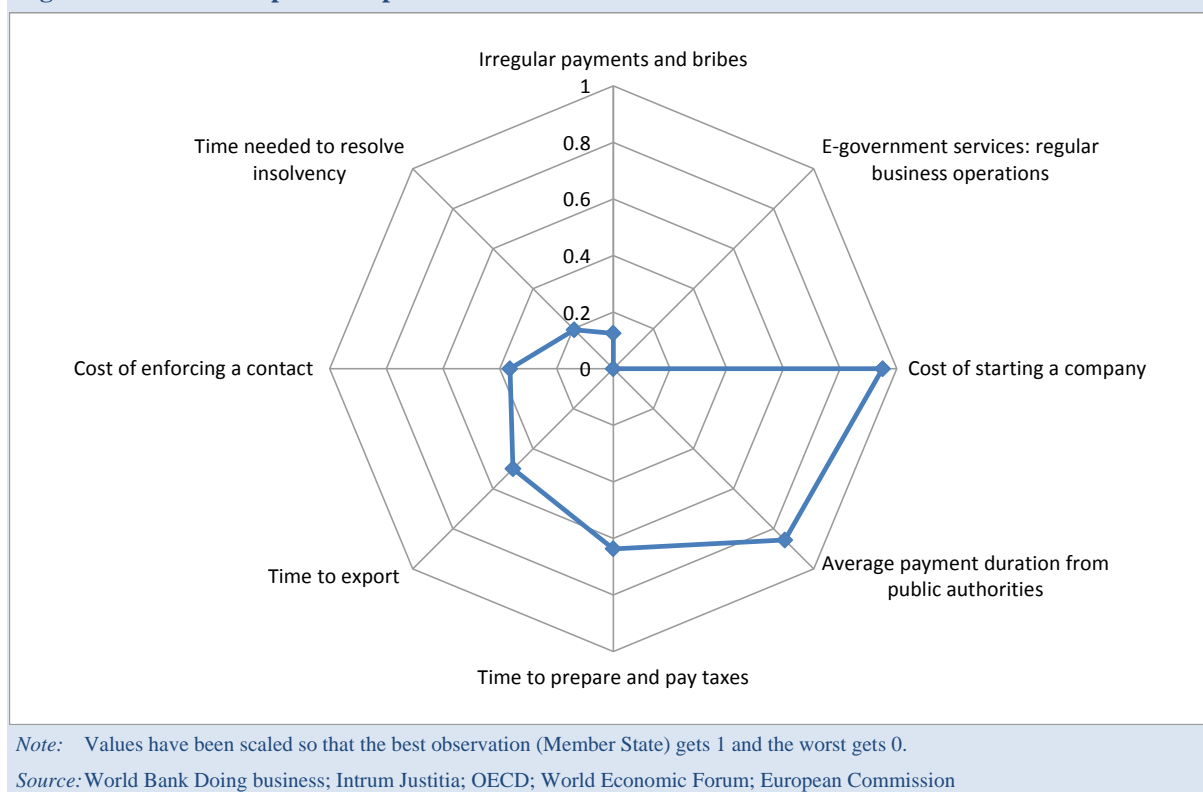
Overall, the government needs to do more to coordinate its policies in the areas of export, industry, innovation and access to finance. Integrated policy measures are essential in order to allow companies to increase their value creation and competitiveness. Measures to promote both innovation and internationalisation need to be used in combination, giving support in particular to emerging innovative business clusters. This approach would also encourage the creation of companies conceived as global businesses from day one.

Export costs in Romania are the second highest in the EU. ⁽⁴⁵⁰⁾ Almost 30 % of these costs are related to

⁽⁴⁴⁹⁾ Romania is ranked 101st out of 148 countries for business sophistication in the World Economic Forum’s 2014 report on global competitiveness.

⁽⁴⁵⁰⁾ The World Bank’s 2013 *Doing Business* report.

Figure 3.23.2: Overall profile of public administration - Romania



preparing documents. ⁽⁴⁵¹⁾ The complexity of the current export procedures is therefore a challenge.

Infrastructure

Transport infrastructure remains underdeveloped in Romania and the country lacks a long-term plan covering all modes of transport. A motorway strategy for 2014-18 was adopted in December 2013 but the situation and the needs of the industry had not been adequately taken into account.

3.23.6 Public administration and business environment

Public administration

In terms of overall government effectiveness, the World Bank index ranks Romania as the worst performer out of all EU Member States. A strategy to improve the efficiency of the public administration is being developed for 2014-20.

In 2013, Romania initiated a decentralisation process. Control of a number of institutions currently

⁽⁴⁵¹⁾ The preparation of documents takes seven days and costs USD 410.

coordinated centrally by the relevant ministries was to be passed to regional and local councils. ⁽⁴⁵²⁾ A regional reform was also debated in 2013, but this would require an amendment to the Constitution. This process of regionalisation and decentralisation will have consequences for the country's medium- to long-term development and it is therefore essential to ensure that any reforms introduced do in fact contribute to achieving its economic objectives. The success of the process will depend on thorough preparation, and it would therefore not be advisable to try to implement measures too quickly. Policies need to be carefully formulated, and the institutions taking on new responsibilities need to have developed the necessary capacities and have the means available to them in advance of implementation.

Romania has the third lowest uptake of e-government services by individuals out of all EU countries and the lowest uptake by businesses. ⁽⁴⁵³⁾ The point of single contact is difficult to use and a significant

⁽⁴⁵²⁾ The government fast-tracked the decentralisation bill through Parliament, without debate, in November 2013, but in early January 2014 Romania's Constitutional Court ruled the decentralisation law unconstitutional.

⁽⁴⁵³⁾ Take-up of e-government services by individuals aged 24-54 years old is, at 37%, the third lowest in the EU (compared to an EU average of 53%) and take-up by businesses is, at 63%, the lowest in the EU (EU average: 87%).

number of administrative procedures cannot be completed online. An interministerial technology and economic committee was set up in January 2014 to implement the EU Small Business Act ‘only once’ principle.

Corruption remains one of the main obstacles to doing business in Romania. ⁽⁴⁵⁴⁾ The perception that public funds are being diverted and the experiences of irregular payments and bribes increased over 2008-2012. ⁽⁴⁵⁵⁾ As highlighted by the EU anti-corruption report, public procurement is especially badly affected. Businesses ⁽⁴⁵⁶⁾ report a number of widespread practices, including the involvement of bidders in the design of proposal specifications, conflicts of interest in the evaluation of bids, specifications being tailor-made for particular companies, and the abuse of provisions allowing non-competitive or fast-track procedures to be used in ‘emergency’ situations.

Lobbying is not regulated and registration of lobbyists is therefore not mandatory, nor is there any obligation on public servants to report contacts with lobbyists. A draft law regulating lobbying is currently being discussed in Parliament, and it will be important to make sure that this is in line with international best practices.

Taxation

From July 2014 to December 2015, a tax exemption will be applied to reinvested profit. A 5 % cut in social security contributions is being envisaged. Furthermore, ongoing efforts are being made to simplify the tax system, by identifying taxes that could be eliminated. Simplifying tax forms and reporting requirements remains a challenge in order to reduce the administrative burden related to paying taxes.

⁽⁴⁵⁴⁾ The World Economic Forum’s report on global competitiveness identifies corruption as the second most significant obstacle to doing business in Romania. According to the Eurobarometer 2013 business survey on corruption, 81 % of Romanian businesses consider that favouritism and corruption hamper competitiveness in Romania (compared to an EU average of 73 %), 65 % believed that corruption was a problem for their company in doing business in Romania (compared to an EU average of 43 %), and 64 % considered that patronage and nepotism were problems (compared to an EU average of 41 %).

⁽⁴⁵⁵⁾ Romania ranks 26th out of the 28 Member States for ‘diversion of public funds’ and 23rd on ‘irregular payments and bribes’ based on the World Economic Forum’s 2014 report on global competitiveness.

⁽⁴⁵⁶⁾ Eurobarometer 2013 business survey on corruption.

Business environment

Romania is one of the five Member States to have met the Small Business Act objectives in terms of the time taken and cost of setting up a company. Nonetheless, the cumbersome business environment continues to hamper the non-price competitiveness of firms. Romania performs poorly in international comparisons on the ease of doing business, including when compared with neighbouring countries. Complex procedures are still in place for obtaining electricity (for which it is ranked 174th out of 189 countries), dealing with construction permits (136th), paying taxes (134th) and resolving insolvency (99th). ⁽⁴⁵⁷⁾ It is expected that the new law on insolvency, adopted in May 2014, will make the procedures for this more effective.

The 2013 memorandum of understanding between the EU and Romania sets specific conditions for policies on improving the business environment. A law designed to enact a number of the principles of the Small Business Act was adopted in April 2014. Furthermore, a strategy on SMEs and the business environment is currently being developed.

The quality of the regulatory framework, and in particular its transparency and predictability, remain major concerns. A time limit of 30 working days is set by law for public consultations. ⁽⁴⁵⁸⁾ Ministries do not take a consistent approach, however, and the consultation procedures are often inefficient and opaque. In some cases, important legislative projects have been proposed for adoption without an impact assessment or public consultation having been carried out. Moreover, there are also concerns about the lack of consolidation of existing laws and the absence of systematic evaluations to ensure that regulations remain fit for purpose.

The review of the national strategy for better regulation will be finalised by mid-2014. Given that implementation of this strategy was very slow in 2008-13, it is important that the revised strategy be accompanied by an action plan with clear priorities and a timeline. Efforts are being made to develop a common methodology for impact assessments, which is due to be completed in September 2015. The

⁽⁴⁵⁷⁾ The World Bank’s 2014 Doing Business report.

⁽⁴⁵⁸⁾ The Small Business Act encouraged Member States to have a consultation period of at least eight weeks prior to making any legislative or administrative proposal that would have an impact on businesses. The Commission applies a consultation period of 12 weeks.

methodology for the SME test was finalised in June 2014 and the legislation on impact assessments will be consolidated by the end of 2014. In 2011, the government launched a comprehensive project to measure the obligations to provide information imposed by legislation from 12 ministries. This is due to be completed in 2014.

The measures mentioned above are still in their early stages, and have therefore not yet delivered results. Adopting and implementing smart regulation requires systematic efforts and a long-term commitment.

3.23.7 Conclusions

Romania has the capacity to do more to promote growth in the medium term, in particular by streamlining and improving the efficiency of government policies on economic development. The various strategies — on competitiveness, industry, innovation, SMEs and the business environment, and export — continue to be poorly coordinated. Competitiveness must be recognised as a cross-cutting issue, and measures promoting competitiveness must therefore be integrated into policies in other areas. For this to be possible, governance structures must be designed so as to enable and encourage coordination between the institutions and sectors concerned.

Romania has adopted a number of measures to support SMEs. On the whole, however, national and EU-funded support programmes for SMEs remain difficult to access due to lengthy bureaucratic procedures. Existing programmes should be evaluated regularly in order to assess their effectiveness and to adapt them or allocate resources more effectively where necessary. At the same time, integrated and appropriately targeted measures promoting innovation and internationalisation — with particular focus on emerging clusters — would allow companies to improve their value creation and competitiveness.

The weak administrative capacity and the legal uncertainty continue to act as major obstacles preventing improvement in competitiveness and growth. Steps have been taken to reform public administration, but their effectiveness will depend on the strength of safeguards to ensure the depoliticisation of all levels of public administration.

3.24 Slovenia

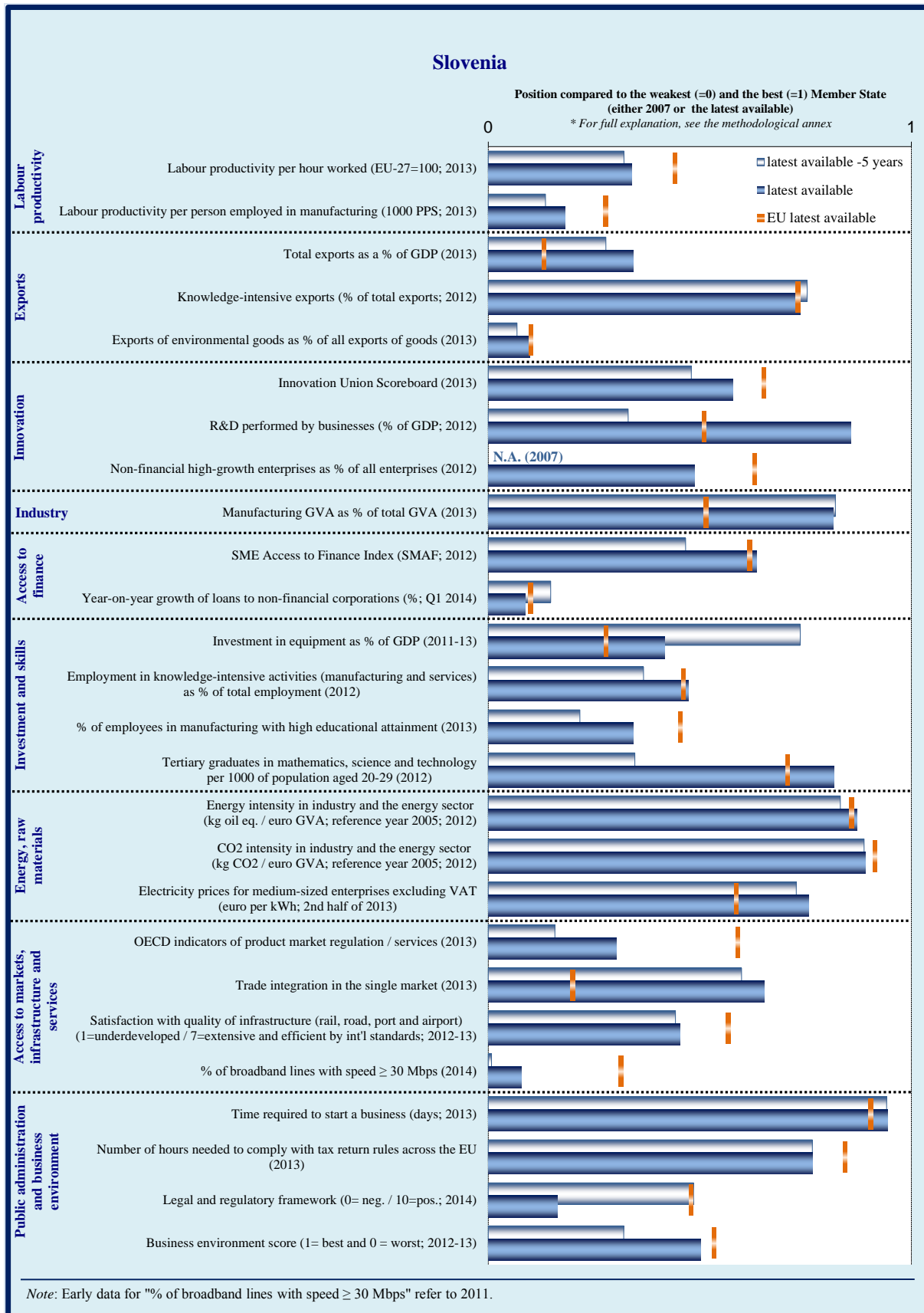
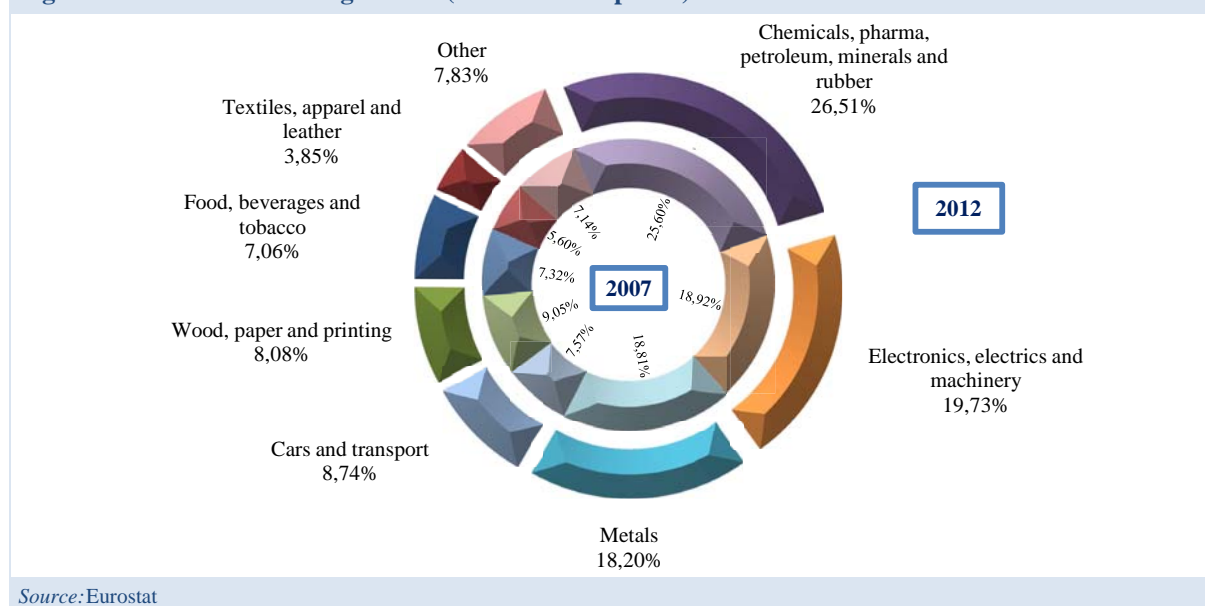


Figure 3.24.1: Manufacturing sectors (GVA at basic prices) - Slovenia



Source: Eurostat

3.24.1 Introduction and performance

Despite a substantial increase in growth in the last quarter of 2013, ⁽⁴⁵⁹⁾ Slovenia's economic activity continued to slow down in 2013, although at a lower rate than in 2012. Real GDP in 2013 decreased by 1.1%. Stabilisation is expected only in 2014 (0.8%)⁽⁴⁶⁰⁾. In 2013, real GDP was around 10% below its 2008 peak but quarter-on-quarter growth in all quarters of 2013 was positive, with a particularly strong pick up in the year's final quarter. ⁽⁴⁶¹⁾ The relative improvements in Slovenia's growth rates are reflected in the sectorial value added in the manufacturing and construction sectors which were up in the last quarter of 2013 and on a quarter – on – quarter basis-by by 2.1% and 7.7% respectively. ⁽⁴⁶²⁾ After the more pronounced loss in cost competitiveness at the beginning of the crisis, Slovenia's relative position improved in 2013 for the third year in a row, although it is still lower than before the crisis. Nevertheless, real unit labour costs in the Slovenian economy in 2013 were higher than in 2007 despite lower economic activity. After falling for five years, Slovenia's global export market share of goods increased in 2013 (by 4.1%), although the

loss is still substantial (-18.7%) as compared to the pre-crisis level. ⁽⁴⁶³⁾ An unfavourable business environment and a low level of FDI including due to the high role of state owned and state controlled enterprises in the economy, also hamper competitiveness. Slovenia performs exceptionally well in terms of exporting medium and high-tech manufacturing goods, and it performs poorly in terms of exporting knowledge-intensive services. ⁽⁴⁶⁴⁾ In order to help making companies more competitive through structural reforms, Slovenia received relevant country specific recommendations in the European Semester 2014. These recommendations address among other the (continued) need for reform action on insolvency legislation, length of judicial proceedings and the number of pending cases, persisting mismatches between available skills and job offers on the market as well as on improving the general business environment through liberalisation of regulated professions, reduction of administrative burden, a fully independent competition authority, better coherence of policy strategies concerning the competitiveness of companies and more efficient public administration.

⁽⁴⁵⁹⁾ Slovenian economic mirror, February 2014.

⁽⁴⁶⁰⁾ European Economic Forecast Spring 2014

⁽⁴⁶¹⁾ Commission staff working document: Assessment of the 2014 national reform programme and stability programme of Slovenia.

⁽⁴⁶²⁾ Source: Institute of Macroeconomic Analysis and Development of the Republic of Slovenia - IMAD Slovenia Economic Mirror, February 2013.

⁽⁴⁶³⁾ Slovenian Economic Mirror, April 2014.

⁽⁴⁶⁴⁾ Commission staff working document: Assessment of the 2014 national reform programme and stability programme of Slovenia.

3.24.2 Access to finance and investment

Access to finance

The banking system continues to be fragile, with an unprecedented credit crunch affecting mostly SMEs. The main factors affecting the banking system's performance in 2013 were the ongoing debt repayments to foreign creditors on the wholesale markets, the adverse economic situation, which resulted in a sharp contraction in lending activity⁽⁴⁶⁵⁾ and December 2013 asset quality reviews (AQR), stress tests (ST) as well as the recapitalisation of banks. In 2013, loans to domestic non-banking sectors fell by EUR 5.3 billion overall, approximately four times more than in 2012. This significant decrease was a consequence of a EUR 3.3 billion asset transfer made to the BAMC (Bank Assets Management Company) in December. The continuing decrease in loans given to domestic non-banking sectors was caused by banks' eroded capital base, the worsening of their asset quality combined with the high level of company indebtedness, and the worsening economic environment which lowered company income and increased risk.

Despite low absorption⁽⁴⁶⁶⁾ and some overlaps between funding programmes, the financial engineering products offered by the Slovene Enterprise Fund (SEF) and SID bank have worked well and significantly helped provide: (1) public guarantees for bank loans with subsidised interest rates; (2) direct loans; and (3) micro loans. However, these instruments alone could not replace low bank finance and more restrictive bank lending. Equity instruments are only now being developed and thus more time is needed before their effectiveness can be fully assessed.

Support to start-ups and micro enterprises, has been limited (e.g grants). A significant gap in seed finance was identified as affecting mostly innovative companies, and therefore a seed instrument was launched in mid-June 2014.⁽⁴⁶⁷⁾ The reform of the corporate insolvency framework introduced in December 2013 should improve the efficiency of insolvency proceedings, but results are yet to be seen.

⁽⁴⁶⁵⁾ <http://www.bsi.si/iskalniki/sporocila-za-javnost-en.asp?MapaId=202&VsebinaId=16433#16433>

⁽⁴⁶⁶⁾ See funding programme of EUR 333 million from the SID bank. Only EUR 16 million were absorbed.

⁽⁴⁶⁷⁾ <http://www.podjetniskisklad.si/83/2014/sk50-2014---semenski-kapital---konvertibilno-posojilo-za-zagon-podjetij-v-visini-50000-eur.html>

Furthermore, the necessary bank recapitalisation that started at the end of 2013 will only gradually show results in 2015.

In this context and taking into account SMEs' high dependence on bank lending and debt finance in general, the situation is expected to worsen in 2014 and will continue to negatively affect small viable companies. Any new instruments will need to also focus on alternative financing mechanisms, in particular equity financing, and help increase the number of start-ups and fast-growing micro enterprises.

Investment

Given the depletion of both public and banking sources, foreign investment is an increasingly important source of external funding, alongside EU funding. However, the economy continues to be characterised by low inward foreign direct investment stock: at only 34 % of GDP in 2012, the level of inward FDI stock in Slovenia has remained the lowest among new EU Member States since 2000.⁽⁴⁶⁸⁾ High-quality FDI is important for the economy to take off again. Foreign investment can also help increase the low levels of labour productivity. The lack of a business friendly environment, expressed e.g. in lengthy and costly procedures for licences (e.g spatial planning), can explain this poor performance and has been as such detrimental to both local and foreign firms.

3.24.3 Innovation and skills

Innovation

Slovenia is an innovation follower,⁽⁴⁶⁹⁾ with performance below but close to the EU average. Its performance relative to the EU on average has improved from 85 % in 2007 to 93 % in 2013. Its relative strengths are in international scientific co-publications, R&D expenditure in the business sector, and public-private scientific co-publications. Its relative weaknesses are in non-EU doctorate students and knowledge-intensive services exports. According to the 2014 Innovation Union Scoreboard, Slovenia

⁽⁴⁶⁸⁾ With the exception of Romania in 2002-03 and Lithuania in 2008 when their inward FDI stock relative to GDP edged just below Slovenia's. Source: Commission staff working document: Assessment of the 2014 national reform programme and stability programme of Slovenia .

⁽⁴⁶⁹⁾ Source: 2013 Innovation Union scoreboard.

only ranks as a medium-level performer in terms of innovation output.

The role of innovation in industrial policy is outlined in three strategic documents, ⁽⁴⁷⁰⁾ aiming to increase productivity and focusing on: environmental technologies; sustainable mobility; biotechnology; technology solutions for health and ageing; and key enabling technologies. Eight Centres of Excellence and seven Centres of Competence were co-financed by the ERDF before the end of 2013, and 17 Development Centres of the Slovene Economy are being co-financed by it until the end of 2014.

There are two challenges in this area. The first one is related to the gradual growth of the public budget for R&D despite urgent fiscal consolidation needs and the sustainability of existing R&D financing instruments. The second one is linked to improving research governance and setting clear research priorities with a stronger focus on knowledge transfer.

The split in the governance of research and innovation has resulted in long delays in implementing the innovation strategy, which puts the effective and efficient use of available resources at risk. If it is implemented, Slovenia's planned Smart Specialisation Strategy could be an important tool for the allocation of public funds. Slovenia's R&D intensity has increased from 1.66 % in 2008 to 2.47 % in 2011 and to 2.8 % in 2012. This is partly due to the 100 % tax allowance for R&D. ⁽⁴⁷¹⁾ However, the substantial increase in R&D investment calls into question the quality of investment; its impact must be observed in the long term. Slovenia still lags behind the EU average as concerns patent applications submitted to the European Patent Office. ⁽⁴⁷²⁾

Skills

The skills mismatch remains an important issue. ⁽⁴⁷³⁾ The tertiary and vocational education systems are insufficiently geared towards meeting emerging

⁽⁴⁷⁰⁾ The Research and Innovation Strategy, the National Higher Education Programme and the Slovenian Industrial Policy 2014-20

⁽⁴⁷¹⁾ The amount of tax allowances for R&D has increased from EUR 100 million in 2011 to EUR 184 million in 2012 (Source: IMAD Development Report 2014).

⁽⁴⁷²⁾ IMAD 2014 development report.

⁽⁴⁷³⁾ Commission staff working document: Assessment of the 2014 national reform programme and stability programme of Slovenia.

labour market needs. This is also reflected in the low percentage of people with high qualifications employed in manufacturing. ⁽⁴⁷⁴⁾ This situation has implications on labour productivity, which lies below EU average. There is a need to provide additional skills, such as entrepreneurial skills. Further amendments to the Higher Education Act are currently under discussion, and they address the quality and financing of universities. Moreover, the employment service is developing ways of assessing future labour market needs based on a pilot project. The Ministry of Economic Development and Technology also runs entrepreneurial-awareness raising projects targeted at young people. ⁽⁴⁷⁵⁾

3.24.4 Energy, raw materials and sustainability

Slovenia has achieved progress in bringing energy efficiency gains to businesses and individuals by implementing several policy initiatives, but its economy still shows a high level of energy intensity. This is mainly due to the very high energy intensity of its transport sector. ⁽⁴⁷⁶⁾ It is also linked to a long-lasting issue of underdeveloped transport infrastructure mainly railway that needs special attention.

Slovenia is below the EU average in terms of the percentage of SMEs that implement resource efficiency actions (saving energy, minimising waste, saving materials and water). ⁽⁴⁷⁷⁾ There is scope for further support to businesses to help them economise resources and consequently save jobs. Support programmes that help SMEs to implement resource efficiency could lead to significant savings: targeted and comprehensive support to SMEs could bring savings of an average of EUR 8 000 for energy firms and over EUR 19 000 for environmental technologies. ⁽⁴⁷⁸⁾

⁽⁴⁷⁴⁾ Source: Eurostat.

⁽⁴⁷⁵⁾ UPI — Creativity, entrepreneurship and innovation projects in elementary schools, high schools and among students; support to university incubators; start-up grants with mentoring schemes for start-ups, etc.

⁽⁴⁷⁶⁾ Commission staff working document: Assessment of the 2014 national reform programme and stability programme of Slovenia.

⁽⁴⁷⁷⁾ Flash Eurobarometer 381: SMEs, resource efficiency and green markets, report, fieldwork: September 2013. Publication: December 2013.

⁽⁴⁷⁸⁾ Study on economic and social benefits of environmental protection and resource efficiency related to the European Semester, February 2014, Risk & Policy Analysts Limited.

3.24.5 Access to markets, infrastructure and services

Export performance in 2008-12 has been below the EU average. During this time, Slovenia has lost almost a fifth of its market share. Labour-intensive and low-tech products lost over 30 % of their market share, while the share of high-tech products increased by 2 %. ⁽⁴⁷⁹⁾ This is linked both to cost competitiveness and to an unfavourable product specialisation and geographical orientation. The industrial structure is dominated by low-to-medium technology and labour-intensive firms, while export destinations before the crisis included ex-Yugoslavia countries and Italy, countries which were severely affected by the crisis. However, in 2013 exports increased by 2.9 %, and the outlook is positive for 2014 and 2015 as well. The current account has corrected sharply from a deficit of 7 % of GDP in 2008 to a surplus of 3.1 % of GDP in 2012. An additional increase in the surplus is expected in 2013-15.

Measures introduced by the public agency ⁽⁴⁸⁰⁾ for promoting internationalisation include: providing information on web portals; educating companies about the knowledge needed and steps to be taken before entering foreign markets; organising inward and outward business delegations, presentations, conferences, and seminars; co-financing the activities of business clubs abroad; co-financing approximately 15 group trade fair visits per year for companies abroad, organised to help especially SMEs. However, there has been little change in 2013. The measures are not part of an overall strategy and there are still no specific action plans or monitoring schemes.

Ease of access of domestic and foreign service providers will contribute to increased competitiveness. In 2012, the authorities launched a reform to review the numerous regulated activities and professions. Despite some improvement in 2013, there are still many regulated professions. ⁽⁴⁸¹⁾ An inter-ministerial meeting was launched in 2012 in order to streamline Slovenia's regulated professions, improve the business environment, and enhance competitiveness. A small business act focusing on crafts was adopted and a similar process is being

planned for other sectors and professions in 2014, but in terms of milestones the process has not advanced much in 2013.

Significant reforms to the regulated professions are not expected to materialise before autumn of 2014. Furthermore, the impact assessment carried out on deregulating the crafts sector has yet to be completed. ⁽⁴⁸²⁾ The system of concessions which limits the number of service providers through quantitative and territorial restrictions impacts on the choice in terms of quality and higher costs, and has a negative impact on the potential growth of the economy. ⁽⁴⁸³⁾

As a transit country, Slovenia must pay special attention to its transport infrastructure, which is currently underdeveloped. It still excessively relies on private cars. Most large railway and environmental infrastructure projects co-financed by the cohesion fund in 2007-13 are delayed due to lengthy project preparation, permit procedures, and public procurement. ⁽⁴⁸⁴⁾

⁽⁴⁷⁹⁾ IMAD 2014 Development report.

⁽⁴⁸⁰⁾ The Public Agency for Entrepreneurship, Innovation, Development, Investment and Tourism (SPIRIT)

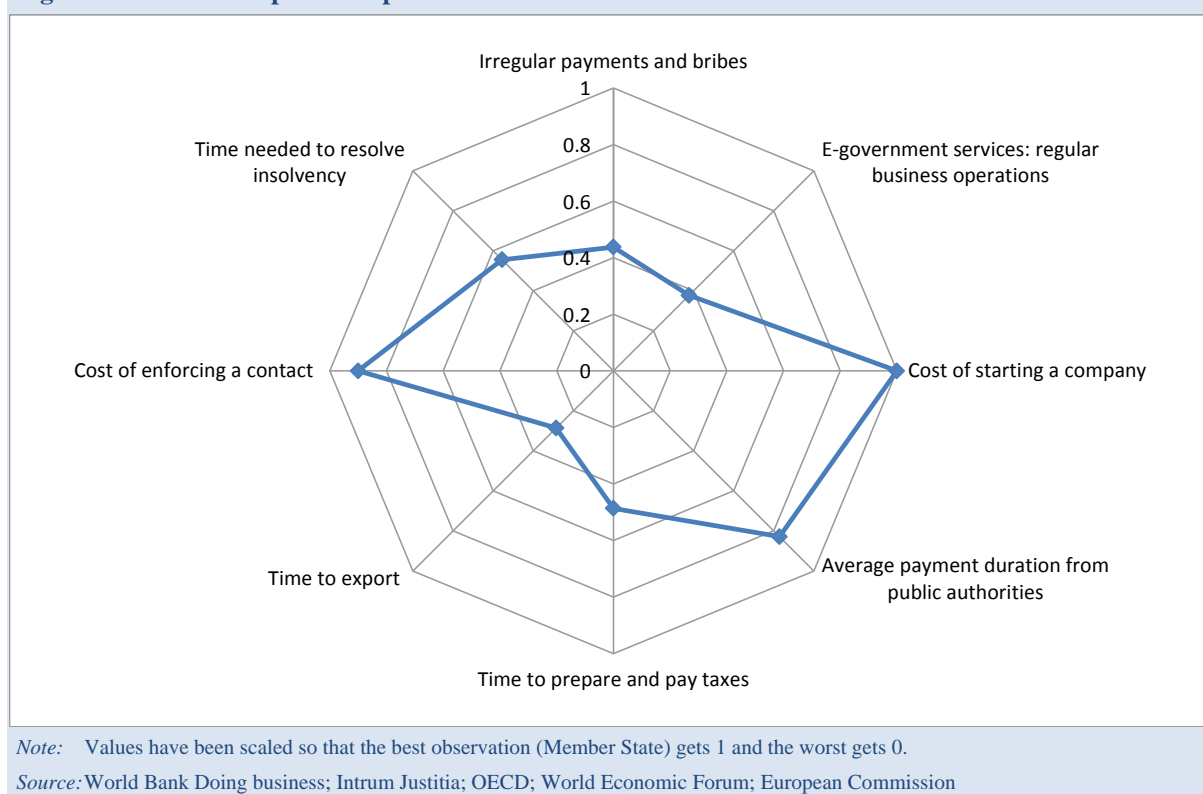
⁽⁴⁸¹⁾ The number of regulated activities and professions decreased from 323 to 262. , see European Semester SWD

⁽⁴⁸²⁾ http://ec.europa.eu/economy_finance/economic_governance/documents/20140224_si_imbalances_epc_report_en.pdf.

⁽⁴⁸³⁾ Commission staff working document: Assessment of the 2014 national reform programme and stability programme of Slovenia.

⁽⁴⁸⁴⁾ Commission staff working document: Assessment of the 2014 national reform programme and stability programme of Slovenia .

Figure 3.24.2: Overall profile of public administration - Slovenia



3.24.6 Public administration and business environment

Efficient public administration is key to improving the business environment and one of the Commission's priority areas. The main focus is on further use of e-government services; increasing the use of ICT in public administrations, including for tax collection systems and the single market points of contact under the Services Directive; and simplifying the business environment by reducing red tape and introducing lighter processes and regulatory systems. Although there has been progress in modernising e-government services, there is still a lot to be done to simplify the business environment.

Concerning the mainstreaming of industrial/competitiveness policies a lack of implementation plans with specific and clearly prioritised actions makes it more difficult to create a business-friendly environment. Currently, strategic documents fall under the remit of several ministries and governmental bodies. The 2013 Industrial Policy Strategy, which aims to increase the country's productivity⁽⁴⁸⁵⁾ from the current 60 % to 80 % of

⁽⁴⁸⁵⁾ Value added per employee in manufacturing.

EU average by 2020 in order to close the productivity gap, has not been implemented. However, the lack of implementation plans and coordination with other strategic documents and related policies (like the RISS,⁽⁴⁸⁶⁾ NHEP⁽⁴⁸⁷⁾ and the newly-adopted single framework document to improve the legislative and business environment and boost competitiveness) have not been addressed in 2013. The latter contains many action areas, including a revised action programme for reducing the administrative burden by 25 %. However, prioritisation and coherence with other strategic documents is not yet clear and this hampers all otherwise positive intentions. The pending smart specialisation strategy is expected to address these challenges. The efficiency of the public administration is also very important for the absorption of EU funds in the next programming period (ESIF 2014-20). There is a need to ensure that the recently re-established Government Office for Cohesion Policy and Development (reporting directly to the Cabinet of the Prime Minister) has adequate

⁽⁴⁸⁶⁾ The Research and Innovation Strategy of Slovenia (RISS) defines the R&D priorities for the next decade and aims to create a high performance research and innovation system which will improve citizens' quality of life.

⁽⁴⁸⁷⁾ The National Higher Education Programme (NHEP) aims to upgrade the Slovenian higher education system to a level that is more consistent with education and skills needs in general, and in science and engineering in particular.

administrative capacity to manage the cohesion funds and reap the full benefits of the programmes. The Office works with others to ensure more coordination between strategies and the implementing measures co-financed by the ESIF.

Further concerning the mainstreaming of industrial/competitiveness policies the coordination to improve regulation is carried out by the prime minister's office and an inter-ministerial working group (with the Ministry of Interior in the lead at first, and now with the Ministry of Economy in the lead) that reports three times per year. Despite some progress in the area of governance of better regulation, strategies and policies are not clear enough and there is a risk of fragmentation of responsibilities among different governmental bodies. The SME test is still in its pilot phase and thus not yet fully implemented, although the planned online system will improve its applicability.

On the other hand, Slovenia has performed well in increasing the use of e-government. As of 2015, doing business with the government will involve only e-invoicing; paper invoices are no longer accepted. Required progress has also been made in the area of tax collection, as the time needed to comply with tax obligations (estimated at 260 hours) in Slovenia is a barrier for the business environment. Slovenia has also modernised its information systems and introduced simplifications, for instance in the area of social security declarations, and the newly-virtual cash registering system is showing results in collecting VAT revenue. Slovenia also performs well in the area of starting up a business. A fully operational one-stop-shop to start a company is active and the time required to start a company is below the EU average, while the cost is virtually zero.⁽⁴⁸⁸⁾ The country has deteriorated its ranking in the World Bank's Doing Business report from 31st place in 2013 to the 33rd place in 2014⁽⁴⁸⁹⁾. On the other hand, licencing procedures (e.g. in the area of construction permits) remain lengthy⁽⁴⁹⁰⁾ and costly and therefore pose barriers to business development, and investment, including FDI. There are at least 10 steps before a company can get a warehouse building

licence and the costs and time associated with some licences are significant.

The point of single contact, set up in the framework of the Services Directive, is far from being completed as it lacks the possibility to complete procedures online. Furthermore, the transition to e-procurement has not been fully achieved; an electronic portal was launched in 2007 but electronic tenders still cannot be submitted. Slovenia is one of the few Member States in which it is not possible to submit tenders electronically.⁽⁴⁹¹⁾

In the area of entrepreneurship, Slovenia's performance slipped compared to the EU average, mainly due to consistently low self-employment (13 % as compared to 15 % in the EU) coupled with low entrepreneurship (17 %; EU: 23 %).⁽⁴⁹²⁾ Historically, tertiary graduates have been mainly employed by the public sector and large corporations, who stopped hiring because of the economic crisis. Getting employed by SMEs may require different or additional skills. The Youth Guarantee Implementation Plan, which was adopted in January 2014 for people up to the age of 29, sets out measures to fight youth unemployment by providing traineeships and apprenticeships that would facilitate education-to-work transitions, and integrates entrepreneurship into all levels of education to empower young people. Improving entrepreneurship is also one of the objectives of the single framework document to improve the legislative and business environment and boost competitiveness.

Some progress has been achieved in increasing the efficiency of the judiciary system. While a case management reform on commercial and civil justice has improved the functioning of the court system, the length of trials, although reduced, remains long. Despite this progress, the backlog of enforcement cases remains high in comparative terms.

Finally, it is worth noting that corruption is one of Slovenia's most pressing problems that drags down the economy and hamper international trade, FDI and cooperation. It is reflected in the inefficiencies of state-owned enterprises and poses serious impediments to the business environment. There seems to have been a decline in the political drive

⁽⁴⁸⁸⁾ World Bank Doing Business Report and DG ENTR: http://ec.europa.eu/enterprise/policies/sme/business-environment/start-up-procedures/index_en.htm

⁽⁴⁸⁹⁾ World Bank Doing Business Report: <http://www.doingbusiness.org/data/exploreeconomies/slovenia>

⁽⁴⁹⁰⁾ World Bank Doing Business Report.

⁽⁴⁹¹⁾ Commission staff working document: Assessment of the 2014 national reform programme and stability programme of Slovenia.

⁽⁴⁹²⁾ SBA fact sheet 2013.

against corruption in recent years, amidst allegations and doubts about the integrity of high-level officials. ⁽⁴⁹³⁾ Slovenia should take effective measures to fight corruption, strengthen transparency and accountability, and introduce external performance evaluation and quality control procedures. ⁽⁴⁹⁴⁾

3.24.7 Conclusions

Although there are positive signs as far as economic activity and export growth are concerned, Slovenia's economy remains fragile. Bank lending continues to deteriorate, impacting viable firms and in particular SMEs. Bank recapitalisation started at the end of 2013, but will only show results in 2015. The financial engineering products offered by the Slovenian Enterprise Fund (SEF) and SID bank worked well, but there is a need to build on new instruments focusing on alternative financing mechanisms and attracting more private investment (to leverage public investment). This would particularly help start-ups and fast-growing SMEs, and especially micro-enterprises

Little has been done to improve the business environment. Bottlenecks identified in some areas, such as regulated activities and professions or licencing procedures (e.g. spatial planning or construction permits) continue to exist. Without effectively tackling these issues, local as well as existing and potential foreign companies are hindered and cost competitiveness improvements will not be enough for the economy to take off again.

For an improved mainstreaming of industrial policy, concrete action plans clearly prioritised and coherent with each other in the areas industrial policy, research and innovation and upcoming smart specialisation strategy, are equally important. Those issues, identified in previous competitiveness reports too, have not yet been effectively addressed. A clear regulatory environment will be equally important for investments both local private and in particular foreign investments given depletion of public funds.

⁽⁴⁹³⁾ http://ec.europa.eu/dgs/home-affairs/what-we-do/policies/organised-crime-and-human-trafficking/corruption/anti-corruption-report/index_en.htm

⁽⁴⁹⁴⁾ Council Recommendation on Slovenia's 2014 national reform programme.