Slovenia - Country Assistance Strategy

This CAS Document makes a convincing case for stepping up the Bank's activities in Slovenia and for a well targeted intervention in this country. I find the intervention appropriate given the need for systemic reforms and for social and environmental safety-nets to support Slovenia's transition to a market economy and its accession to the European Union. I also commend the Bank's emphasis on demand-driven non-lending services and on limited selective lending. The strategy proposed here is based on a rigorous analysis of the Bank's comparative advantages as a Group, as well as on coordination with other multilateral and bilateral donors.

This Chair, therefore, approves the framework and the scope and size of the program proposed by Management. However, we have the following comments and questions.

1. The document presents a realistic strategy toward graduation from Bank lending in ten years. The program is focused and it seems rather obvious that the CAS will benefit from the ownership of the government which has requested the Bank's assistance and will share the cost of this assistance. However, notwithstanding macroeconomic stability and the comfortable external balance achieved, Slovenia appears to lag behind other advanced transition economies in terms of growth performance and in attracting direct foreign investments. The document attributes this to the large size of the state and to inherited structural weaknesses. Hence the focus of the strategy on completing the systemic transformation of the economy. However, the paper alludes to possible domestic controversies in the critical areas of the pace of privatization and the role of foreign investments (paragraphs 14, 30, 66). "Educating public opinion" (paragraph 66) does not seem enough to contain that risk. Granted, the Slovenian government has requested the Bank's intervention and this intervention appears to benefit from the full support of the main European partners, multilaterals as well as bilateral donors. However, given the Bank's lending volume, its leverage seems very low. We would like to hear more from the staff about the risks that reforms will be incomplete or stopped in their tracks. What does staff mean by "major reconsideration of the Bank's strategy", should this risk materialize? Should the "non-market restrictions" to access to capital markets (par 18) disincentives to private investments (par 57) be seen in this light? These issues are documented also in Annex A4. However the CAS does not present the authorities' views on this issue or the ways in which they could be dealt with.
2. The IFC Role. IFC’s advisory services are appropriate. Its investment plans seem more controversial. Given the macroeconomic performance and the investment grade, assigned to Slovenia, it is understandable why IFC appears eager to invest there. However, it is our view that each and every IFC’s transaction should be tested against whether or not it crowds out the private sector and against its potential developmental contribution. Why, for instance, does the bulk of IFC’s outstanding portfolio represent past investments for IFC’s own account, and is the level of syndications so low (Annex A4)?

3. The CAS mentions only in passing the possible use of IBRD partial risk and partial credit guarantees, and MIGA guarantees. Nothing specific is planned, however (Annex A3). I am interested to know the prospects in broad outline for guaranteeing private sector investments by either IBRD, IFC, or MIGA.

4. I welcome the Bank’s program to ensure social sustainability, in particular, the Social Sector Review and the emphasis on the gender dimension of poverty issues (par 50 and 51). However, I would like to understand how effective the Bank’s recommendations can be in a fast track graduation program and given the rather low level of the Bank’s leverage. I also would welcome some clarifications on the partnerships between the business sectors and civil society mentioned in the Document.