



## **Weekly Briefing**

**Slovenia economy briefing:**  
**The status of state-owned enterprises and its representative**  
**enterprises in Slovenia**  
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# **The status of state-owned enterprises and its representative enterprises in Slovenia**

## **Summary**

*At the time of independence 30 years ago, all Slovenian companies were state-owned. Since then, the state has been carrying out privatizations, the results of which, especially in the case of larger enterprises, have been various. Some of the larger enterprises have a reasonable ownership structure based mainly on domestic capital and are also operating successfully (examples: Petrol, Krka, Kolektor, BTC, Impol, Štore Ironworks...). Part of the privatization has been carried out by selling companies to foreign owners, sometimes through not very transparent procedures (e.g. Lek, Jesenice and Ravne Ironworks, SKB Bank,...). These companies usually act as branches of parent companies based abroad and operate successfully. In the period from 2004 to 2008, the most extensive but unfortunately rather unfortunate privatizations took place in the form of manager takeovers, as a result of which some companies (mainly construction companies) failed completely, some are still bobbing along (Merkur, Sava,...), and some were sold cheaply to foreigners due to the force of circumstances (Mercator, Pivovarna Laško, part of Istrabenz,...). In 2013, the government made a very concrete commitment to Brussels about which state-owned companies and banks it would sell as a priority, and the next governments did not abandon this commitment either, although they slightly changed the list of companies to be sold. In line with this, they sold, for example, Ljubljana Airport (indirectly to the German state) and NKBM Bank, but got stuck in the sale of Telekom, which was never completed.*

## **The role of the Slovenian state holding (SSH) in the sale of state assets**

Effective corporate governance is one of the key issues Slovenia has been dealing with since the beginning of the ownership transformation. The corporate governance system of the company has a significant impact on the efficiency and profitability of the company, as well as on the enforcement of the rights of the company's stakeholders, so a transparent and understandable corporate governance system is of great importance for any company. This also applies in the case where the state acts as a shareholder or a state-owned company acts on its

behalf as a manager of a state-owned capital investment. In Slovenia, a significant proportion of companies in some sectors are still predominantly or majority owned by the state. The efficiency and transparency of relations within the company and the transparent operation of the state are key to the confidence of domestic and foreign investors and consequently to the functioning of capital markets.

Since 2010, important measures have been taken to improve the governance of state-owned enterprises. In order to separate the function of the state as an owner of capital investments from its other functions, the central manager of state investments, the Slovenian State Holding (hereinafter SSH), was established. In order to manage the investments owned by the state, SSH and Kapitalska družba, d.d. (hereinafter: KAD) in a more transparent and efficient manner, the Slovenian Sovereign Holding Act (ZSDH-1) was adopted. ZSDH-1 required the adoption of key management acts and measures to improve the management of state capital investments.

Today, most of the state's assets are managed by the SSH. This organizational solution was introduced by the government in 2012, with the aim of facilitating the sale of state property. The next government did not change this solution and all governments continue to insist on it. The SSH brings together over 90 companies (infrastructure, banking, insurance companies, hotel management, etc.) which are objectively difficult to manage efficiently and which, as a result, can affect the development of economic infrastructure in particular. The powers of the SSH General Assembly are exercised by the government, which also appoints a five-member Supervisory Board (SB), which in consequence means that the SB primarily implements the directives of the respective government.

In 2013, the government established Bank Assets Management Company (BAMC) or the so-called "bad bank" according to the foreign dictates, also to facilitate the satisfaction of foreign capital interests. Therefore, Slovenia has transferred many undervalued bad loans of banks to it and also adopted an externally imposed system of their management. BAMC does not have a Supervisory Board, but an expanded 7-member board of directors (BD), in which the four non-executive directors are also supposed to be responsible for supervision. The Bank's General Assembly function is performed by the government and its activities are largely

entrusted to the Minister of Finance. Since the SSH was established, it has also played a central role in the management of state property. Since the government and parliament adopted a strategy for the management of state property in 2015, we see the privatization of state-owned enterprises in Slovenia and abroad quite differently. To foreign capital suits privatization based on the sale of state property, i.e. by turning our companies into branches of parent companies based abroad. In contrast, our national interests would be better suited to a German-style privatization, reflected in a different ownership structure and way of governing.

In 2020, SSH owned a majority share or exercised a dominant influence in 35 companies and managed approximately one hundred direct investments. The operating results of the companies in the portfolio managed by SSH for 2019 showed that the net return on equity (ROE) of the portfolio of companies owned by the Republic of Slovenia and SSH was 6.9%, exceeding the target of 6.2% as set out in the annual management plan. The achieved value added per employee in the companies of the SSH portfolio is on average EUR 61 thousand, which is 30% more than the average of all companies in Slovenia in 2019.

In the second half of 2020, many portfolio companies are already showing the economic consequences of the corona crisis, which means lower expected dividends in 2021 and lower net return on equity (ROE) of the portfolio for 2020.

### **Establishment of a state-owned tourism holding**

One of the main activities of the current government in terms of state investment is the establishment of a Slovenian tourism holding. The SSH's annual investment management plan indicates that the consolidation and restructuring of the national tourism portfolio will take place in several phases. The goals that SSH wants to achieve by implementing this plan are to increase the value of the state tourism portfolio, to achieve higher returns and to further develop the tourism industry according to Tourism Strategy. At the same time, they want the cooperation of state tourism enterprises and their willingness to change, which would increase the value of the state tourism portfolio.

SSH will receive between 50 and 65 million euros from the state for the purchase of shares in companies, with the largest part of this investment being used to purchase a share in the York Financial Fund, the largest owner of Sava Turizem. Much is still unknown in relation to the strategy of Slovenian Tourism Holding, i.e. how this ownership consolidation will take place,

how much money will be allocated to it and whether the cautious privatization announced for the final phase will be based on finding a strategic partner or international banks and funds. For the time being, the plan is to establish the Slovenian Tourism Holding (STH), which will be created by upgrading the Tourism Investment Fund, and to transfer to it the ownership shares of the Republic of Slovenia, SSH, BAMC, KAD and DSU in tourism enterprises.

## **Conclusions**

Many companies in Slovenia are still majority or at least partially state-owned. This is particularly true of infrastructure, banking and insurance companies. On average, they operate less successfully than the rest of the economy, mainly due to poor management. Their success is often tainted by corruption.

Foreign buyers do not take into account that in Slovenia privatization is measured by something other than numbers and euros. They also do not know that people know a lot about privatization of state property, i.e. our banks, our Telekom and our companies, especially those stuck on the list of 15 approved from the time of the crisis, in whose fate we are very interested. In the context of the future strategy for managing state investments, people will therefore demand answers from the government about what will remain in state ownership and whether its management will give future pensioners hope that they will accumulate something in the demographic fund.

In Slovenia, the management of state property means solving a very complex problem of state assets that arises from strategically rather ill-conceived starting points and goals. The strategy of state property management should be designed quite differently in the future and perhaps be based on successful experiences from abroad, e.g. from Germany. The acceleration of privatization of state property should be implemented primarily by the state selling its ownership shares in excess of its retained interest (up to 35%) in the form of shares, part to selected buyers, the other part (usually not less than 30% of the company's capital) through public sale and dispersed. Only in exceptional cases should privatization be carried out as before, i.e. by selling the entire company to a single, usually foreign, buyer.