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**INDICATORS OF DEVELOPMENT GAPS BETWEEN EU AND SLOVENIA -
BACKGROUND STUDY FOR PREPARATION OF THE STRATEGY OF ECONOMIC
DEVELOPMENT OF SLOVENIA AND NATIONAL DEVELOPMENT PLAN
(SUMMARY)**

Professor Pavle Sicherl and Professor Aleš Vahčič

Executive summary

The results of the study are presented in four chapters. In the introduction the structure of the study and the selection of countries for which the development gaps have been analysed is presented. In the second chapter we analyse the development gaps between Slovenia and the European Union by using two approaches. The first approach is qualitative and relies on the probable global development trends. The second approach is quantitative and on the basis of quantified indicators determines the starting position of Slovenia and evaluates her strengths and weaknesses. The competitiveness analysis shows that Slovenia is lagging behind most with respect to the factors concerning government, internationalisation, and finance. The position of Slovenia is significantly better if it is evaluated on the basis of 'hard' indicators as opposed to 'soft' indicators. In the third chapter we develop the objective tree and the problem tree, first at the general level. Then on the basis of problem analysis and solutions we suggest the main development priorities at the policy level. In the fourth chapter we analyse in more detail the static differences and time distances in comparison to the European Union. Based on the analysis of selected indicators we define the problem tree at the level of Slovenia and then derive the priority objectives and program priorities. The most important policy orientation relates to the problems of welfare and cohesion, human development and learning society, national development consensus and policy implementation, and internationalisation. It follows from the analysis that for the successful development of Slovenia much more attention should be paid to the above mentioned factors that affect all sectors of the economy and society.

Ljubljana, September 2000

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For the discussion on the importance of differences and development gaps the definition of development used by K. Boulding (1992) is interesting. He believes that economic development is in principle the process of learning and not much more. Related to this is a more normative definition that development is development of people and for the people. Welfare has its material and nonmaterial components. How to achieve them depends on the resources at our disposal and efficiency of their use in the framework of a given value system. Since the starting position concerning the material and human resources in Slovenia is lower than the average of EU15, it is clear that the acceleration of development and reduction of the gap with EU will depend primarily on the efficient use of resources, i.e. on the so-called qualitative aspects.

The strategy of economic development of Slovenia is based primarily on the set of our own objectives and values. These are further related to the preparation of the National Development Plan, which is the joint document of Slovenia and European Union, and the linkages and co-ordination with EU which should also bring some additional resources and enable faster harmonisation for the Slovenian entry into full membership in the EU. These links bring, besides additional resources, also some other guidelines, which should be taken into account in the preparation of the strategy. First, the priorities selected in European Union are: the importance of employment or unemployment as the long run problem, importance of economic and social cohesion, and the importance of institutional changes and particularly administrative reforms in the European Commission that should improve efficiency and transparency. These would probably also be the most important strategic determinants for Slovenia even if we would be not considering joining the European Union.

Second, although we should not uncritically view the institutional arrangements and administrative regulations of EU, since EU itself is in the need of important changes in view of developments in some more dynamic parts of global economy, the adaptation to the regulatory standards of the EU is beneficial for Slovenia (in general but not necessarily for each policy measure), since in this way the probability of arbitrary decisions of our political parties is being reduced.

The study consists of the introduction and three parts. Professor Pavle Sicherl wrote chapters 1 and 4, Professor Aleš Vahčič wrote Chapter 3, while Sections 3.1 and 3.2 were written jointly. **In the second chapter the initial analysis of internal strengths and weaknesses of Slovenia on the basis of quantified international comparison of indicators is presented.** After the identification and summarising of the main problems and development gaps two approaches were used. The first one is qualitative approach and it refers to the probable global development trends and the future position of Slovenia in the EU. This approach calls attention to the changed meaning of different development factors and their combinations, and thus looks at development problems of Slovenia and the related development gaps from a long run perspective. The second

approach is quantitative in the sense that on the basis of quantitative analysis of indicators undertakes to define the starting position of Slovenia and evaluates her strengths and weaknesses as the basis for discussion of the economic development strategy of Slovenia and alternative scenarios associated with this debate. This second approach is based on the analyses in Section 2.1 and on the analysis of individual indicators in Chapter 4.

The global changes and basic goals of sustainable development of the society necessarily condition the discussions on the strategy of economic development. The processes of globalisation increase the interdependencies in the world, therefore there are two possibilities left to the society. It can try with innovation in its organisation at the personal, business, and government level to adjust itself to these changes, or it can stay on the margin of global developments and with under-utilised development potentials of individuals and society as a whole. There is little time for adaptation and competitive position of enterprises, and economies will be under great pressure. Knowledge will become one of the most important development factors and the linkages between technological change, enterprise management, and economic and social leadership will require new approaches.

In the long run it is probably most important to take into account the requirements of learning society. The problems faced by the individuals, enterprises and society will be rapidly changing and will require fast learning and also fast forgetting of what has become obsolete. The successful entrepreneurs and scientists will be singled out according to their capabilities to interpret and use conclusions from increasingly complex information and will be judged according to the capability to co-operate and communicate with various groups and experts (Lundvall, 2000). This knowledge and capabilities, however, are not incorporated only in individuals but also in organisations and regions (Arrow, 1994). Therefore, Lundvall draws the conclusion that the production of intellectual capital primarily depends on the social capital, i.e. the social capability of citizens and workers for co-operation without too much conflict. Therefore, for him it is one of the most important questions of learning society how to create and accumulate new forms of social capital.

The interdependence of economic and social processes is becoming an important factor of international competitiveness. Especially in this area, in the area of integration and holistic approach, is the greatest weakness of managing social and economic processes in Slovenia. It is partly a problem of knowledge and wisdom, and partly a consequence of different views and interests. The quarrels of political parties concerning power and prestige are a legitimate part of democratic processes, but it must be also emphasised that this has its price in terms of outside image of Slovenia and in terms of slower pace of resolution of problems of survival and development (Sicherl, 1994). The problem of lack of co-ordination and of synergy has been characteristics of all governments in independent Slovenia.

The basic hypothesis in the discussion at the European level is that under conditions of accelerated changes and learning, the learning society requires revitalisation and reintegration of strategies of enterprises, social partners and policy makers. Increasingly it has been realised that it is necessary to concentrate on the long run, building of competence in enterprises, and in the society as a whole. At the same time the existing institutional framework as well as global competition stress primarily short-term financial goals in policy formulation. Many individual ministries take care only of their own areas and have little concern for global goals of society.

Therefore this concept requires new European and national development strategies with emphasis on co-ordination of various policy areas. These specific policies must be tied into common strategy. In the new learning economy it is clearly problematic if the co-ordination is left to the ministries of finance and central banks, because their vision of the world is focused on the monetary dimension of the economy and therefore it is focused on the short run. The most important inherent contradiction of learning society is the polarisation and social exclusion. Therefore, in the learning economy the social capital and ethical dimensions strongly gain in importance. In the society where there is little trust little can be learned and information cannot be used effectively in such society (Lundvall, 2000). Some of these new views presented in the EU seminar "Towards a learning society: Innovation and competence building with social cohesion for Europa" additionally confirm our previous conclusion that the lack of co-ordination and synergy and social consensus about development strategy is the most important problem in directing economic and social processes in Slovenia (Sicherl, Vahčič, 1999).

In Slovenia some of these considerations are taken into account in the draft of new development paradigm. It stresses that knowledge, human capital, flexibility of markets and institutions of economic system, efficiency of government institutions, social cohesion and the ability of all social players to embrace social openness and for flexible adjustments to changes in the environment, are becoming key competitive advantages. The Government can play a positive development role only in co-operation and partnership with other important social players - social partners, entrepreneurial groups, civil society, regional and local initiatives (UMAR, 2000).

The structure of SWOT analysis has its advantages and weaknesses. The advantage is that certain factors according to individual categories are emphasised; the weakness is that the simplicity of presentation cannot adequately demonstrate all complex interrelationships and put proper weights on individual factors. When evaluating the starting position of Slovenia a problem arises how to link the situation in various sectors or areas and arrive at a synthetic evaluation of Slovenian position. In the development strategy, and in particular in the national development plan in the next phase, the focus is on formulation of strategic goals and concrete development priorities or programs. Different analyses are carried out in research institutions, ministries and other institutions or groups, and thus many separate conclusions appear organised by elements of SWOT analysis at various levels of desegregation and detail. One of the useful classifications, which unfortunately is not an easy one and cannot be very precise, is the classification into two groups: the factors which to an important extent affect all or at least a large number of sectors and areas, and those factors which are specific for individual sectors or areas.

To the elements shown in the SWOT analysis one could add many others, but one could also remove some, if the basic goal would be the ranking of these elements or one would want to limit the analysis to the most important items. This can be more conveniently achieved through commenting rather than a SWOT table. In addition to our research we used for this evaluation principally the study World Competitiveness Yearbook 2000 by MDI from Lausanne. In this study Slovenia, when ranked according to eight groups of factors of competitiveness, was placed in the third quarter among 47 analysed countries with respect to the first four groups of factors, and in the fourth (last) quarter with respect to the second four groups of factors (see Table 4.4.6). The second to the last place in the ranking in the groups 'government' and 'internationalisation' is not an enviable starting point for the success of Slovenia in the globalisation process. Also, the rank with respect to the groups 'finance' and 'science and technology' is hardly better, improving

Strengths

Macroeconomic stability
Stable growth rates of GDP
Favourable geographic location
Meeting point of three major groups of nations and cultures: Slavic, Roman and German
Strong economic and cultural relations with Western and South Eastern Europe
Relatively low degree of poverty and low Gini coefficient of income distribution
A high share of natural environment, rich in bio-diversity, forests, water resources
Polycentric regional development
Relatively low degree of air pollution

Opportunities

Acceleration of accession into the EU and faster adoption of business and political culture
Increase social capital, improve coordination and strengthen social consensus for development
Increase the opportunities for quality employment and reduce unemployment on the basis of the new development paradigm
Reintegration of strategies of firms, social partners and policy makers
Elimination of bureaucratic obstacles
Ensure better conditions for entrepreneurship and creativity
Establishment of information system to achieve greater transparency of decisions and public participation in decision making
Increased enrolment at the tertiary level of education to improve the possibility for greater participation of the government, firms and social partners at stimulating life long learning
Operational establishment of links between education, science and the state for stimulating innovations and technological development

Weaknesses

Lack of synergy and social consensus for development
Inefficient public administration
Extended influence of political parties on the public sector influencing the attitudes in society and economy
Relatively low expectation of life for women and especially for men
Insufficient export orientation
Lagging behind in productivity and competitiveness
Insufficient internationalisation
Slow introduction of structural reforms
Lack of government coordination, also in the area of information technology use
Delays in the court system and regulations
Low foreign direct investment
Relatively low share of population with tertiary education
Structural unemployment
Insufficient focus on R&D in firms and lack of cooperation with research institutes
Delayed adjustments to globalisation and customer and user orientation
Focus on short-term results at the expense of long-term development opportunities
The current position of Slovenia is less favourable for 'soft' qualitative indicators, which presents some concerns for future

Threats

Increase in the lag behind EU if Slovenia will not succeed in affirming the role of knowledge, coordination, flexibility and competitiveness
Inability to reach development consensus and increase trust and cooperation
Inability or unwillingness for adjustment to changes in the outside world
Unreadiness and lack of conditions and stimulation for life-long learning
Bankruptcy of firms unprepared to meet the changed market conditions
Further social disintegration and increased social exclusion

for two and five places, respectively. This is already the first indication of the most important weaknesses and key problems of Slovenian economic development.

It is also interesting to compare 30 criteria according to which Slovenia is relatively better than her average position, and 30 criteria according to which the negative deviation is the highest. Looking to the first 30 criteria we find that only two are 'soft' indicators based on the questionnaire, while looking at the 30 worst criteria there are 26 'soft' indicators and only four 'hard' indicators that are related primarily to foreign direct investment and high personal income tax rates. The so-called 'soft' indicators that are important for the efficiency of economy and society have again turned out to be important weaknesses, which is a somewhat different mirror image of problems in the groups government, internationalisation, finance, and science and technology. Similar summary conclusions in this respect follow also from the study Sicherl and Vahčič (1999), on the basis of a different selection of a smaller number of indicators. In other words, the problem of Slovenia's development is not related only to the question of investment funds availability, but is primarily associated with a relevant long run development vision, social consensus and efficiency of economy and society.

The SWOT analysis presented above was made on the assumption that in this study the emphasis is on general factors and results. The implied delineation is of course arbitrary because the links between sector analyses and general factors are very complex. The additional problem that makes it difficult to make a straight decision about the importance and the size of the gap and their presentation as the different levels of goals is the fact that some categories can simultaneously have a double role of goals and instruments. Therefore, for example, the economic and social cohesion can be the goal by itself, and at the same time it can also be a factor facilitating the process of reaching social consensus, and therefore a factor of competitiveness and development. As explained in Section 4.3, a feedback can also occur when a higher efficiency leads to a higher rate of growth that in turn, given an adequate income distribution policy, leads to a reduction of time distances. This consequently reduces one of the dimensions of social disparities and contributes to a higher cohesiveness and consensus that enables continuation of successful development.

The fact that over the last years the USA as the leading economic superpower grows faster than Slovenia is a clear indication that there is no automatic and ensured convergence in the level of development. The Slovenian small-mindedness is not a good sign for the future. The basic point from the discussions on knowledge-based development is that due to the great speed of change an existing satisfactory situation does not give any guarantees for the future. As emphasised, one of the characteristics of Slovenia is her relatively better position in the so-called hard indicators compared to the soft indicators. The present political division and intolerance does not promise that Slovenia, without a change in the present way of thinking and behaviour, could soon transcend into new development paradigm. This requires integration of viewpoints and strategies of enterprises, social partners, and policy makers in various areas in order that such consensus could ensure creation of competencies in enterprises, institutions and society as a whole.

The quantitative analysis of 12 selected indicators, presented in Chapter 4, led to the summary conclusion that according to these indicators Slovenia can be grouped together with Spain, Portugal and Greece, i.e. the group of EU countries that have below average GDP per capita. The comparison of these results with the results of IMD study in Table 4.4.6 once more shows the

differences in conclusions based on hard and soft indicators. While for the first 12 indicators referred to above there are no significant differences between Slovenia and these three EU countries, in the IMD study all three countries are ranked before Slovenia in the summary score: Spain is 24th, Portugal 29th, Greece 32nd and Slovenia 35th. The largest differences are in the groups government, internationalisation and finance which again confirms the conclusion that the basic problems of Slovenia are those influencing the economy as a whole.

The third chapter deals with the goals and philosophy of the Slovenian development and with the aggregate trees of goals and problems. In the introduction the emphasis is on social aspects in the preparation of strategy which means that the development has to be considered as a complex issue. Economists can contribute only one viewpoint on the whole development issue. In the realisation of development strategy a social consensus is important, while from the technical point of view it is important to distinguish between goals and instruments. A precondition for the evaluation of the success of development strategy is an information system which on the basis of measurable indicators enables evaluation of strategy by the broadest spectrum of population.

In the continuation of the third chapter the goal tree and the problem tree are presented schematically at the policy level. We deal with the theoretical basis of goal tree construction. The common basis is welfare theory and the corresponding market failure theory. The European alternative for the solution of this problem is social market economy, which is addressing this problem primarily by ensuring the access to education and basic health care as the basic rights, while the problem of unemployment treats primarily as the problem of income distribution and therefore uses the system of unemployment compensation. The second approach is the American approach, which emphasises primarily the primacy of market and efficiency while it neglects the question of general access to education, health and unemployment compensation. The result of this approach is rapid growth and high employment level, while on the other side it leads to the deterioration of income distribution and social status of underprivileged segments of society. We add also the third approach developed by the Nobel Prize winner Amartya Sen who stresses the importance of freedom for development. In Sen's framework the freedom of trade is the basic human freedom which has value by itself. Therefore the defence of free market is not only instrumental, which is characteristic of liberal approach, but it is a question of ensuring the basic human freedom.

The schematic presentation of goal and problem trees is the foundation for detailed analyses of problems and possible solutions. From this analysis are then derived development priorities in four important areas. First, the demanding development goals cannot be achieved without building the **consensus** about what we want to achieve and how we want to do it. None of the successful countries comparable to Slovenia have achieved development results without clear development vision generally accepted by the population. Because discretionary development resources and regulation is concentrated primarily in the hands of the government, the first priority is to achieve consensus about development policy and development programs in the government itself. This means much greater coordination in the process of reaching development goals among ministries compared to the situation we have witnessed so far. In the preparation of the Slovenian economic development strategy this also means that sector strategies prepared by individual ministries should be coordinated. The national consensus would also contribute to the introduction of a transparent system of preparation and evaluation of implementation of

development policy, development programs and the budget. Transparency is the key condition for the government administration reform, which is one of the greatest weaknesses of Slovenian economy. Second, in the present phase of Slovenian development the industrial policy became more important, because macroeconomic stabilization has been more or less accomplished and with accession to EU Slovenia will have less and less autonomy in determination of monetary, fiscal and foreign economic policy. The modern industrial policy means **building economic infrastructure** where economic infrastructure does not mean only physical infrastructure such as roads, railroads, the communication network etc., but primarily soft elements of economic infrastructure such as education system, access to information, stimulating entrepreneurship, building of close ties with the world, development of business services, and ensuring the good environment...

Third, the high quality of life cannot be achieved without greater investment in **human development** and **learning society**. This means ensuring social cohesion that can be helped by a developed social infrastructure, equal regional development and sufficient supply of high-quality jobs. Here an important role is played by local development initiatives and on the national level by the development of infrastructure for knowledge acquisition for all population strata. Fourth, a small open economy cannot make progress without accelerated **internationalisation**. Slovenia is still relatively closed country particularly when talking about higher forms of international business. The achievement of fast growth and economies of scale for small countries is today possible only in niche production that has to be marketed globally. This requires a lot of knowledge, developed international contracts, developed domestic sector of business services, regulations that support inward and outward direct foreign investment, and an efficient and transparent government administration, etc.

The fourth chapter examines the analysis of indicators of development gaps. At the beginning we deal with methodological problems: discussing the availability of data for international comparisons, grouping and identification of indicators according to goal groups and methodology of international comparisons. Concerning the international comparisons we start from the assumption that the development is by its nature long run and multidimensional. In the methodological section the importance of dynamic analysis is emphasised and a novel statistical measure time distance is introduced. The purpose of introduction of time distance analysis in the analysis of development gaps is not to replace the conventionally used statistical methods and measurements, but in their enhancement and broadening of theoretical and methodological approach. The basis for a sound strategy is a good evaluation of the starting position. In Slovenia these evaluations frequently range from unwarranted satisfaction with the existing situation to unnecessary pessimism. The analysis of time distance will play two roles. The time distance for the past period will provide additional information about the time when for a given indicator the comparison country, region or other unit had the same level of the indicator as Slovenia has at present. From this information it is possible to calculate the corresponding time distance, namely, what is the lead (lag) in time between a given country and the comparison unit, which in this case is Slovenia. This information is independent of the static difference or the rate of growth; it is a fact reflecting one of the possible new perspectives of the degree of development gap. In this way it can serve as an additional analytical method in numerous areas and for numerous indicators. Such broader theoretical view as well as improved semantics are interesting since they introduce a new view on the level of development and welfare inequality and therefore a better analytical basis for value judgements formed on their relative position in society and the

world by individuals and groups at various levels. In this role it can significantly help as analytical, presentational and communication tool for understanding development processes and position in society, both for the preparation of strategy and economic policy as well as for better integration of civil society in these processes.

The relationship between economic growth and level of inequality is one of the most important and most controversial elements characterising individual strategies of social and economic development. It is important that in this theory efficiency and inequality are related in a novel way. Higher efficiency enables higher rate of growth with the same resources, the higher rate of growth with given distribution policy reduces the time distance, which in turn reduces one dimension of inequality and increases social cohesion, higher social cohesion leads to more flexible decision-making for necessary changes, which in turn again leads to more efficient development. Of course we can think of a vicious circle in the opposite direction. The measures that increase economic efficiency thus in an indirect way also help to solve the problem of inequality. In other words, inefficiency furthermore worsens the problem of inequality. This theoretical considerations lead to the conclusion that it will be necessary to view many questions about growth, efficiency and inequality in a new perspective. A more detailed presentation of the methodology can be found in Sicherl (1999b, 1999c, 1999d, and 1999e).

A quantitative comparison of Slovenia with reference countries is presented in the sections related to gross domestic product per capita, macroeconomic stability, selected social indicators, telecommunications and information infrastructure, followed by the comparison of a larger number of indicators and a comparison based on a large number of indicators in the World Competitiveness Yearbook. In the process of selection of the groups of indicators in Section 4.4 (for which time series exist and therefore we could analyse the development gaps between Slovenia and you countries both at the certain moment as well as with time distance) we tried to select a reasonable number of important indicators from various areas: economic indicators (indicators 1-4), demographic indicator (indicator 5), social indicators (indicators 6 and 7), indicators of communication and information infrastructure (indicators 8-10), indicator of mobility (indicator 11) and indicator of environmental pollution (12). If we would limit the analysis only to static comparisons, we could have broadened the analysis to a larger number of indicators. In this summary it is of course impossible, due to the lack of space, to present all the results of quantitative analysis of selected indicators. Tables 4.4.4 and 4.4.5 try to show the summary results of the development gap between Slovenia, EU15 average, Austria, Ireland, Finland, Spain, Portugal in Greece in two dimensions: by time distance and by percentage difference in a given moment (i.e. around 1998, given the availability of data). In the study a comprehensive graphical presentation of results is given.

In the comparison of 12 selected indicators when measured against the average of EU15 the largest differences occur for the indicators GDP per capita according to purchasing power parity and GDP per employee. The basic problem of approaching the EU15 is therefore the increase of productivity of Slovenian economy. Catching up with EU15 average will not be simple. If the growth rates of GDP per capita for Slovenia would be two percentage points above EU average (for example scenarios 5 percent and 3 percent) Slovenia would need 19 years to catch up with the EU15 average.

Table 4.4.4 Magnitude of development gaps between Slovenia and EU15, Austria, Ireland, Finland, Spain, Portugal and Greece as measured by time distance in years
(Slovenia=0, for time distance: -time lag of Slovenia, + time lead of Slovenia)

| Indicator | | EU15 | AUT | IRL | FIN | ESP | PRT | GRE |
|-----------|--------------------------------------|------|-----|-----|-----|-----|-----|-----|
| 1 | GDP per capita (ppp) | -18 | -20 | -7 | -17 | -7 | -1 | 1 |
| 2 | GDP per employed | -17 | -15 | -8 | -9 | -12 | 5 | 0 |
| 3 | Exports per capita | -3 | -10 | -12 | -8 | 5 | 8 | 15 |
| 4 | Imports per capita | -2 | -12 | -10 | -5 | 4 | 2 | 8 |
| 5 | Share of working population | 8 | 7 | 10 | 8 | 6 | 7 | 7 |
| 6 | Life expectancy (female) | -12 | -9 | -2 | -10 | -18 | -1 | -11 |
| 7 | Infant survival rate | 0 | -2 | 4 | -6 | 3 | 4 | 3 |
| 8 | Telephones per capita | -12 | -12 | -2 | -17 | -4 | -2 | -9 |
| 9 | Mobile phones per capita | 0 | -1 | -1 | -3 | 0 | -1 | 0 |
| 10 | Internet hosts per capita | -2 | -2 | -1 | -4 | 1 | 2 | 3 |
| 11 | Cars per capita | -8 | -7 | 5 | 0 | -1 | -2 | 9 |
| 12 | Emissions CO ₂ per capita | 6 | 26 | 19 | 29 | -1 | -2 | 5 |

Source: own calculation

Table 4.4.5 Magnitude of development gaps between Slovenia and EU15, Austria, Ireland, Finland, Spain, Portugal and Greece as measured by percentage difference around 1998
(Slovenia=0, positive value higher than Slovenia, negative value lower than Slovenia)

| Indicator | | EU15 | AUT | IRL | FIN | ESP | PRT | GRE |
|-----------|--------------------------------------|------|-----|-----|-----|-----|-----|-----|
| 1 | GDP per capita (ppp) | 47 | 68 | 50 | 50 | 15 | 4 | -1 |
| 2 | GDP per employed | 38 | 48 | 43 | 38 | 26 | -15 | 0 |
| 3 | Exports per capita | 27 | 78 | 271 | 104 | -29 | -36 | -76 |
| 4 | Imports per capita | 15 | 95 | 142 | 43 | -23 | -14 | -54 |
| 5 | Share of working population | -4 | -3 | -6 | -4 | -2 | -3 | -3 |
| 6 | Life expectancy (female) | 2 | 3 | 0 | 3 | 4 | 0 | 3 |
| 7 | Infant survival rate | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 8 | Telephones per capita | 41 | 35 | 13 | 53 | 11 | 5 | 42 |
| 9 | Mobile phones per capita | 20 | 82 | 52 | 161 | 21 | 69 | 25 |
| 10 | Internet hosts per capita | 71 | 103 | 56 | 700 | -19 | -42 | -45 |
| 11 | Cars per capita | 22 | 22 | -20 | -2 | 3 | 11 | -38 |
| 12 | Emissions CO ₂ per capita | -26 | -12 | -47 | -76 | 10 | 26 | -18 |

Table 4.4.6 Ranking of EU15 countries and Slovenia for 8 groups of indicators

| | LUX | DAN | BEL | AUT | DEU | FRA | NED | ITA | SVE | UK | FIN | IRL | ESP | PRT | GRE | SLO |
|----------------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|----|-----|-----|-----|-----|-----|-----|
| Overall rank | 6 | 12 | 20 | 18 | 8 | 19 | 4 | 30 | 9 | 15 | 3 | 7 | 24 | 29 | 32 | 35 |
| Domestic economy | 3 | 13 | 22 | 15 | 11 | 10 | 7 | 29 | 16 | 18 | 5 | 2 | 24 | 23 | 27 | 25 |
| People | 11 | 10 | 17 | 9 | 21 | 22 | 15 | 31 | 14 | 24 | 2 | 18 | 27 | 25 | 33 | 28 |
| Infrastructure | 15 | 10 | 17 | 12 | 11 | 16 | 6 | 30 | 5 | 18 | 2 | 19 | 23 | 29 | 34 | 28 |
| Management | 9 | 7 | 13 | 16 | 14 | 23 | 2 | 28 | 3 | 20 | 4 | 8 | 30 | 36 | 34 | 31 |
| Science, technology | 20 | 10 | 19 | 21 | 4 | 7 | 8 | 30 | 5 | 14 | 6 | 17 | 26 | 36 | 39 | 40 |
| Finance | 5 | 2 | 16 | 17 | 6 | 19 | 3 | 27 | 13 | 8 | 7 | 14 | 20 | 23 | 30 | 42 |
| Internationalisation | 3 | 15 | 10 | 12 | 5 | 11 | 4 | 16 | 13 | 6 | 7 | 8 | 14 | 22 | 31 | 45 |
| Government | 12 | 21 | 40 | 25 | 28 | 41 | 7 | 46 | 33 | 17 | 9 | 3 | 18 | 34 | 37 | 45 |

Source: IMD 2000, p.28-29

Recent best performance in the EU was the example of Ireland that has from a similar static relative difference in GDP per capita reached the average of EU15 in about 6 years time. However, Ireland has at least three times higher exports per capita as Slovenia and at least ten years of lead in this indicator at the Irish export growth rates. It is clear that if Slovenia does not succeed to change the conditions for achievement of development consensus and at the same time substantially improve the situation with respect to group of indicators concerning government, internationalisation and finance, there is no possibility that we would be able to repeat the Irish experience in the approaching or catching up with the EU15 average.

With respect to human resources, where Slovenia is lagging behind the EU15 average, it is necessary in the first place to increase the level of education and to prepare all generations for lifetime learning and fast changes in the working conditions and participation. Here as well it is necessary to bring about the changes in the people mentality and to prepare conditions for much more dynamic and flexible way of work and entrepreneurship. The danger in this respect is indicated by the survey replies about the adult illiteracy where a large part of respondents replied that they don't want to participate in any further education (Mohorčič, 2000). The analysis of indicators by time distance revealed another important conclusion: life expectancy of females and particularly males lags more than one decade behind the EU15 average; while the infant mortality in Slovenia is at the EU15 average. In spite of the stagnation of population Slovenia has a higher share of the age group 15-64 (which statistically is defined as the population in the working age) in total population, while at the same time this potential is both quantitatively and qualitatively less efficiently used as compared to EU15 average.

In the field of telecommunications and information infrastructure for all three analysed indicators Slovenia lags behind EU15. It also lags behind the six individually compared EU countries, the exception are Internet hosts where Slovenia is ahead of Spain, Portugal and Greece. The basic problem is, of course, the purpose and contents of the use of this infrastructure but we have to be aware of the fact that in spite of the very high rates of growth Slovenia is still lagging in these areas. However, the time distances are small because of the high dynamics of this phenomenon. Slovenia should not afford the absence of a clear strategy in such an important area and leave the development to spontaneous forces. In the area of environmental pollution Slovenia as a less developed country is better off concerning the emissions of CO₂ per capita relative to the EU15 average, while at the same time it is in a worse position concerning the emissions per unit of GDP and in terms of energy intensity. The Tables 4.4.4 and 4.4.5 and numerous graphs in the study enable a large number of comparisons between Slovenia and these countries for selected indicators. Later during preparation of Slovenian development strategy and development program it will be possible to supplement these selected indicators with indicators for individual areas and sectors which are being studied in more detail by other research institutions in the framework of development strategy preparation.

We shall limit ourselves in this summary to the most important conclusions. The time distances between Slovenia and the group of three countries in EU15, which according to the GDP per capita are significantly below the EU15 average (Spain, Portugal, and Greece), show that Slovenia for the 12 selected indicators does not differ significantly from these countries. Approximately for the same number of cases Slovenia has an advantage in comparison with these countries, or is lagging behind, respectively. Only for three cases Slovenia lags behind one of the countries for more than ten years: 18 years behind Spain and 11 years behind Greece in female

life expectancy and 12 years behind GDP per employee for Spain. Even if we look at the percentage difference around 1998 the conclusion does not change. The only two cases out of the 12 indicators for the three countries, where the value of the indicator is 40 percent greater from the value for Slovenia, are the number of mobile phones per capita for Portugal and the number of stationary phones per capita in Greece. For the selected 12 indicators Slovenia and Portugal are very similar; except in two cases in favour of Slovenia, the time distances are nowhere larger than five years. The average time distance is three years. The comparison with Greece shows that Slovenia lags behind only for 3 of 12 indicators. As mentioned before, on the basis of selected hard indicators Slovenia undoubtedly belongs to this group of three EU countries, while with respect to the soft indicators provided in the IMD analysis it lags behind them most for the groups government, internationalisation and finance.

A comparison with other three EU countries particularly interesting for us (Austria as our neighbour, Ireland and Finland as two small countries that turned out to be extremely dynamic economies and have already reached the EU average) is presented also. The time lag of Slovenia behind Austria is 20 years in GDP per capita, 15 years for GDP per employee and 12 years for imports per capita and the number of stationary phones per capita and 10 years for export per capita. In comparison with Austria the differences in economic indicators are greater than the differences in social indicators. Ireland has the greatest advantage against Slovenia in export per capita and import per capita, the values for these indicators are more than three times or two times greater than in Slovenia. The time distance for these two indicators is about ten years, it may increase further if the rate of growth of foreign trade for Ireland will continue to be much higher than in Slovenia. Finland differs from Slovenia most in mobile phones and stationary phones per capita and again in export per capita, which is at least twice as high as for Slovenia. These two comparisons confirm results of other research indicating that Ireland and Finland based their fast approach to EU15 average on the successful breakthrough in export and technology.

In Table 4.4.6 the group of indicators are ranked according to the position of Slovenia among 47 countries analysed in the IMD report. According to these rankings of factors of competitive advantages Finland, Holland, Ireland and Luxembourg are noticeably better than other EU countries. All four countries are small in terms of population and in all groups of competitiveness factors they belong among 20 best-ranked countries in the world. Viewed as a whole, this analysis shows that for the success in a global framework the size of the country is not a necessary condition and Slovenia could learn a great deal from these countries. Therefore it is clear that for the increased level of competitiveness and performance of Slovenian economy it is necessary to start removing those factors, which are the most responsible for blocking the efficiency of the economy. Viewed as a whole, these factors are primarily in the groups government, internationalisation, and finance. In other words, while the final success depends on the combination of various factors on the national, enterprise and individual level there is a large number of factors in the above-mentioned groups that accelerate or hinder economic initiative and success and influence all sectors of economy and society.

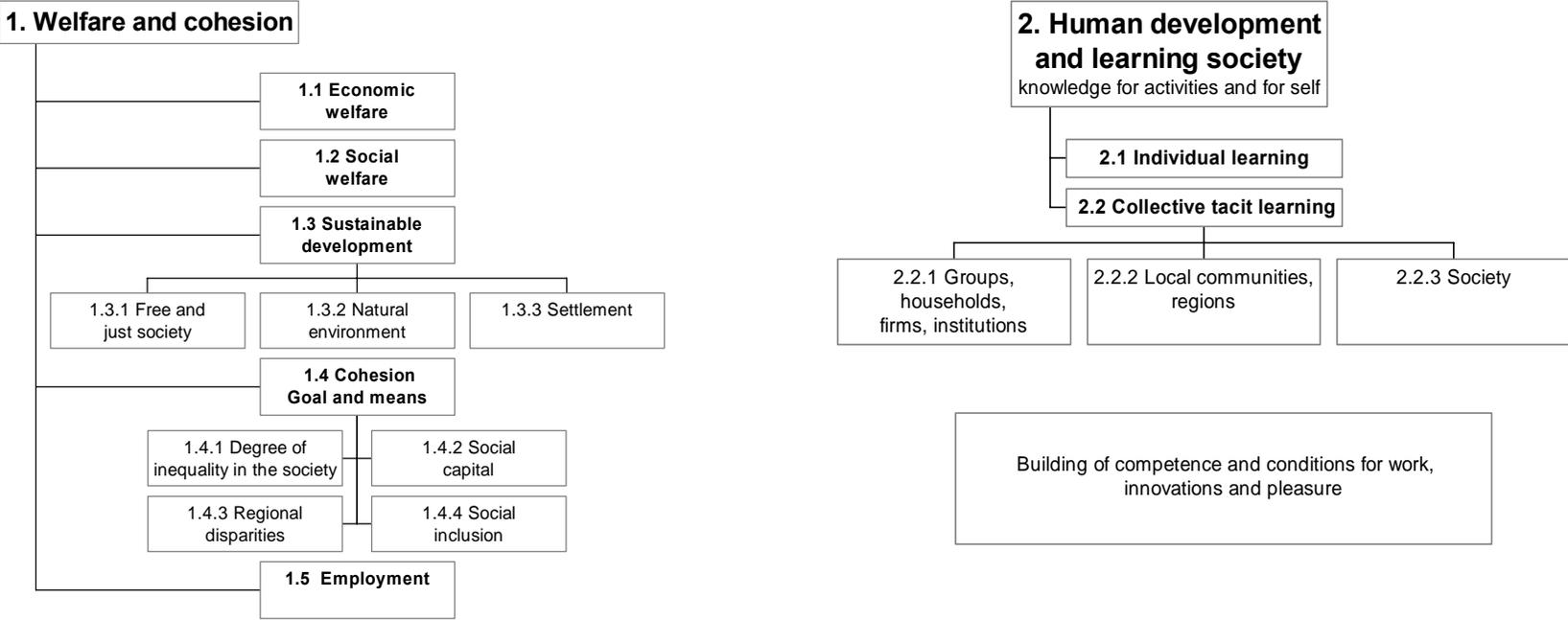
The problem tree is a useful methodological tool at various levels of observation. In this way we can observe problems on five levels: 1. level of individual, 2. level of unit (family, enterprise, institution, interest group, local community, etc.), 3. level of sector, 4. level of region and 5. level of the country as a whole. The sketch of the aggregate goal tree in the third chapter was first

treated on an abstract level. This treatment was followed by the discussion of the problem tree with the examples of possible measures in important selected areas. The level of detail depends on the division of labour between various research tasks and other tasks in the preparations of economic strategy. While sector and area oriented research and reports have defined in more detail the position and policies in their areas, the focus in this study is on the aggregate problems and guidelines. In the fourth chapter the conclusions of quantitative analysis of indicators are helpful for the definition of problem tree, i.e. for the definition of important development gaps and major problems for the development of Slovenia (from general to specific) in the present environment on the fifth of the above mentioned levels. If at the time of accession to the EU Slovenia will have two regions, then similar problem trees would have to be prepared for both regions. While certain elements from the fifth (national) level are important for both regions, a series of problems will be specific for a region and the relative importance of specific problems will be different for individual region. The similar holds true for the sectors.

It is clear that there are several possible useful ways of defining goal tree and problem tree, as there is no single optimal variant that could be defended on technical grounds alone. The purpose of the goal tree and problem tree is to stimulate the dialogue, build up visions and scenarios, compare them with the conditions through successive repetitive procedures, down from the top and up from the bottom, and search for consensus on those alternative scenarios which are then chosen for the final level of decision-making important for both documents: Strategy of economic development of Slovenia and National development plan. It is the process of continuous changes and improvements of the planning process in various forms and levels, which in practice after the acceptance of these documents are carried out in the annual budget documents, implementation of accepted policies, program and project goals, monitoring and evaluation, and corrections in line with the changing conditions. In this research we are at the first step. After the discussion of the fundamental goal - quality of life (which determines the goal orientation for problem tree in the sense that one cannot satisfactorily define problems if one doesn't have the vision of goals) we present the assessment of the initial position of Slovenia and define the relative importance of problems in reaching such goal. The Scheme 4.5.1 symbolises the four most important areas of conclusions based on indicator analysis of development gaps between EU and Slovenia. It represents only a preview of Scheme 4.5.2: the differences in the level of welfare and cohesion are related to the state of potential capabilities of economic and social activities; the differences in the area of human development and learning society; the differences in the achievement of national consensus and in implementation; and the differences in internationalisation of economy and society. The gaps or problems in areas 1 and 2 are very directly linked to the first level of goal tree, while areas 3 and 4 present the major general problems determined on the basis of indicator analysis and experiences of other countries. While the main emphasis is on the differences between Slovenia and EU, for the problem tree is also very important the evaluation of the gap between potential position of Slovenia and the actually achieved position. Priorities originate from the discussion on how these two gaps could be reduced in the most efficient manner or even closed. In the Scheme 4.5.2 the first line in areas 1 and 2 represents important goal definition. In principle we could measure the gaps directly, but for the determination of problem tree it is more important to go to the lower-level goals which condition the achievement of the first level of goals.

Scheme 4.5.1 Scheme of basic elements

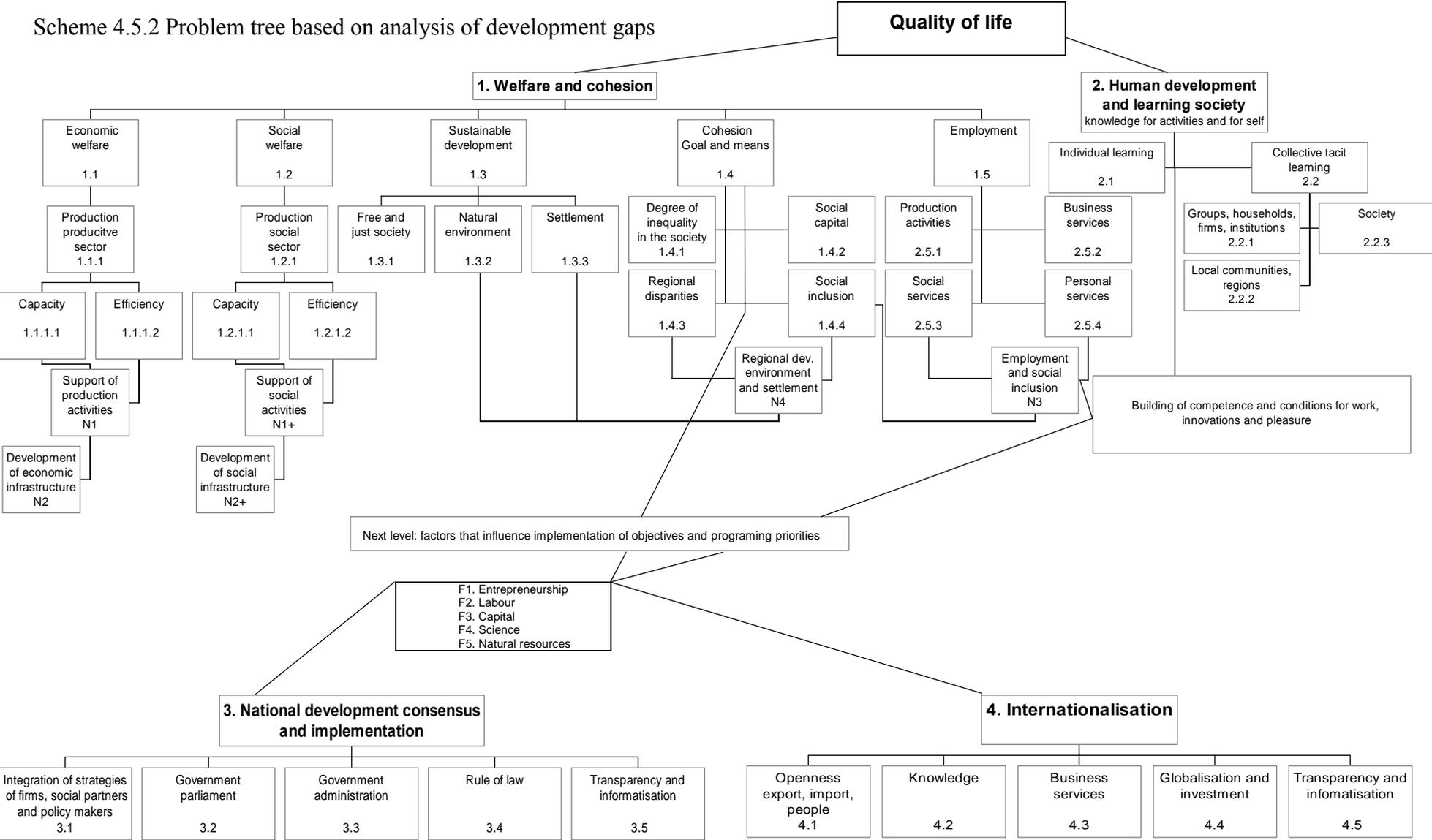
First level of objective tree



Major general problems



Scheme 4.5.2 Problem tree based on analysis of development gaps



Therefore the gap in **economic welfare (1.1)** is primarily the result of the lower economic potential, respectively the lower gross domestic product of the production sector of Slovenia compared to EU (1.1.1). GDP per capita was in the year 1998 for the EU15 average 47 percent higher than in Slovenia. In other words, the value for Slovenia in 1998 was reached by the average of EU15 already 18 years ago. Doubtless this is one of the largest gaps and a summary expression of various causes influencing this result. The first division into components which influence this result is the division into capital intensity (1.1.1.1) and efficiency of productive sectors (1.1.1.2), since the efficiency of production activities will be to a great extent affected by the general problems outlined in areas 3 and 4. The general conclusion follows: given the size of the gap between EU and Slovenia in this area, it makes sense to define two priority tasks: **stimulation of productive activities (N1)** and **development of economic infrastructure (N2)**.

A more detailed definition of problem tree for Slovenia (the problem would be conceptually the same for the problem trees for both regions) at the level of the tasks N1 and N2 depends on the problems that are sector and region specific, and on the problems of general importance for Slovenia as a whole. In general the sector disaggregation can be classified according to more aspects: 1. production sectors, 2. institutional sectors, 3. the size of units, and 4. consumer sectors. Given the sector characteristics the ministries will have to, when preparing the problem assessment, programs, laws, regulations or projects, take into account these aspects according to specific conditions. This study can be together with numerous other studies, which are being prepared in support of development strategy and development programs, of help in initiating the discussion on some general problems. This can then as a feedback influence the final definition of the problem tree for the needs of development programs.

In the second goal area, **social welfare (1.2)**, social indicators can measure some elements of welfare more directly than it is the case with economic welfare. The most elementary indicator of the situation in this area is life expectancy. Female life expectancy in Slovenia lags 12 years behind the EU15 average; male life expectancy lags even more. These are differences that in a synthetic manner reflect the final results of influences, such as the intolerance in society, the lack of cooperation, and effects of alcoholism, suicides and traffic accidents. This is thus one of the key weaknesses and key gaps relative to EU, which according to the importance we should rank immediately behind the differences in production, i.e., in GDP per capita. Also in the area of education and health we find important gaps relative to EU. The other research in areas of social development will show in more detail the development gaps and will specify the problems in more details in terms of the capital resources and efficiency of the use of resources in the social sector, but at the time of writing this report such research results were not available. The basic conclusion is nevertheless clear even on the basis of the above mentioned indicators: in a similar way as the development gaps with EU15 have dictated two priority tasks in the area of production activities (N1) and development of economic infrastructure (N2), the development strategy and development programs must set up two priority tasks for **the stimulation of social activities (N1+)** and **the development of social infrastructure (N2+)**.

Sustainable development (1.3) is an important goal of socio-economic development. Sustainable development is not easily defined. The Scheme 4.5.2 shows three main elements of sustainable development: free and egalitarian society (1.3.1), natural endowments (1.3.2) and settlement (1.3.3). The classification of elements of sustainable development could be

structured differently, and a more detailed analysis of these elements is expected from other studies commissioned for the preparation of the SGRS and DRP.

Economic and social cohesion (1.4) is a very important element in the new paradigm of the learning society and it is also one of the explicit goals in the development of the EU. Among the various elements, which economic and social cohesion brings into the discussion on economic and social development, we decided to highlight four of them. These are the degree of social inequality (1.4.1), social capital (1.4.2), regional disparities (1.4.3) and social inclusion (1.4.4). Slovenia's position in regard with these elements varies in relation to EU15 average. In regard to the social inequality, two statistical indicators, Gini coefficient and poverty rate (Hanžek, Javornik, Gregorčič, (2000)) show that in mid-1990s Slovenia had better position than EU15 average. Social differentiation is in Slovenia at present increasing, however, these indicators are still under the EU15 average. Regional disparities (1.4.3) in Slovenia are considerable and their reduction is an important economic and social goal. At present the differences in GDP per capita by regions are still in line with the EU15 average values. With regard to the problem of regional inequalities in Slovenia, however, one has to consider two important points. First, the reduction of regional disparities will improve economic and social cohesion in Slovenia. Second, this is also one of the main goals of the EU. Social inclusion (1.4.4) is an important element of economic and social cohesion. The elements of social inclusion, however, are changing in time in the process of development in Slovenia and on the global scale (see IMAD, UNDP (1999)). During the first phase of transition the social inclusion in Slovenia diminished due to increased unemployment. For generating opportunities for quality jobs, the development of competencies, working conditions, innovation and satisfaction are of utmost importance. This condition is in the Scheme 4.5.2 defined with the goal of **development of human capital and learning society (2)**. Being one of the necessary conditions for success this defines the third group of high priority tasks: **human resources, employment and social inclusion (N3)**.

The goal of human development and learning society is one of the basic elements of quality of life, on the one hand, and the most important input for economic and social development, on the other. The Scheme 4.5.2 stresses the important distinction considering the acquisition of knowledge in two ways: individual learning (2.1) and collective tacit learning (2.2) that individuals acquire in different groups, families and institutions (2.2.1), local communities and regions (2.2.2) and in the society as a whole (2.2.3). The social capital (1.4.2), which is also the component of social and economic cohesion, can be defined as social capability of citizens and employees for cooperation without significant friction. The situation in Slovenia with respect to social capital is not satisfactory. First, there already exists a substantial gap in individual education in comparison to the EU15 average. Second, continuous education for adults is considerably lagging behind the EU15 average, as well the willingness of adults for continuous education. The problems in the areas of social capital and collective learning from the theoretical perspective of Arrow and Lundvall are even greater. It appears that social capital (1.4.2) in Slovenia represents the weakest point for the objective of economic and social cohesion. Considering the objective of decreasing regional differences in Slovenia and relating this objective to the EU programs, some aspects of sustainable development (1.3) and cohesion (1.4) could be combined into a priority task of **regional development, environment and settlement (N4)**.

We estimate that the most important problem for guiding social and economic processes in Slovenia is to find a suitable way **to achieve substantial improvement in coordination needed for reaching synergy, to introduce the elements of holistic approach and**

sustainable development from the standpoint of the society as a whole, and to set up favourable conditions for reaching the social consensus concerning the development strategy. This standpoint is explained in more detail in Sicherl (1994), Sicherl, Vahčič (1999) in Sočan (2000). In the Scheme 4.5.1 and Scheme 4.5.2 this is shown as one of the most important general problems: **national development consensus and implementation (3)**. Additional arguments can be derived from two sources. The first one originates from theoretical discussions on new development paradigm in the world and at home, and from the experience of successful countries. Experience of Ireland in speedy catching up with the EU15 average owing to the achieved social consensus, is an important example substantiating such approach. Comparing to the four EU countries that have been receiving large amounts of funds from the structural funds, Ireland did, contrary to others, invest most of the funds in human resources and not in the infrastructure (Nicholls, 2000). The second source of the argumentation can be derived from the gap analysis of the selected indicators in this study.

Besides the fundamental problem how to achieve the integration of strategies of firms, social partners and policy makers, four other elements have to be emphasised: the Government and the Parliament (3.2), government administration (3.3), legal order (3.4) and transparency and informatisation (3.5). Out of 47 countries Slovenia reached only 45th position in the IMD study in categories 'government' and 'internationalisation', which poses a serious threat for the success of Slovenia in the process of globalisation. 'Soft' indicators, that are of great importance for efficient economy and society, once again proved to be important weaknesses. Detailed diagnosis of functioning of Slovenian government and public administration is presented in Gmeiner (1999). This implies the need that these elements would be considerably improved as they should be considered as general conditions for implementation of priority tasks and program sets, besides the specific sectoral and regional priorities.

Transparency and informatisation (3.5) are important priorities in the EU, where they emphasise the importance of institutional change and especially administrative reforms in the European Commission that would improve efficiency and transparency. In the study Sicherl, Vahčič (1999) a proposal for preparation of the model of indicators for supporting the decision making and monitoring the implementation has been made. Announcement of goals and indicators should contribute to an easier coordination between public administration, experts and civil society. Preparation of such model of indicators would enable a greater transparency of scenarios for different areas of concern, help the process of determining priorities and enable evaluation of the results. In addition, such a transparent model of indicators would be a useful instrument for discussion and preparation of joint documents with the EU.

Informatisation and transparency are mentioned in two places, (3.5) and in (4.5), as these elements represent a general infrastructure demand, which could not possibly be placed into specific sectors. They are directly incorporated as the element of development of economic infrastructure (N2) as well as social infrastructure (N2+) and as the element of employment and social inclusion (N3), which also includes implementation of tasks on human development and learning society (2). Also in this area the situation in Slovenia is not satisfactory. Introducing information activities in the school system is a positive development, otherwise an active policy in this and many other areas is lacking. However, the differences in computer hardware do not present the biggest problem. According to international experience Slovenia can not afford an absence of clear development strategy in such an important area and simply rely on spontaneous development in this area (Sicherl, 1999c). With regard to the manner of including this area in SGRS and DRP, there exist several alternatives. One

alternative is the inclusion of additional priority task: **strategy of building information society in Slovenia (N5)**. The second alternative would be the direct inclusion among other priority tasks as mentioned above. USA as the country with leading technology and booming economy and at a much higher level of development as Slovenia, showed that relying on the spontaneous development in this field is not an acceptable scenario. What can Slovenia learn from this example? It is necessary for the members of Government and Parliament in Slovenia to understand this message and prepare explicit and operational national strategy of building information society with full cooperation by private and public sectors and civil society. They must also recognise that for the international position of Slovenia in the world economy and for economic and social cohesion within Slovenia it is of greater importance to build information highways to all people than building the motorways across Slovenia (Sicherl, 2000)!

Internationalisation (4) is the second major general problem of development of Slovenia, which was pointed out by the indicator analysis. Also the IMD 2000 study placed Slovenia in the 45th position (among 47 analysed countries) regarding the internationalisation. Among many problems in this area five elements are emphasised: openness, export, import and people (4.1), knowledge (4.2), business services (4.3), globalisation and investment (4.4) and transparency and informatisation (4.5). International comparisons have shown that dynamics and quality of Slovenian exports present one of the essential development gaps. When we compare ourselves with small, fast growing EU countries, where exports per capita are two or three times higher than in Slovenia, we can only arrive at the conclusion that our export goals and results must be considerably higher from those achieved so far. Better business services (4.3) are one of the program sets that deserve special attention. Globalisation and investment (4.4) also reflect insufficient internationalisation of Slovenian economy and society, particularly its qualitative aspects. Compared with other countries, foreign investments in Slovenia have been significantly lagging behind in the recent years. For that reason it is essential to remove unnecessary administrative obstacles.

When the ministries, other research studies prepared for SGRS and DRP, regional agencies and other contributions will enable ZMAR and ARR to define a detailed structure of problems and priorities on sector and regional level, this would lead to background material that would together with ZMAR macro scenarios represent a basis for the future discussions on SGRS and DRP. The preparation of elements that are necessary for implementation of priority tasks and program sets in the case of SGRS and DRP will have to take into account various groups of factors on several decision-making levels. In the Scheme 4.5.2 we can find the usual classification of the groups of development factors: F1. entrepreneurship, F2. labour, F3. capital, F4. science and F5. natural resources. The importance of these factors is, of course, different on different levels. On each level it is also important to find out, how do elements from the two groups of major general problems (that is national development consensus and implementation (3) and internationalisation (4)) affect the possible outcomes and in what way do they represent necessary conditions for efficient combination and use of mentioned factors.

For understanding the role of the groups of problems (3) and (4) in the context of process of preparation of SGRS and DRP it is necessary to elaborate the meaning of F1. entrepreneurship in this study. Entrepreneurship is in the economic literature defined as a factor that generally combines all other factors into optimal combinations for achievement of a certain goal. In this study entrepreneurship should be understood in the broadest meaning of the word. For that reason one of the operational goals is to increase the quality of entrepreneurship in the broadest meaning of the word, that is to accomplish a necessary

change in criteria, decision-making and behaviour at all levels (government, public administration, enterprises, different communities, households and individuals). In other words, if our objective is greater performance and greater satisfaction, then the changes must start in our heads by changing the way of thinking and behaving. To catch up with more developed countries and for a greater welfare in Slovenia one needs resources, vision, knowledge and determination.

The first level of entrepreneurship is thus that of society and country as a whole, together with its ability to reach the objectives of the society in most efficient way. As it was already mentioned in the Section 2.3.3, already the process of goal determination (and later the process of monitoring of development results, which represent the realisation of the chosen development strategy, and comparing them with the objectives) is associated with the question how to compare and set preferences and priorities among various elements of the welfare (besides the problem of relationship between individual and public preferences). This is the essence of one of the major identified problems of development in Slovenia: national development consensus and implementation (3). It could be said that EU requirements regarding the preparation of DRP are an excellent opportunity for the politicians and the public to slowly recognise the importance of overall planning of economic and social development and national consensus. If we were to wait for them to start listening to the Slovenian experts, than the required changes in behaviour could not be expected for a long time. If there is no social consensus on the general direction of development, there is a little chance that everybody would agree on concrete steps and measures necessary for its realisation. On the first level of entrepreneurship thus common objectives, institutional solutions, policy, laws and regulations are formed. On the second level of entrepreneurship program sets for different sectors, problem areas and regions are formed. The third is the project level. Cooperation and trust represent one of the factors of competitiveness, which is generally lacking in Slovenia.

Problem tree at the level of Slovenia as a whole, where the evaluations of the relative magnitudes of a given problem were supported by indicator analysis of development gaps between Slovenia and the EU, pointed out the importance of general factors for reducing the differences: human development and learning society (2), national development consensus (3), internationalisation (4) and cohesion (1.4), especially social capital (1.4.2). These will be (beside the contributions of specific sector and regional elements) the most important elements that will determine the performance of factors used for accomplishing the objectives.