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## **EFFECTIVE MANAGEMENT OF STATE PROPERTY AS PREREQUISITES FOR ECONOMIC DEVELOPMENT**

### **UČINKOVITO UPRAVLJANJE DRŽAVNOM IMOVINOM KAO PRETPOSTAVKA GOSPODARSKOG RAZVOJA**

#### **ABSTRACT**

*The economic crisis that has affected world since 2008 year until today showed, with the need to change the ways of functioning of the private sector, the pressing need for fundamental changes in the manner of functioning of the public sector. Inertia and inefficiency of the public sector in any case do not contribute to overcoming the economic crisis and the orientation to the principles of new public management both worldwide and in Croatia is necessary. New public management involves the introduction of values and principles of the private sector to the public sector in order to improve the competitiveness of the economy as a whole. Accordingly, efficiency, economy and effectiveness should be the basis of the functioning of the public sector. Effective management of state property is certainly the assumption of an efficient public sector and the assumption of rapid economic development. In Croatia, in spite of privatization, the state still owns the assets of great value in the form of stocks and shares in companies and real estate. State property management of the Republic of Croatia has so far been characterized by non-transparency and inefficiency with the constant changes of the legal framework and institutional forms of state property management. This lack of transparency was fertile ground for the development of numerous corruptions and misuse of state property management system. The aim of this paper is to show the possibilities of efficient management of state property as a prerequisite for economic development.*

**Key words:** new public management, public property, state property management, economic development

## SAŽETAK

*Gospodarska kriza koja je zahvatila svijet od 2008. godine pa sve do današnjih dana ukazala je, uz potrebe promjene načina funkcioniranja privatnog sektora, na nužnu potrebu temeljitih promjena u načinu funkcioniranja javnog sektora. Tromost, inertnost i neučinkovitost javnog sektora ni u kom slučaju ne doprinose prevladavanju gospodarske krize te je orijentiranje ka principima novog javnog menadžmenta kako u svijetu tako i u Republici Hrvatskoj nužna. Novi javni menadžment podrazumijeva uvođenje vrijednosti i principa poslovanja privatnog sektora u javni sektor u cilju poboljšanja konkurentnosti gospodarstva u cjelini. Sukladno navedenom efikasnost, ekonomičnost i efektivnost trebali bi postati i temelji funkcioniranja javnog sektora. Učinkovito upravljanje državnom imovinom svakako je pretpostavka učinkovitog javnog sektora i pretpostavka ubrzanog gospodarskog razvoja. U Republici Hrvatskoj, unatoč provedenoj privatizaciji, država je još uvijek vlasnik imovine velike vrijednosti bilo u obliku dionica i udjela u poduzećima, bilo u nekretninama. Upravljanje državnom imovinom u Republici Hrvatskoj do sada je bilo obilježeno netransparentnošću i neučinkovitošću uz stalne promjene zakonskih okvira i institucionalnih oblika upravljanja državnom imovinom. Upravo je ta netransparentnost bila plodno tlo za razvoj korupcije i brojne zloupotrebe u sustavu upravljanja državnom imovinom. Cilj ovog rada ukazati na mogućnosti učinkovitog upravljanja državnom imovinom kao pretpostavkom gospodarskog razvoja.*

**Ključne riječi:** novi javni menadžment, državna imovina, upravljanje državnom imovinom, gospodarski razvoj

### 1. Introduction

The economic crisis that has affected world since 2008 year until today showed, with the need to change the ways of functioning of the private sector, the pressing need for fundamental changes in the manner of functioning of the public sector. Inertia and inefficiency of the public sector in any case do not contribute to overcoming the economic crisis and the orientation to the principles of new public management both worldwide and in Croatia is necessary. New public management involves the introduction of values and principles of the private sector to the public sector in order to improve the competitiveness of the economy as a whole. Accordingly, efficiency, economy and effectiveness should be the basis of the functioning of the public sector.

Many world states own the large amount of property that can be most severely divided into two broad groups (financial and non-financial assets). The development of the economic crisis trend of declining of state assets, which was based on privatization processes, stops and even comes to increasing of state assets, whether financial, or non-financial. According to Pargendler (2012) this is best shown by the fact that SOEs are now responsible for approximately one-fifth of global stock market value, which is more than two times the level observed just one decade ago. Given the fact that state assets primarily represents infrastructure and state-owned enterprises are primarily concerned with infrastructure activities, their importance for economic development is immeasurable. Effective management of state property is certainly the assumption of an efficient public sector and the assumption of rapid economic development.

In Croatia, in spite of privatization, the state still owns the assets of great value in the form of stocks and shares in companies and real estate. State property management of the Republic of Croatia has so far been characterized by non-transparency and inefficiency with the constant

changes of the legal framework and institutional forms of state property management. This lack of transparency was fertile ground for the development of numerous corruptions and misuse of state property management system.

The aim of this paper is to show the possibilities of efficient management of state property as a prerequisite for economic development. This paper is organized as follows. Section 2 describes definition of state asset and shows the scope of state asset in world economy. Section 3 presents institutional framework of state asset in Republic of Croatia. Section 4 deals with the current scope of state asset in Republic of Croatia. Section 5 brings guidelines for effective management of state assets in the Republic of Croatia. Finally, Section 6 presents our conclusions.

## **2. Scope and definition of state asset**

Due to the economic crisis and increasing pressure on state budgets due to falling revenue, but also because of increased costs (primarily financing costs) world states put in the focus state assets and the possibilities of increasing the revenue from it, either through more efficient use or through sale or privatization. According to System of National Accounts 2008, provided by the European Commission, International Monetary Fund, Organisation for Economic Cooperation and Development, United Nations and World Bank, an asset, financial and nonfinancial, is a store of value; only economic assets are recorded on the balance sheet. According to Bova et al. (2013:33) an asset represents a benefit, or series of benefits, accruing to the economic owner, and is a means of carrying value forward from one accounting period to another. Economic assets generate value either through use in production (e.g., an office building where employees work), or by being held over a period of time (e.g., a parcel of land held as an investment). (Bova et al., 2013:33)

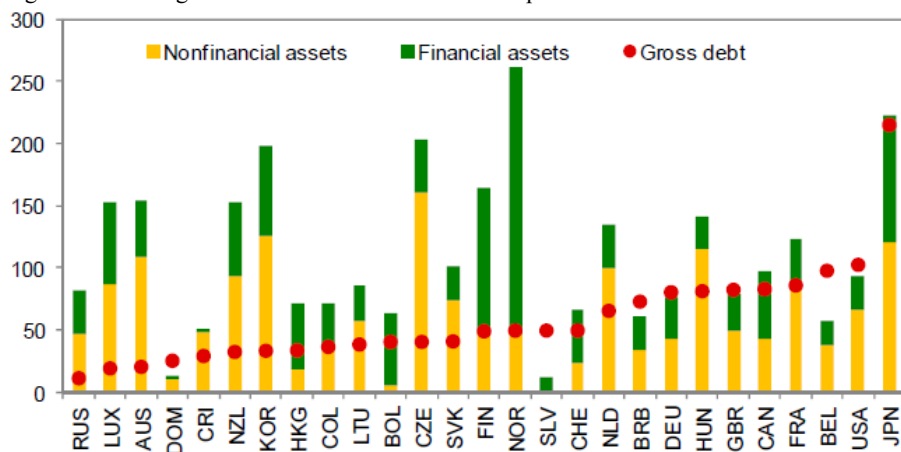
Economic assets can be classified as financial and nonfinancial (Bova et al., 2013:34):

- Financial assets are not generally tangible and consist of items for which a financial claim exists, that is, there is a counterpart liability. The financial claim usually arises from a contractual arrangement, for example, currency and deposits, bonds, loans, or Special Drawing Rights, upon which the value of the financial asset may be based. Also, ownership of corporations (in stocks or other forms of ownership) is considered a financial asset.
- Nonfinancial assets are largely tangible in nature and are subdivided into two main categories: produced and nonproduced.
  - Produced assets are generally tangible in nature and are created or constructed as a result of the economic production process. They include fixed assets (buildings, machinery and equipment), inventories, intellectual property products, and valuables (artwork, precious metals, and jewellery).
  - Nonproduced assets may be tangible or nontangible and include: natural resources (oil, natural gas, and minerals); contracts, leases, and licenses; and purchased goodwill and marketing assets (trademarks).

The volume and value of state assets varies from country to country. These variations stem from the historical, political and ultimately economic reasons. In fact it is very difficult to estimate the volume of state assets because, on the one hand, many states do not keep accurate statistics and lists. On the other hand, where there are lists of the assets, there are problems in assessing its value. The problem of valuation is particularly pronounced for non-financial assets, where different methods can give very different results from country to country.

According to Bova et al. (2013:33), as shown in Figure 1 for selected countries, nonfinancial assets are usually higher than financial assets, and total assets typically exceed general government gross debt. Nonfinancial assets surpass financial assets on average, by a ratio of 1.2 to 1.3.

Figure 1 General government assets and liabilities as percent of GDP



Source: Bova et al. (2013:13)

### 3. Institutional framework of state asset in Republic of Croatia

Acquisition, management and disposal of assets owned by the Croatian government is prescribed through numerous laws and regulations. According to the Strategy on management and disposal of assets owned by the Republic of Croatia for a period of 2013.upto 2017. (Strategija, 2013) there is as many as 43 laws and regulations. The basic law governing the management and disposal of state assets is a Law on the management and disposal of assets owned by the Republic of Croatia (Narodne Novine, 94/2013).

Law on the management and disposal of assets owned by the Croatian Republic of Croatia regulates (Zakon, 2013):

- the management and disposal of assets owned by the state,
- establish the forms of state property,
- principles of managing state assets,
- the documents for management of state assets,
- the manner and conditions of management and disposition of shares and interests that make up the state assets in companies,
- the manner and conditions of management and disposition of real estate assets that form the,
- the scope and authority of the State Office for State Property Management in the management and disposal of state assets,
- delineation of powers in the management and disposal of state property between the state offices, ministries and companies who have been given special powers and laws,
- establishment and maintenance of the Register of state property,
- establishment and organization of the Centre for the restructuring and sale, its scope and the public authority,

- monitoring and inspection and other issues in this regard.

State Property Management in the Republic of Croatia is entrusted to a number of state institutions whereby management efficiency is very questionable. According to the Strategy (2013) state-owned assets in Croatia is currently managed by:

- Ministries,
- State Office for State Property Management,
- Agency for State Property Management,
- Agency for Transactions and Mediation in Immovable Properties,
- Croatian Institute for Pension Insurance,
- Croatian Institute for Health Insurance,
- Fund for restitution,
- other funds, agencies, companies and legal entities.

According to the law (Zakon, 2013) State Office for State Property Management is the central body for the management and disposal of state assets and coordinating management and disposal of assets owned by the state in relation to central government bodies and other bodies or legal persons established by special laws, which are holders, or dispose of property owned by the state. Documents of management and disposal of state assets are Strategy on management and disposal of assets owned by the Republic of Croatia, Management plan and Report on the implementation of the Management plan. The strategy defines medium-term objectives and guidelines for the management and disposal of state assets, taking into account economic and development interests, and is brought by Croatian Parliament at the proposal of the Croatian Government for a period of four years. The management plan sets short-term goals and guidelines for management of state assets and implementing measures in order to implement the strategy. It is brought by the Croatian Government for a period of one year. Report on the implementation of the Management Plan, the State Office submits to the Croatian Government for the previous year.

#### **4. Scope of state asset in Republic of Croatia<sup>143</sup>**

When speaking about enterprises, it should be emphasized that at the beginning of the transition process in Croatia there was also launched a process of transformation and privatization of state owned enterprises. In Croatia there was conducted transformation and privatization process of large-scale, however, the extent of state ownership of enterprises remains high. The above is best evident from the analysis of the portfolio as follows (Strategija, 2013):

- In March 2013. the share of state ownership exceeds 50% in only 61 company or cca. 10% of the active portfolio. In remaining 555 enterprises the state's share is below 50% of the shares, which represents about 90% of the active portfolio.
- From a total of 555 companies in 420 minority-owned enterprises are stocks that are fully or partially available for sale, while 135 enterprises there are no shares available for sale, which makes about 24% of the total active state portfolio.
- Majority the portfolio can be divided into enterprises available for sale (total 36 enterprises), companies "under the reservation that are currently not available for sale" (a total of 2 companies) and enterprises of special state interest (total 23).
- According to FINA in 2011., 85 leading enterprises in Croatia had revenues of 228.7 billion kuna, of which 50.1% realized enterprises in foreign ownership (or 114.5 billion

<sup>143</sup>—The analysis looks only at the assets of the central government, without any assets owned by the local government units.

kuna), 25.4% domestic private enterprises (58,1 billion kuna), and the rest is revenue of state owned companies (56 billion kuna).

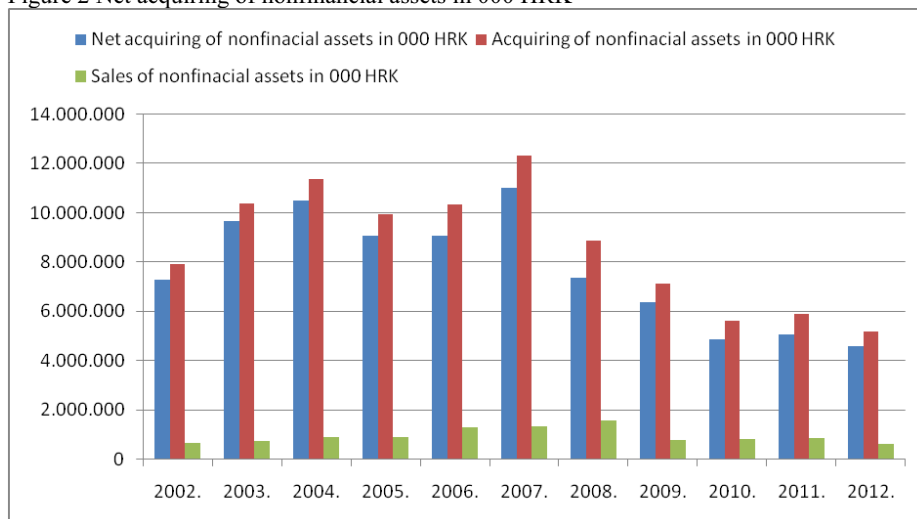
- On the list of 85 largest companies operating in Croatia, 35 are foreign owned, 29 in domestic private enterprises while 21 are state-owned.

When discussing about other forms of property situation is regarding the list of assets a little better after the publication of the register of state property (Registar, 2013). However in the registry assets is listed only in form of appearance, but without valuation. According to data from the register state owns 362.628 of real estates of which (Registar, 2013):

- 2109 buildings and building land,
- 27,790 residential buildings,
- 8,414 businesses buildings,
- 940 of real estate used by government bodies,
- 24 representative residential buildings or villas and
- 630 real estates used for national defence.

About value of previously mentioned assets both for stocks and shares in companies, and for real estate, it's very difficult to talk because there is no established methodology for assessing value. While data on the value do not exist, there is evidence of an increase or decrease (net acquiring) of non-financial assets and stocks and other equities in the enterprises that are shown in Figures 2 and 3.

Figure 2 Net acquiring of nonfinancial assets in 000 HRK

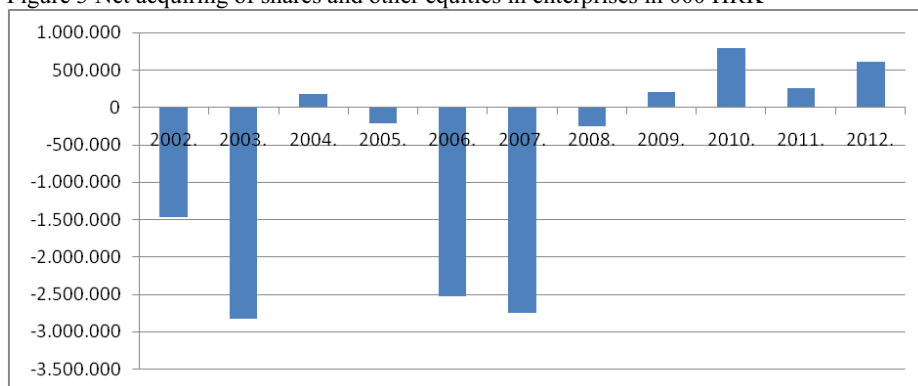


Source: Ministry of Finance (2014)

As shown in Figure 2, the value of non-financial assets owned by the state significantly increases (in this analysis are not monitored changes in the value of existing assets but investing in new assets). However, from this figure can be read out two very important trends. First, the change in value is primarily affected through the acquisition of new non-financial assets, while the impact of the sale of non-financial assets almost insignificant. So privatization efforts in non-financial assets are small, which probably points to the fact that the property is not disposed rational. It also shows that the state in covering the deficit does not

use sufficiently sales of unproductive non-financial assets. Another trend shows that the acquisition of non-financial assets closely related to the economic situation in the country. While in times of economic growth investment in non-financial assets was big (especially for large infrastructure projects in road construction), in times of recession investments are substantially reduced.

Figure 3 Net acquiring of shares and other equities in enterprises in 000 HRK



Source: Ministry of Finance (2014)

Figure 3 also shows two important things. The first is the fact that the government has not achieved higher revenues from privatization except in the case of INA d.d. and Hrvatski Telekom d.d. (2002 and 2003 through the sale to strategic partners and in 2006 and 2007 through an initial public offering to citizens). Another important fact is that since 2008, the beginning of the crisis stopped the privatization trends. These points to the need to strengthen the privatization effort as well as a need for more efficient management of state enterprises in a given situation cannot or do not want to be privatized.

## 5. Guidelines for effective management of state assets in the Republic of Croatia

Due to the very large volume and value of state property and the fact that the economic crisis cannot be expected greater improvements in privatization, it is necessary to put the focus on the effective management of state assets. Strategy (Strategy, 2013) offers basic guidelines for the effective management of state assets for certain types of assets. Below will be analyzed only the most important guidelines.

When it comes to state-owned enterprises (partial or complete), according to Strategy (Strategy, 2013), the primary objective should certainly be complete privatization, except for enterprises of strategic importance. If it is not possible to privatize the state must begin to play a role of active owner. In conducting an active ownership policy state should stick to the world's best standards of corporate governance in state-owned enterprises established by the Organisation for Economic Co-operation and Development (OECD, 2005) result of which should be to increase the efficiency of state-owned enterprises. When it comes to strategic enterprises, given their role and importance, it is necessary to define their role in the overall economic development. Furthermore, in line with European competition law, the state should clearly separate the ownership role from the regulatory role. This ensures conditions for the development of free market competition and the development of private enterprises.

When it comes to real estate, according to Strategy (Strategy, 2013), it is above all necessary to ensure a "clean" initial state ("clean start"). It involves the establishment of a comprehensive list of real estate, synchronizing data in the cadastre and land registers, as well as resolving legal relations to real estate, as a basic prerequisite for the realization of investment projects. Furthermore, all decisions on the management of real estate owned by the state should be based on the greatest possible economic impact and sustainable development. Economically most valuable estate should be put into function. With the donation and sale it is necessary to develop other ways of activating property rights through the provision of construction and usage rights, concessions and the like. It is also necessary to work closely with local units of government in order to establish large areas suitable for investment. This should be done through clustering of building and agricultural land.

## 6. Conclusion

Due to the economic crisis and increasing pressure on state budgets due to falling revenue, but also because of increased costs (primarily financing costs) world states put in the focus state assets and the possibilities of increasing the revenue from it, either through more efficient use or through sale or privatization. The volume and value of state assets varies from country to country. These variations stem from the historical, political and ultimately economic reasons. In fact it is very difficult to estimate the volume of state assets because, on the one hand, many states do not keep accurate statistics and lists. On the other hand, where there are lists of the assets, there are problems in assessing its value.

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