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Public sector property management reform to enhance the economic development: Croatia and Bosnia and Herzegovina current state and international perspectives⁴

Abstract

Property asset management can be defined as the process of decision – making and implementation relating to the acquisition, use, and disposition of real property. This definition applies to both the private and public sectors, even though in the government sector, the term itself was not in common usage until recently. Over last two decades, however, a new discipline has emerged that looks more critically at the important component of public wealth and seeks to apply standards of economic efficiency and effective organizational and resource management. Public sector property management has been regarded as a structured process that seeks to ensure best value for money in serving the strategic public sector needs and enhancing the economic development and competitiveness. There are governments that are only beginning to seek improvements in the management of publicly owned property with a goal of putting into use various types of government asset items, under the supervision of professional management, with a view to ensuring quality public services and welfare to the citizens, governments that have just recently embarked in the long term financial management reforms and strategic public sector property management reform in particular, and governments called “advanced reformers” offering their conceptual and valuable practical experience in the sphere of public property management.

Starting from the concept that public authorities have to be fully accountable to the public and that the whole of government assets need and can be effectively managed, and widely accepted thesis that effective government asset management is a very important generator for creating a supportive entrepreneurial environment, and raising the competitiveness of the entire economy, in this paper we analyse the drivers of international property management reforms in the public sector and provide a comment on public sector property management in developed countries and (post) transition countries. Then we analyse the characteristics of commenced public sector property management reform in Croatia which may be

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³ Croatian Parliament on 14 October 2016 passed the Law on the Organisation and Scope of Ministries and other central government bodies (published in the Official Gazette No. 93/16 and valid as of 16 October 2016). Thereby Central state office for state asset management (Središnji državni ured za upravljanje državnom imovinom) became de iure successor of the State office for state asset management (Državni ured za upravljanje državnom imovinom). In addition, on November the 3rd the Government of the Republic of Croatia released the Proposal on Law on the Organisation and Scope of Ministries and other central government bodies' amendments. On November 11th, the Parliament passed the Law on the Organisation and Scope of Ministries and other central government bodies' amendments (published in the Official Gazette No. 104/16), so as Central state office for state asset management transformed into the newly set up Ministry of state assets, and shall operate as the Ministry of state assets as of November 12th 2016. Hence all titles are used in this paper interchangeably.

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considered as challenges ahead of Bosnia and Herzegovina authorities in structuring their national public sector property management reform, given the current state of play.

Keywords: public sector, asset management reform, property management, economic development, government accounting, Croatia, Bosnia and Herzegovina

JEL classification: H82, H83, G38, 010

1. Background – on public sector property management reform and economic development

The decisive influence on the shaping of public sector management reforms at the country level comes from two sources. The national source defines the specifics that are conditional on one country social system and economic development, as well as on country customs, historical heritage, tradition and culture. The international (EU) sources are harmonization of methodological and legislative frameworks and national public sector management practices, which further lead to both enhancing national reforms and reducing national specifics.

The concept of public sector efficiency is like public sector itself complex and measurable depending on the parameters chosen to measure the efficiency with. Economically speaking, the efficiency of the public sector as an economic unit can be measured as if the subject was any other economic entity, taking into account the inputs (means invested) and output (results, benefits) ratio. The importance of conducting public sector efficiency analysis is additionally pointed out by fiscal difficulties of rising deficit and high public debt. Thus, the efficiency of the public sector need to be observed through creating positive business environment for the development of the private sector, and thereby generating economic growth and raising the competitiveness of the national economy.

According to the Global Competitiveness Report 2015 - 2016, countries in the region experienced only a slight change in ranking compared to results in 2014 -15. The most advanced is Slovenia having repositioned from 70th to 59th place, Croatia and Serbia maintained 2014-15 position, and Montenegro fell from 57th to 70th place. According to 2015-16 data, Bosnia and Herzegovina is ranked 111th out of 140 countries with a score of 3.7, where maximum score is 7, and minimum is 1.⁵

The latest Global Competitiveness Report 2016-2017 data indicate that Bosnia and Herzegovina occupies 107th place (out of 138 states). According to the report such low competitiveness ranking is greatly due to inefficient public administration, corruption perception index level, political instability and instability of the tax system. At the same time, Croatia is ranked as 74th out of 138 countries, mostly due to poor public administration and the instability of the tax system.⁶

Within the context of this paper, the IMD methodology is of much interest because it defines public sector efficiency as one of four key factors underlying the analysis of competitiveness (other three factors being economic results, the efficiency of the business sector and infrastructure).⁷ Not putting much discussion over different grades and indicators of public sector (in) efficiency in various countries in the region, former experiences and current state in Croatia and Bosnia and Herzegovina lead to the conclusion that governments, along with the lack of public sector reform quality, and in particular the quality of public administration

⁵ More detailed in Federal Institute for Development Programming, COMPETITIVENESS 2015 - 2016, Bosnia and Herzegovina; Federalni zavod za programiranje razvoja, KONKURENTNOST 2015 – 2016, Bosna i Hercegovina

⁶ The Global Competitiveness Report 2016–2017, (Ed. Klaus Schwab), World Economic Forum, p.122

⁷ More detailed at the National Council for competitiveness website <http://www.konkurentnost.hr>. Full survey data can be downloaded at IMD World Competitiveness Center website: <http://www.imd.ch/wcy>

reforms regarding corruption policy, have not yet fully recognized nor exploited the real state property potential. Hence, the focus of public finance management is placed on public revenues and expenditures whilst state property as an important economic resource is not given the proper importance.

The effective government asset management is a very important generator for creating a supportive entrepreneurial environment, and raising the competitiveness of the entire economy as well. In addition to reducing the budgetary burden, efficient government asset management implies transparency that leads to legal security for investors and entrepreneurs as asset users and buyers. This, in addition to combating corruption, assures a strong contribution to the business sector efficiency, positive business climate and investment cycle initiation.

Given all the above, there is no doubt that governments should act more accountable for managing a diversified public sector asset portfolio which further result in significant public expenditure reduction and government revenues increase, and thus significantly reduce the tax burden on businesses, investors and taxpayers in general. There is also no doubt that with its membership application to the EU, Bosnia and Herzegovina needs to interpret its competitive position in European contexts.

The paper in particular provides insights into the common drivers of the international public sector asset management effort and the efforts of government asset management reform in Croatia which commenced in 2013. The long term reform evolves conceptually and gradually, from the existing asset management regulatory framework upgrade, integrated strategy outline, EU strategic documents and country-specific recommendations as a part of the EU semester, budgetary accounting regulatory framework, the ongoing asset management practice changes and most importantly the process of developing centralized asset registry model and IT applicative solution.

2. Drivers of property asset management reforms in the public sector

Governments own a vast array of real property – from large stretches of settled and unsettled land to public housing projects, from water distribution systems and roads to office buildings, apartments and business premises, and from infrastructure facilities designed to support the daily delivery of basic services to strategic parcels viewed as cornerstones in the revival of old central cities or building blocks in the economic development of entire regions. During the past two decades it has become more noticeable that there has been an increasing trend – with an international dimension – towards the adoption of asset management approaches by public sector organizations.⁸

The demand for property asset management reform in any given country derives from a unique set of circumstances. However, there have been a few common drivers of the reform effort, easily recognizable across most locations. The first set relate to the internal factors associated with property management practices prior to the introduction of asset management. These include: a lack of a central policy framework; fragmented management of public property assets; economic inefficiencies associated with public property; a lack of information needed for managing property portfolios; accounting reforms; lack of transparency and accountability; entry of real estate professionals into Public property management.⁹ The second set of drivers concerned the external forces that have influenced public bodies and which have forced such bodies to give greater attention to the way they

⁸ Kaganova, O., McKellar J. (eds), *Managing Government Property Assets – International experiences*, The Urban Institute Press, Washington, D.C., 2006.

⁹ More detailed in: Audit Commission, *Public Sector Organization Property Management: A Management Handbook*, London, HMSO, 1988.; Kaganova, O., McKellar J. (eds), *Managing Government Property Assets – International experiences*, The Urban Institute Press, Washington, D.C., 2006.

manage their property assets.¹⁰ Such external force is known in the public administration literature as New Public Management (NPM) which has emerged over the past two decades as the dominant public administration model.

- Lack of central policy framework

Only recently have governments begun to realize the efficacy of implementing broad policies that address the users of these assets as well as the managers. This policy framework must come from the highest levels if it is to be effective. Such a policy framework must be driven by a clear understanding of why a government acquires or retains real property and what steps are required if that need no longer exists.

- Fragmented management of public property and lack of information needed for managing property portfolios

When many government agencies or other entities, such as line ministries, departments, government-owned companies, or special-purpose entities, become involved in managing, financing and using an asset class, the management of these assets is fragmented. A lack of government-wide strategies, policies, and rules exacerbates fragmentation. In practical terms, fragmentation implies that criteria unrelated to asset management effectiveness or efficiency split public property into many portfolios, and these portfolios are managed quite independently. Even if some are managed well, the overall result is suboptimal. Fragmented Management of Public Property Assets led to many specific problems: (a) Public sector organizations not having adequate information about their property. The fact that PSO did not have adequate information about property assets meant they could not make informed property management decisions.; (b) There were no incentives for users to efficiently and effectively manage the properties they occupied as they perceived little benefit in surrendering their vacant or underused properties either for disposal or use by other service areas.

- Economic inefficiencies associated with public property

Economic inefficiencies, including physical and economic underutilization and insufficient maintenance and repair, stem from the fundamental belief, even in capitalist economies, that real property held by a government is a free good, owned by the taxpayers and not subject to the same economic rationalization that occurs in the private sector. Those that occupy or use these assets usually do so with an attitude of perpetual entitlement and see no need for any lease arrangement. In such circumstance, it is difficult for governments to assign monies for maintenance and repair since the improvements in the program performance are difficult, if not impossible, to measure. One source of inefficiency is the presence of large portfolios of vacant or underused properties. Further inefficiencies arise because the real cost of holding an asset, plus the opportunity cost, is seldom accounted for. Tanzi and Prakash (2000) argue that the habit of relating efficiency to public spending, as is generally done, may give wrong results when, as is often the case, public institutions use public sector assets (land, buildings, etc.) without imputing a cost for their use.

- Lack of transparency and accountability

Transparency reforms in public sector real estate transactions lag well behind reforms in government procurement. The lack of reliable information on public assets in place hinders determination of the assets' value, budgeting for asset management activities and evaluating public asset portfolio performance. As a result, assets are managed on an ad-hoc, often reactive basis

¹⁰More detailed in: Ngwira, M., Manese, D. , Public Sector Property Asset Management, Wiley Blackwell, 2016., pp.14.; Kaganova, O., McKellar J. (eds), Managing Government Property Assets – International experiences, The Urban Institute Press, Washington, D.C., 2006.

- Accounting reforms

The reform of accounting practices in the government sector has strongly influenced property asset management. A move to accrual accounting and IPSAS has spread across much of the developed world. Accrual accounting and accounting standards bring greater clarity to how property related costs and property values are recognized and measured over time, but their adoption requires more than a simple change in reporting procedures.

- New public management

The feature that determines the concept New public management is that it assures more efficient management within the public sector in a scope of achieving better results in performing different activities. It is directed to improve efficiency, effectiveness and accountability in the public sector. Implementing norms and business attitudes and manners more common for the private sector, in the public sector, usually means enhancing the role of private sector entities in performing public sector activities - such as managing a public asset portfolio conjoint within a single, central asset register containing a single source of reliable information about each single asset and about assets as a group for the purpose of the efficient use of the asset; financing investments into the infrastructure; organizational and ownership rearrangements of the public sector activities, etc.¹¹

3. Public sector property management in developed countries and (post) transition countries

3.1. International perspectives

It is often stated and cited in the literature that efficient public sector asset management is an important factor for creating a stimulating business environment and improving the overall competitiveness ranking. Most economic policies emphasize that besides the increase in budgetary burdens, efficient public asset management should imply transparency that guarantees legal security to users and investors. In addition to the suppression of corruption, it should increase the efficiency of business sector influencing business climate and kick-starting eagerly desired and needed investment cycle.¹²

Public asset property management is most often referred to a set of strategies aimed at preserving public assets and boosting economic growth by implementing optimal solutions. Government assets ensure the control over natural resources, cultural and other heritage, important trading companies and other resources in the government portfolio, as well as revenues that can be used for common goods. As such, government assets are important tools for achieving strategic development goals in regional, infrastructure, cultural, health and other development policies. Developed countries experiences prove that efficient public asset management encourages economic growth, increases economic stability and improves the overall quality of life.

In terms of state assets disposition and management, in most (post) transition countries financial state assets (shares and stakes in SOEs¹³ and GBEs¹⁴) have been given greater attention and priority. The considerable disorder in property rights enforcement combined

¹¹ In more detail in Roje, G.; Vašiček, D. Government asset management as an element of the economic prosperity in Western Balkans: Croatia's undergoing reform example // Conference proceedings: 10th International Conference Economic Integrations, Competition and Cooperation, "Accession of the Western Balkan Region to the European Union / Kumar, A., Kandžija, V. (ur.). Nica, France : CEMAFI International, 2016. 397-422

¹² Ibid.

¹³ State owned enterprises

¹⁴ Government owned enterprises

with the unawareness of the public authorities that public assets belong to the public, has resulted in unfulfilled public expectations regarding better use of public sector fixed assets. Some public sector property have not been used at all, while some assets have often been claimed as being unproductive without questioning the adequacy and real cost benefit ratio of their usage. Some public assets were sold to cover budgetary gaps, or to gain the sympathies of the electorate for implementation of certain projects.

Overall, efficient public sector property management has not been the prior matter of concern for the public authorities. This resulted in commercial management of public assets being limited to privatization, sometimes concessions and recently public private partnerships, while alternative means of asset usage mainly common to public sector property management are barely considered or implemented in practice.¹⁵ Generally speaking public sector asset management has been to a certain extent limited mainly to the transformation of enterprises in state ownership, privatization, concession granting, donating property to local government units, with little or no concern or activities related to other types of government assets. In the process of transition and privatization not enough attention was given to different types of non-financial (fixed) assets items owned by the state, having claimed them as being nonproductive.

Typically, in (post) transition countries management of public property is highly fragmented with each category falling within a different jurisdiction or bureaucracy, or even with different policies and procedures within a given bureaucracy.¹⁶ In addition, even though the institutional context and the attempted policy solutions often are strikingly different, different classes of property are “managed” according to their own rules, often adhering to traditional practices rather than any assessment as to what type of property asset management was most appropriate, and this is surprisingly similar in different countries.

However, as privatization processes are summing up, (post) transition countries’ governments have started seeking improvements in public property management with a goal of putting into use various types of government property asset items, drawing on developed countries efforts and extensive public property management practice¹⁷. Specific interest has been devoted to the so-called specific public sector property, such as military assets, infrastructure assets, forests, heritage assets, etc.

Deciding about the model (mean) of the property items use is regarded as the precondition for valuation. Purpose and use of the assets is defined depending on the property economic characteristics: marketability of the assets and service potential. Simplified, government fixed assets can be employed in non-profit-oriented use (administrative business use, transfer of ownership and use), profit-oriented use (as shown in Table 1. below).

¹⁵ Grubišić, M.; Nušinović, M.; Roje, G., Towards efficient public sector asset management, *Financial theory and practice*. 33 (2009), 3; 329-362

¹⁶ Kaganova, O., McKellar J. (eds), *Managing Government Property Assets – International experiences*, The Urban Institute Press, Washington, D.C., 2006.

¹⁷ According to M. Grubišić, M. Nušinović and G. Roje (2009) Public asset management policies differ due to cultural and historical heritage, the size of the public asset portfolio, the organisation of general government, the level of democratisation, the perceptions of the public management role and public sector accounting practices. Despite these differences, there are some common preconditions that are considered necessary for conducting public asset management activities efficiently. These are: a public asset registry, public asset classification, public asset recognition and measurement, public asset portfolio construction, institutionalisation and professionalism in public asset management, and cost and outcomes measurement. These preconditions (public asset recognition and measurement, and cost and outcomes measurement in particular) depend on the existence and quality of the regulatory financial reporting framework.

Table 1. Alternative use of public sector fixed asset classes

Profit – oriented use			
Land, forests, fields, vineyards	Constructions	Infrastructure assets, mineral resources	Heritage Asset
<ul style="list-style-type: none"> ▪ concession ▪ investment ▪ sale ▪ lease 	<ul style="list-style-type: none"> ▪ concession ▪ investment ▪ sale ▪ lease 	<ul style="list-style-type: none"> ▪ concession ▪ investment ▪ partial sale ▪ lease 	<ul style="list-style-type: none"> ▪ investment ▪ lease

Source: authors' selection

3.2. State property asset management in Bosnia and Herzegovina

The complexity of the political, territorial and legal structure of Bosnia and Herzegovina significantly hinders the efficient functioning of the state in its entirety. Even the comprehensive consideration of certain economic resources and processes is often unreliable due to information inconsistencies. An example of such situation is the consideration of the total coverage of state assets, in physical terms and value amounts. However, the analysis of available legislative and expertise resources drives to the conclusion that the process of managing the state assets at the level of the Republic of Bosnia and Herzegovina is "stuck" in its initial phase, still lacking precise definition of assets owners and ownership, as the precondition for determining further property rights and obligations. In such a situation, the disordered relationship or conflict of property economic ownership and property *de iure* ownership has been present. Thus, considering legal, political and economic aspects, there are many discussions, dilemmas and controversies regarding the topic of public sector asset management.¹⁸

The state of play regarding this matter are succinctly and concretely expressed through comments and recommendations in the State audit Office Report on Budget Execution of institutions of Bosnia and Herzegovina (The Report)¹⁹, which are discussed and partially quoted in the proceeding paragraphs. The Report points out the state of play of state property management issues and dilemmas, and articulates that they mostly relate to the following:

- *Unresolved status of the state property and not defined matter of who is the owner of the whole of property of Bosnia and Herzegovina institutions.* The report points out the legal status being the political question as it regards the Agreement on succession of the former Yugoslavia²⁰ and the matter of the territorial principle, where the territorial principle further refers to the question if the property is now the property of Bosnia and Herzegovina or of

¹⁸ i.e. Mehmedović, E.: Državna imovina u Bosni i Hercegovini: državno ili entitetsko vlasništvo, javnopravni pogled http://fcjp.ba/templates/ja_avian_ii_d/images/green/Emir_Mehmedovic.pdf; Ena Gotovuša: Pitanje državne imovine u BiH postoji li rješenje?

http://fcjp.ba/templates/ja_avian_ii_d/images/green/Ena_Gotovusa.pdf; Ervin Mujkić: Državna imovina u Bosni i Hercegovini – geneza problema, University Clinical Center Tuzla, Research gate.

¹⁹ Ured za reviziju institucija BiH, Izvješće o izvršenju proračuna institucija BiH za 2014., Broj: 01/02/03-08-16-1-784/15

²⁰ Sporazum o sukcesiji, Službeni glasnik BiH broj 43, 31.12.2001. godine

the entities (i.e. The Serbian Republic of Bosnia and Herzegovina²¹, Federation of Bosnia and Herzegovina²², local units). More precisely, the Agreement on Succession identified the rights, assets, payables of all former Yugoslavian states as legal successors. This included a significant part of immovable (fixed) property that was under a contract assigned and allocated to Bosnia and Herzegovina. In addition to the aforementioned property, the state of Bosnia and Herzegovina possesses the property gained based on being a legal succession to the Socialist Republic of Bosnia and Herzegovina, regardless of property's location.

- *Lack of appropriate and transparent legislation (acts and subordinated set of regulations, such as decrees).* The law on state assets, which would solve the questions of asset management and therefore the use of state property, has still not been passed. Thus, this area has not yet been set under the comprehensive regulatory framework. The absence of legislation ultimately made adverse consequences related to the state property management, control, monitoring processes and unauthorized asset disposition thereof. Taking into account that effective measures to protect the interests of Bosnia and Herzegovina and its subdivisions from the potential damage of further disposition of state property, prior to the enactment of appropriate law on asset management have not been taken, the High Representative issued in 2005 the Law on the temporary prohibition of disposition of state property of Bosnia and Herzegovina. The Law application was later adapted and amended with numerous exemptions and disputes.

- *The data on assets is inconsistent and/or inaccessible.* The incompleteness of records of public assets partly results from the inherited disorder in land registries. The disorder in the records is also a consequence of inconsistent legislation, which has allowed rights but has rarely imposed the obligations related to the disposal of specific assets on the various beneficiaries. Situation is somewhat better at entities level but studies have tried to include the property of the Republic of Bosnia and Herzegovina.

- *Property asset management has been inefficient.* The lack of reliable information on public assets in place hinders determination of the assets' value, budgeting for asset management activities and evaluating public asset portfolio performance. As a result, assets are managed on an ad-hoc, often reactive basis.

Since the Law on the temporary prohibition of disposition of state property of Bosnia and Herzegovina was followed by numerous exemptions and disputes, the State audit Office recommended once again that all competent authorities take the necessary steps for the adoption of relevant legislation to result in a definite solution to ensure proper management of state property. Given that, there is no certainty that the Law on State Property at the level of Bosnia and Herzegovina shall be brought in a short and mid- term notice; the Office expressed the opinion "that it is necessary to take steps with a purpose of overcoming the existing situation, and in order to forestall adverse consequences to state property." The issue of resolving the status of the property is viewed as the most important problem for proper conducting the inventory and recognition of assets (resources). There has not been a significant progress made in listing the asset items, although a working group to list the property was formed in 2009 according to the decision of the Council of Ministers. It was later that the list of state property was carried out, under the Office of the High Representative (OHR) in Bosnia and Herzegovina funding, and it contained documentation submitted by public registers of the entire Bosnia and Herzegovina. However, "the listed data has not been considered by the competent authorities, nor it is confidently known exactly how much asset has not formed part of the inventory made " According to the

²¹ Republika Srpska

²² Federacija Bosne i Hercegovine

presented data, one can conclude that still no single overall records of assets of Bosnia and Herzegovina exists and that puts into question the accuracy of the presentation of financial statements of Bosnia and Herzegovina. Due to the mentioned unresolved ownership issue, state property has not been recognized in the General Ledger of the Bosnia and Herzegovina institutions, which makes the process of listing the assets and determine its actual state difficult. Due to the mentioned unresolved ownership issue, state property has not been recognized in the General Ledger of the Bosnia and Herzegovina institutions. Thus, The State Budget General Ledger fails to incorporate the full data on assets owned by the Republic of Bosnia and Herzegovina, which makes the process of listing the assets and determine its actual state difficult.

State audit Office closing recommendations were that in order to gain fair and real view of balance sheet items prompt actions regarding addressing issues of state property are needed. Also, after the final resolving of state property ownership issue, all items should be recognized, valued and recorded in the books of state institutions, for the purpose of gathering asset records in the State Treasury General Ledger and compiling the consolidated state balance sheet.

3.3. State property asset management reform in Croatia

3.3.1. Background

According to the Budget Act effective as of 1 January 2009, all Government-owned financial and non-financial assets fall under the notion of Government Assets. Pursuant to the provisions contained in the Budget Act, the Government Balance Sheet must mandatorily contain a financial statement indicating the government asset status broken down by economic classification (GFS 2001), in pursuance with the prescribed accounts from the Single Chart-of-Accounts. In accordance with the economic classification total government asset items in Chart of Accounts comprise the following: Non-produced fixed assets; Fixed assets produced; Precious metals and other stores of value; Small inventories; Fixed non-financial assets in preparation; Current assets produced; Cash in bank and on hand; Deposits, security deposits and accounts receivable from employees and for excess taxes, etc.; Accounts receivable for loans extended; Securities; Shares and stakes.²³

As it has been articulated by the Ministry of Finance, government assets in the Republic of Croatia have been classified, recorded and valued in an insufficiently adequate manner. The State Budget General Ledger failed to incorporate the full data on assets owned by the Republic of Croatia, a fact also pinpointed by the State Audit Office in its report on audit of the 2010 Republic of Croatia's State Budget Execution Annual Report. Asset-related data have been recorded in balance sheets, off-balance sheet and analytical records of competent budget and extra-budgetary users, which has been presented in some degree in the consolidated Balance Sheet. While documentation on government assets has been dispersed among various records of the government institutions, records for certain types of government assets are either non-existent or incomplete²⁴. For some public sector assets, it may be difficult to establish their market value because of the absence of market transactions for these assets. Some public sector entities may have significant holdings of such assets.

²³ Naputak o vrsti, načinu prikupljanja i sadržaju podataka i informacija o državnoj imovini za potreba vođenja Registra državne imovine i sastavljanje Balance državne imovine (Ministarstvo financija RH, KLASA: 400-06/12-01/127; URBROJ: 513-05-02/13-7)

²⁴ This is partly due to the fact that legislative and institutional framework of the public sector assets management, including their acquisition, management, allocation and use, has been very complex. That is evident from the fact that the legal framework consists of 41 laws and regulations in force.

While it is very difficult to place a meaningful and reliable value on specific public assets (e.g. heritage assets and natural resources) for the balance sheet, and while the process of valuing such assets might be very expensive, the fact that organizations are required to report on how they are caring for specific public assets will ensure that no one could dispute the assets' value to the citizens (Smith, 2007). The problem of multiple public institutions managing diverse public assets in Croatia and the fact that data shortage and redundant databases resulted in an unwieldy mix of business processes and uncoordinated actions that, together with the lack of accounting and financial expertise in resource and cost allocation practice in the Croatian public sector, prevent public asset management from being efficient, was well discussed by Grubisic et al. (2009).²⁵

For the purpose of gathering asset records in the State Treasury General Ledger and compiling the consolidated state balance sheet, it was deemed necessary to create the register of government assets recognized, valued and recorded in accordance with the international criteria, positive practice and relevant budget classifications applied internationally in the state accounting financial reports. As emphasized in the literature²⁶, one of the basic preconditions for the asset management of a well-compiled government asset registry is the standardization of the presently available but not standardized classifications. The fact that government assets have been classified differently in the Budget Act²⁷ and in the Law on public sector asset management and disposition in the Republic of Croatia, and the database of the Central Register²⁸ have differed from the types of assets listed in the Law on public sector asset management and disposition in the Republic of Croatia²⁹, was acknowledged. Due to the noncompliance with the Act and the need of standardizing the asset classifying methodology, in 2013 the Ministry of Finance issued and sent to public institutions in charge of the government assets management (State office for state asset management³⁰ and Restructuring and sale Center³¹) the *Instruction on types and modalities of collecting data, content of data and information on public sector assets necessary for the management of Government Assets Register and public sector balance sheet*³², and published on MoF

²⁵ M. Grubišić, M. Nušinović and G. Roje: Towards Efficient Public Sector Asset Management Financial Theory and Practice 33 (3) 329-362 (2009)

²⁶ Roje, G.; Vašiček, D. Government asset management as an element of the economic prosperity in Western Balkans: Croatia's undergoing reform example // Conference proceedings: 10th International Conference Economic Integrations, Competition and Cooperation, "Accession of the Western Balkan Region to the European Union / Kumar, A., Kandžija, V. (ur.). Nica, France : CEMAFI International, 2016. 397-422

²⁷ Zakon o proračunu, <https://zakon.hr/z/283/Zakon-o-proracunu>

²⁸ Uredba o registru državne imovine, http://narodne-novine.nn.hr/clanci/sluzbeni/2011_05_55_1207.html

²⁹ Zakon o upravljanju i raspolaganju imovinom u vlasništvu RH, <http://www.zakon.hr/z/655/Zakon-o-upravljanju-i-raspolaganju-imovinom-u-vlasni%C5%A1tvu-Republike-Hrvatske>

³⁰ Državni ured za upravljanje državnom imovinom, <https://imovina.gov.hr/>. Croatian Parliament on 14 October 2016 passed the Law on the Organisation and Scope of Ministries and other central government bodies (published in the Official Gazette No. 93/16 and valid as of 16 October 2016). Thereby Central state office for state asset management (Središnji državni ured za upravljanje državnom imovinom) became de iure successor of the State office for state asset management (Državni ured za upravljanje državnom imovinom). In addition, on November the 3rd the Government of the Republic of Croatia released the Proposal on Law on the Organisation and Scope of Ministries and other central government bodies' amendments. On November 11th, the Parliament passed the Law on the Organisation and Scope of Ministries and other central government bodies' amendments (published in the Official Gazette No. 104/16), so as Central state office for state asset management transformed into the newly set up Ministry of state assets, and shall operate as the Ministry of state assets as of November 12th 2016. Hence all titles are used in this paper interchangeably.

³¹ Centar za restrukturiranje i prodaju, www.cerp.hr

³² Naputak o vrsti, načinu prikupljanja i sadržaju podataka i informacija o državnoj imovini za potrebe vođenja Registra državne imovine i sastavljanja bilance državne imovine

website the *Instruction on valuation, value assessment and registering the Republic of Croatia assets*.³³

3.3.2. The ongoing reform features

An important shift and the reform kick-off commenced in year 2013 when in accordance to the provisions of the Law on public sector asset management and disposition in the Republic of Croatia (The Law), Croatian Parliament devised the Strategy of Government Assets Management and Disposition from 2013 to 2017³⁴ (Official Gazette No. 76/13). The Strategy was the first ever integrated five year public sector asset strategy. The Strategy contained a comprehensive critical analysis and evaluation of the existing model of management and allocation of all types of public sector assets (property items, shares, stakes, other financial assets, etc.) and determined medium-term goals and guidelines for public sector asset management to assure efficient and transparent long-term management and effective utilization of the assets as well as to boost economic growth and protect national interests. In addition, the Strategy pointed out the necessity to register the assessed public sector assets in the public sector accounting as the priority goal and set four main asset management principles: public availability, predictiveness, efficiency, responsibility.

From the 2013 year on the reform evolved conceptually and gradually mostly referring to:

- *Central state asset registry public announcement.* In accordance to the Strategy and Law provisions, in mid-January 2014 Central asset register, though incomplete and comprising of two asset groups/types – shares/stakes and property items, was made publicly available for the first time, and was published on the State Office for state asset management website³⁵. Property items further comprised of several categories: land and buildings, agricultural land, forests and woodland, public water, housing; business premises, property used by government bodies, residential buildings and villas.³⁶
- *Building annual plans outline to operationalize the integrated 5 year strategy and producing annual reports accordingly.* Annual plans and reports are the provisions of the aforementioned Law. Publicly available annual plans and plans' realization reports are as follows: State asset management plan for 2014 (approved by the Government); State asset management plan for 2015 (approved by the Government); State asset management plan for 2016 (still not approved due to the election year and Government failure); Report on State asset management plan realization for 2014 (discussed in the Parliament); Report on State asset management plan realization for 2015 (discussed in the Parliament); State asset management plan for 2017 – to be submitted to the Government.³⁷

³³ Uputa o priznavanju, mjerenju i evidentiranju imovine u vlasništvu Republike Hrvatske.

³⁴ Strategija upravljanja i raspolaganja državnom imovinom za razdoblje od 2013. do 2017. godine (NN, br. 76/13.).

³⁵ <https://imovina.gov.hr/registar-drzavne-imovine/1461>; <http://registar-imovina.gov.hr/default.aspx?action=nekretnine>; <http://registar-imovina.gov.hr/default.aspx?action=dionice>; <http://registar-imovina.gov.hr/default.aspx?action=udjeli>

³⁶ Data regarding specific property items from January 2014 onwards is available at: <https://imovina.gov.hr/istaknute-teme/objavljen-registar-drzavne-imovine/1349>

³⁷ <https://imovina.gov.hr/strategije-planovi-i-izvjesca/1297>

- *Forming part of the National reform program documents (EU strategic document) and country-specific recommendations (EU semester)³⁸, and reporting on quartal basis about the National reform program documents goals fulfilment.³⁹* National reform program measure which regards Improving the disposition and management of state assets forms part of the broader program field Macroeconomic stability and fiscal responsibility. Improving the disposition and management of state assets sets three measures regarding financial assets portfolio and two measures regarding property items (reactivating the state portfolio of apartments, office spaces and land, and redefining the concept and structure of comprehensive state asset records). Main objective and description of the measure Redefining the concept and structure of comprehensive state asset records encompasses ensuring transparent insight into the scope and structure of whole of assets owned by the Republic of Croatia through standardized and comprehensive data model and software upgrade of the existing Central State Assets Registry and long-term transformation of the Central State Assets Registry from administrative towards management oriented system.
- *Three year strategic planning aligned with the MoF mandatory guidance and budget planning process.* This refers to Strategic Plan of State Office for State Asset Management for the period from (a) 2013 to 2015, (b) 2014 to 2016, (c) 2015 to 2017, Revised Strategic Plan of State Office for State Asset Management for the period 2016 -2018 aligned with the National Reform Program for 2016 measures, and midterm six months and annual reports on three year strategic plans execution, all publicly available.⁴⁰
- *The process of developing Information system for state asset management- ISUDIO (the development and conceptual upgrade of the existing Central state asset registry data model and IT applicative solution)⁴¹.* Project goals and features are summarized in gathering a more transparent and more accurate data, reporting to the Ministry of finance in accordance with the budgetary requirements, and electronic data entry. It is a multidisciplinary and interinstitutional project to be performed in three phases, gradually. The first phase refers to constructing the model for property items and the IT solution and connecting to the Land register and Cadastre. The second phase refers to constructing the model for financial asset items and the IT support, whilst the third phase refers to connecting to other publicly available property asset registries (i.e. Concession register, Agriculture land register, Cultural heritage register). Incorporating MoF guidelines meant following the recommendations from the Instruction on types and modalities of collecting data, content of data and information on public sector assets necessary for the management of Government Assets Register and public sector balance sheet and the Instruction on valuation, value assessment and registering the Republic of Croatia assets. This further required modelling the expanded form and logistic table for future data entry on property items (physical data, legal data, economic data – means of property utilization, financial data, and property use outcomes' data), property asset items reclassification and coverage in

³⁸ National reform program for 2016 is available at the Croatian Government website:

https://vlada.gov.hr/UserDocsImages/Sjednice/2016/17%20sjednica%20Vlade/17%20-%201a_novi.pdf

³⁹ <https://vlada.gov.hr/UserDocsImages/Sjednice/2016/42%20sjednica%20Vlade/42%20-%208.pdf>

⁴⁰ <https://imovina.gov.hr/strategije-planovi-i-izvjesca/1297>

⁴¹ <https://imovina.gov.hr/odrzano-prvo-predstavljanje-srednjorocne-podatkovne-i-programske-nadogradnje-registra-drzavne-imovine-1650/1650>

accordance with the unified chart of accounts, and gathering data out of asset users reports.

- *The existing asset management regulatory framework amendments to support the ISUDIO set up.*

In 2016 State Audit Office has recommended local and regional state units to pursue the strategic planning practice and internal registries set up in accordance to the central state reform practice and to assure that their internal data bases (registries) on assets encompass the data required by the Central state asset registry.

Concluding remarks

“In transition countries, different classes of property, and even individual real property assets, are „managed“ according to their own rules, often adhering to traditional practices rather than any assessment as to what type of property asset management was most appropriate. Over the last decade, however, a new discipline is emerging that looks more critically at this important component of public wealth and seeks to apply standards of economic efficiency and effective organizational management.”⁴²

In the last three decades international literature has been mostly focused on the wider context of public sector efficiency as one of key factors of the national economy competitiveness and further more on investigating the role of public sector asset management on the economic development and the efficiency of the public sector, in developed countries. International literature has shown that government assets are important tools for achieving strategic development goals in regional, infrastructure, cultural, health and other development policies. In addition, efficient public asset management is an important factor for creating a stimulating business environment and improving the overall competitiveness ranking. Thus, efficient public asset management is aimed at encouraging economic growth, increasing economic stability and improving the overall quality of life.

Developed countries have spent decades in developing public sector asset management as a long term process which needs both expertise and political support. This paper attempts to emphasize the importance of public sector property management in two post- transition countries where state property management insufficiently contributes to the economic development and has been rather performed on an ad-hoc, often reactive basis, whilst financial asset management has been given priority. General misunderstanding of state property definition, lack of proper state property classification, and mixed authorisation for owning, managing and using the assets, have additionally slowed down the public sector asset reform processes.

In particular, the paper addresses Croatia where public sector asset management reform commenced in 2013, addressing both the institutional – organizational and the accounting and financial reporting issues, and Bosnia and Herzegovina who is beginning to seek improvements in the management of state owned property. Also, having provided insights into the common drivers of the international public sector property management effort, this paper interprets transition countries state and challenges ahead in wider international contexts.

State of play in Bosnia and Herzegovina is unsatisfactory because, in addition to objective problems (i.e. lack of central policy framework and fragmented management of public property that led to lack of information needed for managing property portfolios and

⁴² Kaganova, O., McKellar J. (eds), *Managing Government Property Assets – International experiences*, The Urban Institute Press, Washington, D.C., 2006.

thereafter lack of transparency), the ownership status of property asset is still the unresolved political issue with no agreement yet between the entities. On the other hand, Croatia has intensified the process of improving the management of state property, Report on National program reform activities April – August 2016 has concluded significant progress regarding the measure titled Redefining the concept and structure of comprehensive state asset records, but the efficient model outcomes and system improvements are still to be reached. Taking into account membership application to the EU, Bosnia and Herzegovina needs to interpret its competitive position in international (European) contexts. Croatian experience and approach of conducting long term reform evolving conceptually and gradually, from the existing asset management regulatory framework upgrade, strategic planning and reporting and developing centralized property register model, may be helpful to other countries in the region in order to foster property management reform activities and efficiently reach the finish line - the efficient and effective state property management.

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