National Development Strategy Croatia 2030 Policy Note:

State Asset Management

July 2019
Acknowledgements

This policy note was prepared in the context of the Reimbursable Advisory Services Agreement “Support for Establishing the System for Strategic Planning and Development Management and for Preparing the 2030 National Development Strategy”. The core World Bank team was led by Donato De Rosa (Lead Economist, Team Leader), Josip Funda (Senior Economist, co-Team Leader), and Catalin Pauna (former Team Leader) and included Stanka Crvik Oreskovic (Project Coordinator) and Bogdanka Krtinic (Program Assistant). The team worked under the guidance of Arup Banerji (Country Director), Elisabetta Capannelli (Country Manager) and Gallina Andronova Vincelette (Practice Manager).

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The policy note team thanks the following individuals and organizations in Croatia:

- the Ministry of Regional Development and EU Funds for overall coordination and guidance, especially Ana Odak, the Assistant Minister, and her team;
- the Ministry of State Assets, especially Krunoslav Katicic, the State Secretary and Gorana Roje, the Head of Service and their team for meetings and consultations that have informed the policy note.

Note

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# Contents

1 Introduction ........................................................................................................................................... 4

2 Overview of global trends and societal challenges ............................................................................ 6

3 Overview of developments in Croatia .................................................................................................. 9
  3.1 State Assets in Croatia ......................................................................................................................... 9
  3.2 Governance Model and Institutional Development ........................................................................... 10
  3.3 Recent reform efforts ......................................................................................................................... 11
  3.4 The way forward ............................................................................................................................... 12
  3.5 Results to date ................................................................................................................................... 13

4 Assessment of the main developmental challenges and opportunities for Croatia ......................... 15
  4.1 Reference framework ....................................................................................................................... 15
  4.2 Main challenges ............................................................................................................................... 16
  4.3 Opportunities for development ....................................................................................................... 21

5 Prioritized policy recommendations .................................................................................................... 23

6 Cross-cutting issues and their implications for policy ........................................................................ 35

7 Proposed implementation roadmap ..................................................................................................... 36

8 Proposals for strategic (“Flagship”) projects ....................................................................................... 38

Annex 1: International Case Studies of State Asset Management ......................................................... 42
  Overview .............................................................................................................................................. 42
  Poland .................................................................................................................................................. 44
  The Czech Republic ............................................................................................................................. 47
  Lithuania .............................................................................................................................................. 52

Annex 2: Prioritized Policy Recommendations Table ............................................................................ 57
1 Introduction

The purpose of this policy note is to provide an analytical input and support the consultative process for the preparation of the 2030 National Development Strategy (NDS). The note discusses asset management trends in OECD and new EU member states, summarizes the implementation of public asset management reforms in Croatia, presents current challenges and opportunities and proposes sequenced policy actions for improved management of state assets in Croatia.

The intended audience of this document is the Government of Croatia (GoC), particularly the Ministry of State Assets (MSA), Ministry of Regional Development and EU Funds (MRDEUF), Ministry of Finance (MoF), Ministry of Economy of Entrepreneurship and Crafts (MEEC), as well as other line ministries and specialized public bodies which are tasked with managing the state asset portfolio and asset information systems such as Central State Office for the Development of the Digital Society. It should be noted that the adopted broad scope of the policy note is a result of the ongoing nature of state asset reforms.

Why state asset management is important in general, and why it is for Croatia

International experience indicates that Asset management is important because it can contribute to solving some of the most pressing challenges by governments face:

- The growing opportunity cost of having idle and poorly used capital, as made increasingly evident by the patrimonial accounting included in the new international accounting standards for the public sector.

- The growing costs of maintenance, restoration and otherwise recovering the value of poorly managed public assets. This challenge has been made particularly evident by the costs of post-disaster recovery and reconstruction requirements of public infrastructure –which in some cases have compromised a significant share of public expenditures.¹

- The need to supplement current revenues (primarily tax revenues) with the proceeds of asset utilization. The demand for additional revenues from asset management frequently intensifies at times of fiscal crisis when short term revenues from capital utilization are quickly requested by the government, often in terms of the sale or otherwise transfer of assets. But the need for asset management revenues is also present in stable economies with sustainable fiscal balances. In the latter case, government demand for revenues usually consist of a predictable flow of asset revenues over the medium and long term.

- The need to guarantee basic services –whose sustainability might be more imperiled if left to the markets and the private sector. This is frequently the mission as well as the management orientation of some of the most important SOEs.

- The critical contribution of asset utilization to development goals, as in the case of public lands inserted in a regional development strategy or real estate committed to profiling tourist attractions of a particular location.

¹ OECD (2016) “Managing public asset exposures”, presented by L. Wolf from at OECD-ADBI Workshop on disaster risk financing in Asia, June 24, Tokyo, Japan.
- The need to protect cash, savings, monetary flows and efficiency in allocation of financial and non-financial assets.

- The growing demand for transparency, accountability, effectiveness and efficiency of public policy, as the basis to elevate citizens’ trust in government.

In Croatia, the management of financial and non-financial assets is overwhelming, and the performance is inefficient. The state owns more than 1 million real properties and more than 1,110 majority-owned SOEs. SOEs play an important role in economic activity in terms of both employment (7% of total employment) and GDP (around 10 percent of GVA), yet SOEs generate only around 1 percent of state revenues. Croatia has been struggling to productively use these assets. Between 2008 and 2014 the proportion of government debt levels rose to 84% of GDP (more than doubled).

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2 Estimates based on Fina Database for 2017.
2 Overview of global trends and societal challenges

State ownership remains extensive in new EU member states, providing scope for further improvement in the management of state assets. State ownership dominates various sectors of the economy in a number of new EU Member States such as Poland, Lithuania, and the Czech Republic. Since 1998, trends point to a gradual reduction in the magnitude of public ownership, in terms of both asset portfolio and direct control over business enterprises. Nevertheless, the state continues to control a significant share of output and employment, especially in the network industries (energy, transport and utilities). Further, despite reduction of the state asset portfolio and recent wave of state ownership reforms, State-owned enterprises (SOEs) remain less productive than private firms. The European Commission reports that the financial performance of state enterprises as measured by the return on equity is in most cases substantially lower in SOEs than in private firms.

Box 1:

The asset management experience of Poland, Czech Rep., Lithuania is similar in view of their shared past and transition from a centrally planned economy to a market economy. Until 1989 all properties were state-owned, thus privatization was a critical part of these countries’ transformation process. The wave of privatization and gradual cultivation of the legal framework were key success factors for economic development. In all three countries the wave of privatization of SOEs has slowed down. Current policies aim at improving state assets and SOE productivity and competitiveness, while only holding on to those companies which are of strategic importance to the economy itself. (see Annex 1)

A September 2018 report released by the European Commission, concludes that despite three decades of large-scale privatization, European governments still remain the largest shareholders of firms and, even if public sector holdings account for less than 1% of European firms, their contribution to the regional economy is significant at almost 4% of employment, total assets and value added. The report also indicates that public sector holdings are concentrated in finance, as a result of bail outs following the global financial crisis, and utilities to reduce “conventional” market failures. In addition, it notes that on an aggregate level, the net profits generated by European public sector holdings are positive, but at an individual country level, outstanding liabilities require prudent asset management.

Recent property asset management reforms in the EU have targeted changes in the legal framework and corporate governance practices. These reforms have generally aimed at improving the efficiency and effectiveness of both financial and non-financial assets. Measures range from the modification of the legal framework (institutional and ownership arrangements) and corporate governance of SOEs (including corporatization and separation of specialized, non-core activities) to reduction of the portfolio through the sale of some state assets (shares, stakes and real property) or full

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3 European Commission “State-Owned Enterprises in the EU: Lessons Learnt and Ways Forward in a Post-Crisis Context”. OECD reports that since 2005, more and more countries are changing their organizational model from a decentralized or dual model, where oversight is dispersed among a large number of ministries with only limited co-ordination at the center, to a centralized one.

4 Based on Orbis data from 2016

privatization. Privatization has been pursued by countries with high levels of government debt in an effort to achieve fiscal sustainability and create fiscal space for fresh government policies. Reforms often aim at centralizing the state ownership function in order to establish a single decision making line, and to thus ensure better management performance and greater independence from other state functions (policy-making and regulatory functions).\(^6\) A necessary pre-condition is often to clarify the scope and rationale for state ownership within the context of a broader national development framework (See Annex 1).\(^7\)

Measures aiming to improve the transparency and accountability in the administration of state assets and SOE’s have gained momentum across both developed and developing countries, with the OECD Principles of Corporate Governance\(^8\) becoming the standard for policy makers. SOEAs as a measure to further improve the competitiveness and strategic decision-making of SOEs, as well as increase stock exchange capitalization, some governments have chosen to incorporate them into joint-stock companies.\(^9\) It is noted that the Republic of Croatia has expressed its candidacy and willingness to implement the OECD principles, and has already taken certain preparatory steps.

*Figure 1. Summarizing key lessons and trends from OECD countries.*

Recent Asset Management Policies for Financial and Non-Financial assets

**Expected impact and Overall success indicators:**

- higher return (profit margin)
- Contribution to fiscal sustainability

- Productivity and competitiveness in Network Sectors: energy, transportation and corresponding utilities
- Overall success indicator: higher return on equity (profit margin)

- Reduction and further specialization of Portfolio via sale of State Assets; shares, stake and real estate

- Focus on one critical component of the enabling environment:
  - The Legal Framework:
  - Institutional and Ownership Arrangements

- Focus on Strengthening Governance through
  - Corporatization via single decision making line,
  - Further separation and specialization of activities

- Privatization becomes a Fiscal Policy instrument VIA centralizing the state ownership function in order to establish a single decision making line
- Greater independence from other state functions (policy-making and regulatory functions)

Three key lessons can be drawn from the above diagram. Each one of these three lessons is relevant, in its own merits, for the analysis of current asset management policies in Croatia:

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\(^6\) State-Owned Enterprises in the EU: Lessons Learnt and Ways Forward in a Post-Crisis Context


\(^8\) Croatia has officially submitted a request for accession into the OECD and has shown commitment to adopting the OECD Principles of Corporate Governance. The specific steps are discussed further in the note. OECD membership is not a prerequisite for the application of the guidelines.

\(^9\) Reducing regulatory barriers to competition: Progress since 2008 and scope for further reform OECD 2014
1) **Goal/Policy objective:** To goal should be focused on achieving fiscal sustainability and reducing the opportunity cost of underperforming assets;

2) **Strategic approach:** The goal can be achieved following three sets of government strategies/approaches: i) privatization policies, ii) increasing productivity and competitiveness while keeping assets public, and iii) transitioning from current ownership and management strategies to more efficient forms of asset management; and

3) **Governance model/Institutional development:** The model that worked best to implement the strategic approach was that of centralized specialization.

These three policy avenues contribute to securing an effective and efficient asset management. As presented in the diagram above, the first step governments frequently take is to concentrate asset management under one and the same roof. There is widespread recognition that public asset management cannot be achieved simply by following the ordinary rules of government property and public or private contracts. It is necessary to have a proactive, technically competent management unit responsible for the performance of state assets.
3 Overview of developments in Croatia

3.1 State Assets in Croatia

State ownership is significant in Croatia, with the state shaping economic outcomes across various sectors. Croatia has high levels of public ownership both as a share of GDP and of employment (Figure 2). In terms of real estate, the state owns more than 1 million properties, including 27,000 apartments and almost 11,000 commercial buildings. Approximately 1,149 enterprises were majority-owned by the state in 2016. SOEs are present in all economic sectors, however their financial performance is underwhelming and contributions to budget revenues limited. Between 2008 and 2014, public debt grew from 36.0% of GDP to 84.0% of GDP (Figure 3). The main contributing factors were the accumulation of budget deficits as well as the so-called snow-ball effect.

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10 State assets refer to both financial (shares and stakes) and non-financial assets (property, plant and equipment)
12 Ministry of Finance, Croatia
3.2 Governance Model and Institutional Development

Croatia has a semi-decentralized governance model for state asset management, which has evolved following a series of reforms introduced in 2013 with the aim of improving state asset performance. The Ministry of State Assets (MSA) manages the shares and stakes of the Republic of Croatia (RoC) and of the so called „other shareholders“ in 39 legal entities of special interest to the RoC. The Centre for Sale and Restructuring (CERP) is responsible for the privatization of close to 500 companies, mostly minority owned by the state. The MSA manages real estate, and has the authority to dispose of property, while State Property LTD is entrusted by the Ministry with the rent and lease of said real property (See Box 2). The management of a large number of SOEs is under the management of local government and other line ministries. With regards to non-financial assets the Ministry manages a large number of real assets, including underutilized assets and acts as a clearing house for those whose ownership rights are unresolved. A number of real assets under the management of SOEs and other ministries are not under the mandate of the Ministry of State Assets.

Box 2: Main stakeholders managing state assets in Croatia

The Ministry of State Assets, together with the Centre for Sale and Restructuring (CERP) and State Property LTD coordinate the implementation of some state asset management policies. Thus, it should be noted that not all state assets are managed by the Ministry of State Assets. For example, concessions, agriculture land and cultural assets are under the governance of other line ministries, as well as certain SOEs which are also under other line ministries and local government units.

- **The Ministry of State Assets**, is given the authority to manage the stakes and shares of 39 entities classified as “of special state interest” on behalf of the RoC, following the enactment of the most recent Government Decree in August 2018 (the Act on State Asset Management - Official Gazette No. 52/18) ([https://narodne-novine.nn.hr/clanci/sluzbeni/2018_08_71_1450.html](https://narodne-novine.nn.hr/clanci/sluzbeni/2018_08_71_1450.html)).

- The Decree replaces the former list of entities comprising both strategic (not intended for privatization) and special interest entities (intended for privatization). Currently, the Ministry is in the process of redefining the classification of strategic and special interest entities. Approximately one third of enterprises of strategic or special state interest are listed companies. The Ministry also manages 6,098 flats, 3,708 business premises, 3,583 building sites, 332 former army barracks, 3,022 garages and 14 camps. (As of May 2018, Ministry of State Assets)

- **Centre for sale and restructuring (CERP)**: The Center is a legal successor of all rights and obligations of the State Property Management Agency. The Ministry manages the largest companies in the portfolio, while CERP controls 495 smaller companies whose public shares are intended to be privatized.

- **State Property LTD**. (Državne nekretnine d.o.o.): The purpose of the company is to manage commercial properties, apartments and business premises, as well as to maintain residential facilities. The company manages a portfolio of 5,427 premises; 4,086 are apartments, 1,325 are commercial premises, 9 premises have special status and 7 residential facilities are used by the State Protocol. State Property LTD cannot dispose of the property entrusted to it, that authority lies with the Ministry.

The authority of the Ministry of State Assets has been recently defined by the Act on State Asset Management, passed in June 2018 and by the Law on amendments to the Law on the organization (structure) and scope (domain) of the ministries and other central state administration

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13 100% set up by the State, i.e. Croatian Health Insurance Fund, Croatian Pension Insurance Institute, CERP, Financial Agency (FINA), State agency for deposit insurance and bank rehabilitation (DAB), Croatian Employment Services, etc.
bodies, passed by Parliament on December 14, 2018. The Ministry manages shares and stakes in accordance with the Act on State Asset Management (Official Gazette No. 52/18). The Ministry also has been given authority to draft and propose to the Government the Decree with the entities classified as “of a special interest” to the RoC.\textsuperscript{14} In addition, the exact number of the legal entities classified as “of special state interest”, is not set by the law, but by the Government Decree. With regards to non-financial assets, the Ministry performs administrative and other tasks related to the management and disposal of flats, residential property, land, and business premises owned by the RoC, including properties with unresolved property rights (particularly those relating to holiday resorts on the Croatian coast and other properties that were blocked by unresolved issues of succession of the former SFRY).

### 3.3 Recent reform efforts

The area of state asset management is becoming an integral part of the wider set of long-term public-sector reforms and good governance initiatives. Croatia’s asset management policies and institutional arrangements have been dynamically evolving over the last five years.

Two distinctive features appear to be important in the sequence of policies enacted in Croatia between 2013-2018. First, from the point of view of institutional development, the government initially attempted to consolidate management centralization at the Ministry of State Assets, CERP and State Property Ltd. Subsequently, the government appears to have defined more narrowly the groups of assets that fall under the management of the Ministry, with the mandate to improve compliance with reporting standards and speed-up the process of disposition of assets. The role and responsibilities of the Ministry pertain to assets that are under its management. Furthermore, the government is now moving towards the territorial decentralization of ownership and management of immobile asset, such as real estate assets.

**Figure 4: Croatia’s recent asset management policies in sum**

Long-term state asset management reform efforts started in 2013 and intended to reduce the fiscal burden by focusing on: (i) centralizing the property management function by establishing the

\textsuperscript{14} However, line ministries (in accordance with the industries/sectors under their authority) propose to the Republic of Croatia the representatives to be elected as boards/committee members in those special interest entities.
Central State Office for State Property Management; (ii) building a central state asset registry; (iii) developing annual plans to operationalize the integrated 5 year asset management strategy; (iv) taking an integrated approach by forming part of the National Reform Program (NRP) documents (EU strategic document), and reporting progress on a quarterly basis against the targets set out in the NRP; (v) developing an information system for state asset management- ISUDO (the development and conceptual upgrade of the existing Central state asset registry data model and IT applicative solution).

Two supplementary reforms were introduced in 2017 to improve SOE management by streamlining the state asset portfolio and to achieve better utilization and higher returns from state assets: (i) The restructuring of the Central State Office into the Ministry of State Assets in 2017 (Box 2) intended to foster a more coordinated approach and give impetus to the restructuring and privatization of SOEs15 (ii) the adoption of the new Corporate Governance Code in 2017 intended to improve the corporate management of SOEs by introducing stricter criteria for supervisory board memberships in larger corporations and incentivizing share-holder participation.

3.4 The way forward

A wave of public reforms currently underway in Croatia intends to change the state asset management system and accelerate the utilization and returns of public assets, as well as the performance of SOEs. The new Act on State Asset Management (Official Gazette No. 52/18) as of June 14, 2018 brings another round of administrative reorganization to the Ministry of State Assets. The new Act aims to strengthen the alignment between the Law on State Asset Management and Authority of the Ministry of State Assets and enable the acceleration of state asset related reforms. The Ministry has started developing the State Assets Strategy for the period 2018-2024 geared towards the decentralization of the ownership and governance of properties, to be under the supervision of Local Government Units (LGUs).16 Territorial decentralization highlights a change in strategic direction from the previous four-year asset management strategy which was more in favor of centralizing asset management practices.

International experience indicates that there is no single formula that balances centralization and horizontal or vertical decentralization in all countries. Recently, countries appear to favor keeping asset management in the portfolio of government functions and responsibilities. The initial response

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15 Established by the Law on the Organization and the Scope of Ministries and Other Central Government Bodies (Official Gazette 93/16 and 104/16) on November 13th, 2016. Previously, the management of state properties was under the mandate of the Central State Office for State Property Management. The Central State Office was established by the Law on Management and Use of Asset Owned by the Republic of Croatia (Official Gazette 94/13). The Law also established the Center for Restructuring and Sales (hereinafter CERP), and in January 2014 the State Office founded State Property ltd.

16 The new law also stipulates that the State Asset Minister may entrust the management of state properties owned by other government bodies to the management of the State Property ltd. Further changes include the abolition of the Commission for the Disposal of Real Estate and the Government Commission for the Management of Strategic Companies to improve efficiency and decision-making in the disposition of assets of state assets above 7.5 million kn, while other decisions of lesser value will be made by the Minister of State Assets. It also proposes the introduction of real estate property for which non-property relations have been resolved (such as former holiday resorts on the Croatian coast that have collapsed for years) in a way that these properties can be given into a long-term lease, regulated by the existing law. Another change is the transfer of the Central Registry to the Central State Office for the Development of the Digital Society.
tends to be the creation of a single, centralized unit, followed by specialization and functional decentralization, and only later, moves towards territorial decentralization as well as inter-sector and inter-government coordination.

In OECD countries, contemporary developments in private and public sectors point towards new business model that demands a movement back to integration, both vertically and horizontally. “What was once a predominantly vertical integration, organized around asset classes and well-defined functions is being transformed horizontally to build greater alignment with the needs of clients, embrace a set of investment opportunities that fall between the lines of traditional asset classes, and take advantage of new technology-enabled capabilities that lead to drastic increases in the effectiveness and efficiency of every function across the enterprise.” 17 Frequent organizational shifts place a new set of demands on asset managers as they need to quickly adjust to cut across silos, build new data and analytics capabilities, leverage technology and strengthen quantitative and qualitative analytics across the value chain.

Croatia has started to emphasize transparency and accountability in asset management, particularly for those assets that have remained neglected over the years, such as the real estate assets owned by the state. 18 In regard to asset management, transparency and accountability in delivering results (an “outcome driven approach”) is at least as important as transparency in compliance and financial arrangements. However, studies caution that in case the concerned Ministry and the whole of government were not yet equipped to do performance management, especially performance management of the value for money type, transparency and accountability may end up being restricted to formal compliance with processes and budget norms. 19

The way forward will put ever increasing technical demands on Croatian asset managers. From their current position of strength, forward-thinking asset managers will have to make strategic decisions to focus on buyers and other customers as well as tactical options to meet these clients and market forces head-on. A process of continuous management improvement will increase asset managers’ understanding of potential customers, higher quality control of products and services, digital modes of delivery and monitoring, and greater understanding of cost-drivers.

3.5 Results to date

(i) Disposal of non-strategic state assets

The government is showing strong commitment towards improving state asset outcomes. The government has taken measures targeting a more effective and transparent privatization process. The implementation of the annual State Assets Management Plan for 2017 led to progress in the sale of state-

owned dwellings and minority shares in non-strategic and not of special state interest enterprises. By September of that year, total revenues from management and disposal of state assets reached 90% of the planned revenue set out in the 2017 National Reform Program (NRP), while proceeds from privatization were significantly lower. Privatization was initiated for two major SOEs, both of which are of critical economic and social importance for the local community, and fresh private capital is widely seen as crucial for their survival. Efforts to improve transparency and accountability practices are evidenced, among other government decisions, by the adoption of the new Corporate Governance Code in 2017 and the issuance of the Decree on monitoring SOEs business plans and reports in August 2018.

(ii) Upward trend in revenues from leases and sale of property

Lease revenues and income from the sale of property managed by the Ministry of State Assets and State Property LTD. have been on an upward trend, suggesting that government efforts to streamline the portfolio are beginning to show results. In 2017, the reduction of the state portfolio and activation of unused state property in terms of real estate (both sales and activation) was 15% higher than projected. This positive trend is a result of the acceleration of public tenders, calls, and notices for the purchase of real estate, apartments, and leases.

It is noted that the most recent European Commission Country Report Croatia from 2019 recognizes Croatia’s progress in state asset management but emphasizes the areas that need further attention. These are making state assets productive and reducing the state portfolio, as well as improving the productivity of SOEs and corporate governance practices. In this regard, and similar to the international trends discussed in the Global developments section, the strategic approach adopted by the government has focused on better utilizing state assets and reducing the state asset portfolio, as well as improving the productivity of SOEs and public institutions. The recent wave of asset management reforms is showing positive results, but more is needed to improve asset outcomes, as discussed in the next section.
4 Assessment of the main developmental challenges and opportunities for Croatia

4.1 Reference framework

Based on international experience, we propose a reference model of asset management to identify the key areas that present challenges for asset management (See Figure 5). The following reference model has been purposely kept very broad so that it can be fit in the strategic analysis of Croatia’s challenges.

**Figure 5: Reference Model for Asset Management**

Asset management combines the most challenging developments currently faced by public administration in OECD as well as middle-income countries, including: challenges with regards to the enabling environment, such as regulatory framework, management model, institutional capacity to adopt planned reforms and the lack of information and common standards. In terms of the overall vision for state ownership, it should be the cornerstone of every asset management reform effort. Despite its critical importance, many countries lack a comprehensive policy document defining rationale and objectives for state ownership. The adopted strategic approach in achieving the asset management objectives generally applies strategies around privatization, increasing productivity and competitiveness while keeping assets public, and transition strategies from current ownership and management to more efficient forms of asset management.

Asset management is, in practice, a mosaic of challenges. It would be illusory to try to develop asset management capacity over night or gear to install a perfect system from the very beginning. It is
usually a month-by-month and year-by-year process of learning by doing. The more countries capitalize on other countries’ experiences the better.

4.2 Main challenges

I. Vision

Croatia’s road to asset management reform has led to some successes. However, it has fallen short of achieving development goals aiming to deliver market returns and fully utilize (activation) state assets. The strategic approach adopted by the government has focused on activating state assets and reducing the state asset portfolio, as well as improving the productivity of SOEs. It is however constrained by the key problems of having a large number of loss-making SOEs that are present in all sectors of the economy as well as the delay in asset utilization due to the following challenges: (i) Lack of a clear vision for the asset management rationale for state ownership; (ii) The regulatory framework is fragmented and over-complicated; (iii) The management model for state asset management falls short of ensuring coordination between different asset holders and enforcing horizontal coordinated management practices under a unified institutional umbrella; (iv) These is limited institutional capacity to adopt management practices in asset management and uneven performance of entities within different levels of government; and, (iv) Monitoring data management systems are not fully integrated and financial standards are not uniformly applied among different types of assets.

Significant progress on the planned privatisation of SOEs is yet to be seen. Some progress has been made in the disposal of minority ownership, and the government’s list of companies classified as “strategic” and “special interest” has been further reduced by nine entities. In 2017, shares and stakes of enterprises from the CERP portfolio were sold for 315 million kuna through a public auction, adding to the state revenue budget (Figure 6). Still, CERP continues to operate a large portfolio of companies, demanding a more decisive effort in following through on privatisation initiatives. Measures such as the introduction of medium-term planning and transparent business reporting obligations as well as the revision of the Regulations on disposition of assets owned by the Republic of Croatia will facilitate the accelerated disposition of assets.

20 As detailed in the National Reform Program (NRP) 2018
21 The minority ownership referred to SOEs of a special interest only and hence the list reduction might have been due to privatisation and the decision to dispose of minority ownership. Those of a strategic interest were not subject to privatization, hence the reduction in the government’s list of companies classified as of a strategic interest was due to some other decisions made.
22 It should also be noted that some countries opted to have separate institutions for management of financial and non-financial assets. Especially after financial crisis, most Latin American governments created specialized institutions to liquidate some publicly owned banks and other financial institutions. See, for example, the Mexico Model, as presented by Deloitte & Touche (2003) “Definición Operativa”, Anex 6.11 – Evaluación de experiencias similares”, proposal for SHCP-SAE. August.
23 In order to sell the equity holdings in companies, the process of simplifying the regulatory framework has commenced, and the Decree on the manner of shares and business stakes' disposal which will simplify the sale of equity holdings of the Republic of Croatia, has been drafted. The exposure draft of the Decree was made publicly available on the Central State Internet Portal for consultation with the public.
II. Asset Management and Ownership Policy

An overreaching public asset management policy is missing. The current framework is fragmented and there is a lack of harmonization of legislation across different government entities, strategic areas of interest and uniform reporting standards. A well-defined ownership policy is needed at the highest level, clarifying the rationale for state ownership and reviewing it case-by-case every year (based on criteria for identifying strategic SOEs, list of companies for privatization, etc.). Most of the real property and SOEs are under the management of line ministries, local and/or regional authorities, without clear reporting lines and uniform performance targets.

In addition, there is a need to sort out the ownership of state assets as an important prerequisite for the successful implementation of state asset reforms. The legal status of some state-owned properties is not fully clear nor sufficiently established. There are discrepancies in data between land registries and cadastres, registration of social ownership and national property for state-owned property. Initiatives to clarify ownership ought to be initiated by the Ministry of State Assets and other state asset custodians (this is a medium-term activity that also involves the Ministry of Justice as well as counties’ state attorney offices).

The Legal and Regulatory Framework might need further development to:

- Secure the consistency of public policy in the implementation of strategic goals in state assets (both financial and non-financial assets), against the backdrop of a wider set of public sector reforms and national development priorities. The reversal of some of the policies from the last five years should come with a clear rational, set of objectives, expected outcomes and action plan for their successful implementation.

- Strengthen financial oversight — Further develop monitoring and control mechanisms over the management of state assets, including completeness and accuracy of data, compliance with
the applicable laws and achievement of strategic goals. Such mechanisms should cover all assets, including those under various line ministries and LGUs. This should be done jointly with the MoF and the State Audit function.

III. Business Model and Institutional Capacity

On the management model challenge, the current role of the Ministry of State Assets as a custodian of state assets does not extend to state assets under the management of line ministries and other government bodies. There is a vast number of state assets under the management of other government bodies. Given the fragmented management practices, some common strategic criteria, management principles and process standards should be put in place and applied to all responsible ministries, even if some legal provisions under the new Act are not applicable to other ministries. Moreover, there is a lack of coordination between different asset holders and horizontal performance management practices under a unified institutional umbrella are missing.

There is a lack of business-like practices to determine best approach to asset utilization and cost-benefit analysis. A business-like model makes the most out of current assets at a minimum cost. Not just in terms of profits but in terms of benefits as a whole. All assets regardless of their class, level of utilization or potential, are subject to a dominant management criterion: no ownership, no management action unless the benefits justify the costs. The unifying cost-benefit principle reconciles different objectives of asset management policy. The task of policy makers is to define trade-offs or concentrate management efforts among objectives or groups of assets.

Additionally, there is a need to strengthen the Institutional capacity of public institutions to adopt and implement policies. Asset management requires specialized technical, information and management skills that can only be constructed in the long term. International experience indicates that capacity building for public asset management could be viewed from the perspective of continuous improvement:

- **Bridging the gap between central and local government asset management practices.** The change in strategic direction with regards to decentralizing the management of assets to LGUs is challenged by the readiness of LGUs to effectively manage state assets, as well as the lack of a uniform set of rules as a pre-requisite for the successful hand-over of ownership/management from the Ministry of State Assets to LGUs. Further, the EU Commission notes that SOEs owned by local government units appear to be weak and real estate management practices are generally seen as inadequate. Similarly, State Audit reports recommend that local and regional state bodies adopt the central government’s practices on strategic planning and internal registries.

- **Institutionalization and professionalization of asset management.** There is a lack of internal capacity and management training programs. In cases where the management is transferred to the local government, training programs on the effective and efficient management of state assets must be developed.

- **Lack of uniform methodologies and procedures for adequately classifying, valuing, reporting and measuring government state assets.**
  - There is a lack of understanding when it comes to state property “owned by SOEs” where the state owns stakes/shares vs physical property
  - There is a lack of a uniform methodology for the effective valuation of properties
  - There is a lack of overall reporting standards for revenue and outcome measurement
- **Capacity to implement the Code of Corporate Governance of Companies.** Existing differences in the application of corporate governance standards across companies are significant (listed companies vs other SOEs, central vs local government SOEs, small vs large corporations) and the level of transparency of SOE’s business operations poses a challenge to the successful implementation of the code.

**IV. Expand the use of IT asset management systems, consolidated financial statements and accrual basis accounting**

Furthermore, data management systems and financial reporting standards are required to:

- Further develop and expand the Central registry of state assets and Information system for state asset management (ISUDIO) which was transferred to the Central State Office for the Development of the Digital Society with the enactment of the Law on Central Registry of State Assets as of December 22, 2018.

- Have a comprehensive inventory of the market value and financial performance of all state properties. This needs to be improved in order to further employ asset management outcomes and identify investment possibilities. As an example, data on state property administered by the RoC is not subject to reporting as per the MoF’s “Instruction on valuation, value assessment and registering the RoC assets”. The reason being SOEs are not entities of the general budget and apply different accounting standards. Similarly, state property documentation is dispersed through various registers of state entities - budget and extra-budgetary users, local and regional self-government units and SOEs.

- Implement a single accounting standard, which is in the hands of the Ministry of Finance as the standard setter. SOEs apply full accruals under the IFRS (with certain significant departures for instance in the transport sector), while other government bodies apply a modified version of accrual accounting.

- Enable comprehensive annual financial reporting of leases, concessions, properties and SOEs managed by line ministries and LGUs.

**V. Productivity of State Assets**

The financial performance of SOEs has improved due to profitability generated by two publicly-owned enterprises – HEP Group and INA (See Figure 7). The most substantial profits are made by enterprises from the energy sector that have state monopoly. Some SOEs have consistently underperformed, amassing significant losses – the Institute of Immunology, Croatian Railways Infrastructure, or the Marine Electronic Centre are examples of such SOEs. Forthcoming measures such

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24 Recognition of revenue is not in accordance with IFRS in road companies. the Ministry of Sea, Transport and Infrastructure rendered a study to review accounting regulations and practice, and to propose options to harmonize accounting policies and improve reliability, usefulness and comparability of the financial information of the road companies. Based on the final report the MSTI in coordination with MOF will decide on changes to and harmonization of accounting regulations and policies applicable for the road companies.
as the introduction of medium-term planning and business reporting obligations, the implementation of the new Code of Corporate Governance and the development of policies related to the pay, valuation and rewarding of management can improve the efficiency of SOEs, especially with regard to their business operations.

**Figure 7: Financial performance of Strategic and Special Interest SOEs**

**Figure 8: Productivity Gap of SOEs**

Available evidence suggests that Croatian public assets have low productivity. The productivity gap between state-owned and private enterprises is higher in Croatia than in peer Central and Eastern European economies (CEE) (See Figure 8 above). The European Commission reports that the productivity gap stood at about 54% in firms under the mandate of SDUUDI (now under the Ministry of State Assets). The gap was around 32% in firms in the Centre for Restructuring and Sale (CERP) portfolio with a majority ownership and about 12% in those with minority ownership. Overall, the evidence shows that central government ownership in Croatia entails a ‘productivity gap’, which appears

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25 The Decree on monitoring SOEs business plans and reports was passed in August 2018 (Narodne novine – Official Gazette, br./no. 71/18.). Guidelines on reporting and business plans was brought in September 2018 [https://imovina.gov.hr/UserDocsImages/dokumenti/Izvje%C5%A1taji%20o%20poslovanju%20strate%C5%A1ki%20trgova%C4%8Dkih%20dru%C5%A1tava/Uputa%20za%20izradu%20odastavu%20planova%20i%20izvje%C5%A1taja%20o%20poslovanju%20trgova%C4%8Dkih%20dru%C5%A1tava%20i%20pravnih%20osoba%20koji%20%C4%8Dine%20dr%C5%BEavnu%20imovinu.pdf](https://imovina.gov.hr/UserDocsImages/dokumenti/Izvje%C5%A1taji%20o%20poslovanju%20strate%C5%A1ki%20trgova%C4%8Dkih%20dru%C5%A1tava/Uputa%20za%20izradu%20odastavu%20planova%20i%20izvje%C5%A1taja%20o%20poslovanju%20trgova%C4%8Dkih%20dru%C5%A1tava%20i%20pravnih%20osoba%20koji%20%C4%8Dine%20dr%C5%BEavnu%20imovinu.pdf)

26 In 2015, the MAS was in charge of 56 trading companies and other legal entities of strategic and special interest to the Republic of Croatia. Since 2016, the MAS has overseen 49 companies and legal entities.

27 Please also see World Bank. Systematic Country Diagnostic 2018
to be greater in firms subject to tighter public control.\textsuperscript{28} Further, the EU Commission notes that corporate governance practices and standards are not applied uniformly between SOEs under central and local government units. Local government SOEs appear to be weak and real estate management practices are generally perceived as inadequate.

**On the regulation challenge with respect to the usability of public assets**, many existing properties are subject to hereditary obligations, which are transferred to the Ministry and State Property LTD. from other entities. Similarly, a significant share of properties remains unutilized: 30\% of commercial properties are empty or occupied illegally. The same is true for 35\% of apartment properties.\textsuperscript{29} Activation of real estate is further hindered by the lack of a regulated legal status of real estate owned by the Republic of Croatia, and the discrepancies between the data of land registries and cadastres. Further efforts in mass real estate valuations, are needed to establish modern and developed systems of real estate appraisals. Process re-engineering might also be considered to expedite government utilization of real estate.

**Figure 9 Net profit from the management of non-financial assets (Ministry of State Assets)**  
**Figure 10: Sources of property income (Ministry of State Assets)**

4.3 Opportunities for development

**Collaborate to develop a comprehensive Asset Management/Ownership policy:**

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European Commission: Country Report Croatia 2017 Including an In-Depth Review on the prevention and correction of macroeconomic imbalances  
\textsuperscript{29} State Property LTD. 2018
• Develop a transparent national asset management strategy and action plan to comply with the national reform programs and EU country specific-recommendations (in progress); and,

• Align the policy with the long-term National development framework and vision for the future;

• bearing in mind that the majority of SOEs and real property are under the management of other line ministries and local and regional bodies, it is essential to harmonize legislation across different government entities and strategic areas of interest.

Create a set of principles and criteria for uniform and effective asset management

• The Ministry of State Asset ought to lead the development of a set of criteria for the institutionalization and professionalism of asset management, and for cost/outcome measurement;

• Develop unified (comprehensive) management principles, a standardized methodology and analytical work on government decision-making processes and decisions on how to use/employ various asset items (at the central and local level);

• Develop a system of criteria according to which a certain sector/industry/group of enterprises or nonfinancial asset items are defined as strategic (of importance to the Republic of Croatia)

Apply data-based decision making and work to expand the use of IT management systems

• Further expand the ISUDIO (Information system for state asset management) project – integration with Land register, Cadastre, Concession register, Agriculture land register, Cultural heritage register;

• Consolidate asset records in the central asset register and the State Treasury General Ledger; and,

• Implement accrual basis accounting (recommended in the Budget Act), along with the possibility of the direct implementation of the International Public-Sector Accounting Standards (IPSAS) or the development of harmonized accounting standards for the public sector in the EU – known as European Public-Sector Accounting Standards (EPSAS)3031.

Adopt an outcome driven approach

• Increase the yield on state property;

• Adopt corporate governance principles in the management of SOEs and state assets;

• Consider shared services models and international best practices in asset management; and,

• Develop capacity training and management guidelines prior to transferring the management/ownership of assets to LGUs.

Prioritized policy recommendations

International best practices demonstrate that asset management reforms usually aim to achieve fiscal sustainability and equitable economic development by reducing public debt, increasing revenue contributions to the state budget, improving utilities, access to services and credit ratings and engaging state assets for economic development. Based on the above mentioned challenges and opportunities, we recommend a phased approach to adopting effective asset management principles consistent with Croatia’s on-going strategic approach by strengthening the enabling environment, improving asset management and ramping up privatization.

A key point raised in this section is that if a semi-decentralized model is further pursued, a key success factor would be the development and enforcement of robust horizontal performance management practices under a unified institutional umbrella – in the form of a coordinating body. The reasons are clear: large number of entities holding state asset, a vast number of assets, various types of assets, weak asset performance, and the lack of accountability and reporting standards.

As Croatia further decentralize ownership of assets towards the local government units, a central coordinating body would play a pivotal role in: i) implementing the state asset management strategy; ii) enforcing state asset rules, regulations and legislation across different asset holders; iii) identifying gaps in the current asset management performance standards and management practices; iv) unifying standards and building comprehensive inventory and data management systems covering all state asset classes.

Thus, the Government of Croatia may wish to consider further enhancing the role of the Ministry of State Assets to act as a coordinating body (with a formal coordination agreement between asset stakeholders, as exemplified by the Polish case and in accordance with the OECD recommendations) to ensure the strategic alignment between different asset holders and enforce horizontal performance management practices.
I. Vision, Goals and Development Objectives: The first step is to develop a vision and a business model for asset management in Croatia. The vision would hopefully reflect a consensus among key government, political, economic and community actors. Designing a vision and clear business model would help address the most fundamental questions of asset management, including questions that will guide the selection of policy objectives, governance and institutional capacity development:

i) Is asset management an area that is independent from the rest of government or is it rather a service area acting as a bridge to broader government goals, including fiscal sustainability, basic services, public investment, and/or local and regional development?

ii) Is asset management guided solely by calculations of the cost and benefits of each individual asset or is it also shaped by broader social and strategic considerations?

iii) Are asset management governance, institutional arrangements, finance and development capacity to be determined in harmony as well as in reinforcement of Croatia’s inter-governmental fiscal relations, institutional balances regarding central government coordination, and local and regional development policies?

The vision should be broad enough to appeal for consensus and allow for flexibility. Though the vision can be revised as needed, it should guarantee minimum stability to the overall government approach to asset management. It should be widely communicated within the Executive branch, the Legislative branch, Courts, control institutions and ordinary citizens.

Further, the business model could be split into 3-4 sub-models depending on the nature of assets (for example, financial (SOEs), non-financial, strategic assets or other non-incorporated assets). Each operating sub-model should serve as the basis for developing the state’s ownership policy...
and strategy and include: i) the enabling environment, ii) participating and responsible actors, iii) stakeholders following a stakeholder map, iv) macro-processes and communication flows; v) human talent and financing issues, v) governance, decision making and management arrangements; v) core services and the expected impact of optimal asset utilization. It will reflect the government’s balance between short and medium-term decisions. The operating model is a technical, graphic and text representation of what asset management intends to do and how it is doing it. It provides a summary picture that serves as a common reference framework for asset managers. It also serves as a framework for training and other capacity building programs.

**Recommended actions:**
- Develop a long-term vision
- Develop a business model and adopt business principles in asset management

**II. Enabling Environment**

**a) Legal and Regulatory Framework: Ownership Policy**

**Ownership policy should follow the long-term vision for asset management.**

Following the elaboration of the vision and business model, a property ownership policy should be developed as an integral part of a wider national development program and the EU convergence program. The existing large number of assets and bodies holders of state assets requires the development of an overarching ownership policy framework governing all state property assets and correcting the current fragmented management practices. The government should initiate a review of the existing legislation governing state assets and engage to simplify and harmonize it.

**Box 3: Ownership policy in ECA**

**Lesson learned:** A review of state ownership should take place regularly and make the case for divestment of assets that no longer meet state ownership objectives and specified performance indicators. **A clear vision and institutional objective are the foundations of a strong ownership policy.** This could be a state ownership framework, law or a high-level political document detailing the objectives, rationale and elements of policies, laws, and regulations applicable to state assets.\(^1\) It should further outline a coherent strategy for exercising the state’s ownership function. Lithuania’s Ownership Guidelines indicate profit maximization, national strategic interests, and social purposes as key SOE policy objectives. In the Czech Republic, the Ministry of Finance attempted to pass a State Ownership Strategy — recommended by the OECD — which was rejected by the government in 2017. In Poland, the Council of Ministers hold control of the 47 strategic SOEs, the majority of which are in sectors regarded as particularly vital to the state and include (inter alia) areas such as energy, telecommunications, chemicals, refineries, and defence.

When it comes to laws and regulations, the government should be guided by the **Less is more principle.** There is a paradox of overregulation and lots of administrative requirements for information which are not verified by respective institutions for quality and are not used for enforcement and decision making. As a result, significant market risks have been overlooked, which surfaced in 2017 by the bankruptcy of one of the largest private sector companies following an audit failure which had negative impact on the Croatian economy.

**Sort-out the ownership of assets.** The effective management of non-financial assets necessitates the establishment of ownership rights. The government of Croatia is creatively managing real estate assets for which it has not been possible to establish government ownership. For example, the
holiday resorts along the Croatian Coast state, that collapsed years ago, can now be activated under a long-term lease and maintenance contract regulated by the existing law.

Box 4: Effective and efficient utilization of Real Estate Assets that lack clear property titles in civil code countries

Similar challenges have been tackled by other civil code countries through creative solutions. COFOPRI in Peru found ways to create a transitory cadastre and register that authorize current occupants to utilize the land. Massive land valuation and utilization during temporary legal status have allowed the government of Colombia to utilize high volumes of real estate expropriated from drug-traffickers. In the latter case, a newly created central government agency, SAE, centralizes management of such real estate assets regardless of which government agency originated the capture of land or currently occupies the buildings. Some of those cases were made possible thanks to legal reform while others operated under pre-existing laws. Similar policy measures have been implemented by SAE-Mexico and SAE-Colombia. These two agencies have developed specialized capacity, objectives, processes and evaluation indicators for the management of the massive inflow of assets from seizures of illegal activities such as drug-trafficking and money laundering.

However, in other cases the lack of a clearly defined real estate title remains a serious obstacle to decisions on sale or other forms of asset utilization. Confusion often arise from the discrepancy between the data of land registries and cadastres.

**Recommended actions:**

- Develop a comprehensive ownership policy with all stakeholders;
- Review the existing regulatory framework;
- Simplify and harmonize legislation; and,
- Establish asset ownership rights.

In addition, sustained commitment to, and the consistency of, announced reforms is crucial.

b) Management model

Croatia identifies its state asset management model as semi-decentralized. The current role of the new Ministry as custodian of state property does not extend to state assets that are under the management of other line ministries or local government entities. There is a vast number of state assets under the management of local government bodies and SOEs for which there is no clear government strategy. A critically important factor to ensure the effectiveness and efficiency of institutional arrangements is the improved coordination between different asset holders and enforce horizontal performance management practices under a unified institutional umbrella.

The government might want to weigh the pros and cons of centralization, decentralization and coordination. Whatever the fine print of the final institutional arrangements might be in the case of Croatia’s asset management policy, center-led coordination needs to be based and focused on the Ministry’s definition of standards and the uniformity of procedures and management practices as well as the Ministry’s review of each agency’s annual goals, and results-monitoring and evaluation. To this effect, present institutional arrangements may need to be reinforced so that the MSA is *prima inter pares* among government ministries, with a clear hierarchical role at least in relation to asset management policy, monitoring and evaluation. On the other hand, the Ministry should not incur in the temptation of micro-managing other ministries, agencies or local governments from the tower of the Ministry.
because this would jettison the advantage of the proximity each of those ministries, agencies or governments have when it comes to identifying the specific requirements for managing and making the most out of each individual public asset.

**Recommended actions:**

- The Ministry of State Assets or another body determined by a Government Decree to act as a focal point and coordinator of state policy across numerous government institutions managing state assets;
- Develop and adopt Asset Management Strategy & Implementation Plan following long-term vision and ownership policy;
- Articulate goals, objectives, and performance indicators;
- Develop uniform methodologies and procedures to adequately classify, value, report and measure government state assets (Jointly with MoF);
- Continue the practice of maintaining Annual State Assets Management Plans;
- Implement and enforce mid-term strategic planning and reporting activities at both the central and local level, develop uniform management principles; and,
- Develop action plans detailing how the hand-over of properties towards local government units will be handled.

c) Institutional capacity

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<th>Box 5: Prioritize real estate management and empower asset managers accordingly</th>
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<td>Developed countries are dismantling the prevailing culture around property management to achieve measurable improvements and empower state property managers. Accordingly, managing property has not been seen as a career path of choice for civil servants or local officials. However, this typecast can be reversed with the right adjustments to the role. For instance, the government procurement function was once held in similar regard but has witnessed dramatic improvements in the last few years as senior figures have accepted its importance. Giving government property managers wider spans of control to work directly with various stakeholder groups to address property issues will be critical, as there are often policies requiring approval from specific groups such as unions in order to proceed with changes to property holdings and work conditions. Broader visibility will also help the asset manager enhance collaboration, co-location, and the prevalence of joint ventures across departments.</td>
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<td>Source: Deloitte</td>
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There are divergent performance management practices in asset management and results measurement across government levels. Further the lack of professional asset managers, as well as the lack of clear objectives and performance targets for the properties that are being transferred to local government entities need to be addressed. A critical step in building institutional capacity to support the transfer of real property to local government units is the professionalization of asset management, and the implementation of performance measurement practices across entities.

**Prepare a list of asset management requirements for the entire business services as well as for each participating actor.** The identification of management requirements is essentially a gap analysis exercise between the operating model demands and current management strengths or weaknesses. The method is similar to the methodology employed by quality models, such as the Common Assessment Framework (CAF), or other models frequently used by the European governments. Since institutional arrangements are likely to be frequently adjusted, and technologies change over time, it will be necessary
to periodically revisit the list of priority asset management requirements and carry out periodic planning exercises, always under the cost-benefit analysis criteria.

**Focus on implementation and accountability for results.** Every previous recommendation, be it on regulatory framework or management models, will necessarily incorporate a performance management perspective. In addition to such components of performance management, it will be necessary to reinforce a change in approach, from input-based asset management to a results and impact asset management model. As elaborated in the previous recommendation, the Ministry of State Assets will develop annual implementation and business plans for all levels of government managing state assets. The plans should define achievable goals and managers need to be held accountable for the results. Staff performance evaluations will be focused on each unit’s contribution to the achievement of the overall objectives. Performance monitoring needs to penetrate all levels of asset management, including top government positions. Screens with progress and other monitoring indicators need to be shared by participating sectors and/or government units. Internal and external controls should be supplemented with results evaluation – even performance audits. It is of highest value to develop internal and external communication strategies focused on the results that are of interest to each participating actor or stakeholder.

**Recommended actions:**

- Perform Gap analysis;
- Develop capacity building plans;
- Develop and coordinate recruitment and training plans for public sector asset custodians
- Hire professional asset managers;
- Ensure prerequisites are in place prior to transferring property to LGUs (ownership, Asset Management Strategy, implementation plans, performance measurement);
- Train staff in LGUs prior to transferring asset ownership rights;
- Ensure regular communication with the MSA strategic property management staff;
- Implement Performance Management Framework;
- Track performance and progress against targets based on mid-term strategic planning;
- Develop communication strategy and report on results both internally and externally; and,
- Enforce asset management principles and strengthen financial and operational oversight (form unit(s) within the Ministry of State Assets, MoF, State Audit Office).

d) Data management systems and financial reporting standards

The importance of accurate and effective information management is a high priority goal in many areas of the government. Information management is especially important for asset management but current standards in Croatia vary significantly across public bodies. In particular, financial data is often weak or incomplete. Comprehensive financial performance data on all state properties is lacking and management’s information system provides limited coverage of the types on state assets and does not allow for high-quality decision-making.

**Recommended actions:**

- Transformation of the Central State Asset Registry from an administrative system to a “live” management system and further expand the ISUDIO – integration with Land register, Cadastre, Concession register, Agriculture land register, Cultural heritage register;
- Reclassification of occurring forms of state assets in accordance with international public-sector accounting standards and budget regulations;
- Consolidation of asset records in the central asset register and the State Treasury General Ledger (MoF);
- Implementation of an accrual basis accounting (recommended in the Budget Act); and,
- Migration of Central Registry/ISUDIO to the Central State Office for the Development of the Digital Society and ensuring its commitment to the successful integration of the system.

Box 6: The Czech Republic’s Non-Financial Asset management model and IT Systems

The Office for Government Representation in Property Affairs (OGRPA) was established in response to the need to modernize the property portfolio. The OGRPA is a governmental structure established on July 1st, 2002 which is supervised by the Ministry of Finance. The main objective of the Office is to improve the legal services of the state and to ensure the efficient management of state-owned property. The OGRPA is often commissioned by the police authorities, prosecutors or judges to administrate the property in penal proceedings.

The structure of the OGRPA follows that of the judicial system in the country. The office’s activities are spread out throughout the country, organized into eight regional and 45 district offices. The headquarters office is in Prague. The OGRPA employs approximately 1800 staff members across the whole territory. The arrangements are such that solicitors dealing with legal proceedings and advisory lawyers are seated in Prague. Therefore, the regional departments’ staff is in charge of legal services and property management and administration.

In 2016 the Office achieved substantial financial results. In terms of income, the OGRPA submitted approximately EUR 40 million to the state budget. The revenue was mainly from the sale and lease of property. Moreover, in 2016, the Office registered the lowest expenditure since its establishment; about EUR 52 million. The Office manages over 365,000 properties for a total value of EUR 690 million. Its property portfolio includes real estate and other assets; within this, the real estate represents half of total assets with a value of approximately EUR 434 million. In 2016, the OGRPA sold 3,479 properties and over 17,000 were transferred free of charge.

The OGRPA uses effective asset management software to improve data collection and use. High-quality data has the potential to enable centralized dashboards and a wider use of predictive analytics in property management. The Office’s asset management system is connected to other parts of the internal IT system and to other external data sources. For instance, the OGRPA’s system is connected to the Central Registry of Administrative Buildings (CRAB), and its information is used for the analysis of potential savings. The figure below represents the architecture for the asset management system.

Figure 6A: Structure of the OGRPA’s asset management system
III. Strategic Approach

a) Increase revenues from the activation of state property and divestment of state-owned enterprises: The delay in the privatization process and activation of the state asset portfolio can be addressed by taking a business-like approach to asset management.

Business-like approach and New Cost-benefit analysis. The more Croatia advances towards enshrining cost-benefit as the overarching criteria for asset management, the better for unifying the justification, utilization and evaluation of government assets. It is also critically important to operationalize the asset management life-cycle framework and Cost-Benefit Revolution\textsuperscript{32} principles for decision-making purposes.

Asset Management life-cycle framework for sound decision making:

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Years ago, it was difficult to reconcile the valuation of individual public assets with the social valuation of such assets. Since the mid-nineties a new emphasis has been placed on the creation, acknowledgement and valuation of public value. There is also an emphasis on the impact or primary expected result of a government action. Public assets have participated in such innovation as they are increasingly valued for their actual or potential contribution to increasing public value. More than the intrinsic value of a given good, its public value depends on the market as much as the timing and the best potential utilization. For example, a plot of government land may be assessed today as having a market value of $100. However, if sold today in such a way that it reduces fiscal deficit and contributes to reducing inflationary pressures, it is the impact of asset management what gives value to this asset’s management strategy. In this example, it is the government action, i.e., the strategic management of such asset which enhances many times the market value of the asset taken in isolation of the fiscal context. The accounting value of an asset may be substantially different from the social value of the same asset at any given point in time. For this reason, this Policy Note addresses the issue of Asset Management, not just accounting or disposal of assets.

In many cases it is technically difficult to measure the benefits of a possible asset management action or to compare benefits from strategy A with benefits from strategy B. Among other things, it is complicated because different uses produce different sorts or benefits. It is like comparing apples and oranges. Things become even more complicated when governments compare today’s utilization with tomorrow’s utilization. Those difficulties notwithstanding, governments as well as international cooperation are presently required to increase transparency and to communicate their reasoning for choosing utilization “A” today over other discarded options —including the option of preserving the status quo until a better opportunity arises that is clearly preferable to the current utilization of the asset.

For this reason, governments are presently required to communicate to stakeholders the reason behind their estimate of fiscal, economic, strategic or social benefits. They are also required to transparently present the risks that might reduce their estimate of the potential benefits.

Recommended actions:

- Make decision on asset utilization following asset management life-cycle and New Cost Benefit principles;
- Clarify ownership issues (ownership disputes and restitution claims);
- Increase the number of investment projects featuring activation of inactive state assets;
- Maintain an updated list of assets (companies and real estate) due for divestment based on their performance compared to established targets (as per targets and benchmarks in the business plan);
- Implementation of the regulations on the method for the disposal of shares and stakes;
- Enforce of mid-term strategic planning and reporting activities; and,
- Operationalize a comprehensive state asset register & management system.

b) Increase the productivity of SOEs by improving corporate governance and rationalizing the state portfolio

34 These are the challenges and dilemmas long discussed by welfare economics.
35 Cooperation from OECD countries is presently required to meet the test of 5 Development Advisory Criteria, DAC. The first of those criteria, “Relevance”, demands the cooperating unit to demonstrate the proposed program represents the best possible use of cooperation funds as compared to other short-term alternatives.
SOEs in Croatia lag behind private sector competitors in terms of financial performance. This is due to operational inefficiencies, weak corporate governance standards and the lack of clear and uniform criteria governing performance standards and the classification of SOEs across government entities. In many cases, SOEs do not have private sector competitors they can be compared to.

**Box 8: Reporting on SOE performance and the OECD guidelines**

Regular reporting on the activities and performance of the state-owned enterprise (SOE) sector is an important element of government transparency and accountability. The good practice guidance contained in the OECD Guidelines on Corporate Governance of State-Owned Enterprises ("SOE Guidelines") calls for the state as an owner of commercial enterprises to develop consistent reporting on SOEs and publish annually an aggregate report on SOEs. They further call for the use of web-based communications to facilitate the general public’s access. Some countries provide much more extensive details on individual SOEs. For example, in Norway, company pages include reporting on corporate social responsibility efforts, as well as the percentage of women among both general board members and the board members appointed by the shareholders (shareholder elected board members). Lithuania includes in its company-specific pages a list of all board members and an identification of those considered independent. Sweden includes reports on financial and non-financial targets on an individual basis and also includes information on whether individual SOEs reach their targets.


A decision and justification regarding the state portfolio should be made. Currently, the Republic of Croatia is reducing its portfolio by divesting minority shares in companies which are minority owned by the state. The government strategy regarding companies of strategic and special interest should be developed and revisited regularly. As in most OECD countries, the state portfolio has a strategic focus and includes companies from the utilities, energy and transport sectors. In Croatia, a number of sectors are represented, without determining which priorities or criterions are used when identifying strategic or special interest companies. This is, for example, the case for the tourism sector, where SOEs are unable to compete given the needs for significant investment and the lack of a strategic reason to stay in the market. Privatization/divestment could also be considered as an option given the large number of companies in the state portfolio, especially companies which are minority owned by the state.

In continuation of Croatia’s commitment to transparency and accountability, the Government should report on the financial results of SOEs, including those enterprises defaulting on their payments to the state budget. This may, on the one hand, inform a decision with regards to the state’s stake in the defaulting companies, and on the other encourage companies to meet their payment obligations due to public pressure. Companies that are late or defaulting should be subject to legal consequences similarly to private companies.
Box 9: Strategic Companies in Lithuania

Lithuania has made significant progress in SOE reform consistent with the OECD Guidelines over the last five years. The accomplishments include the introduction of annual aggregate reporting at a comparatively high international level; the introduction of an ownership policy, including the classification of SOEs according to types of objectives; the establishment of an ownership coordination function (Governance Coordination Center); heightened standards of transparency and disclosure in SOEs; and the inclusion of independent directors in a number of SOE boards.

Categorization of SOEs is done according to their objectives. State-owned enterprises are classified into three groups according to their objectives (those in group 1A are expected to maximize profits, those in 1B to also fulfill objectives in the national strategic interest, and those in group 2 to primarily fulfill national, social or political objectives, with profit seeking taking a secondary role). State ownership entities shall, when necessary, review SOEs’ objectives as well as the rationale for their continued state ownership and their legal form. Objectives of individual SOEs. State ownership entities shall ensure that SOEs in groups 1A and 1B seek growth in business value and obtain an adequate return on capital for the state, and that SOEs in group 2 seek profitability. Every three years the GCC shall calculate the target capital structures for all SOEs and, with the consent of the shareholding entity, submit them to the Government for approval. Short- and long-term financial and non-financial objectives shall be set for SOEs and their implementation monitored by their governance organs. Procedures for objectives-setting. The “relevant governance organs” of SOEs are to develop annual strategies and submit them to the GCC for review and comment, following which the state ownership entity submits the strategies to the Government for approval.

Valuation of assets. Listing public enterprises that are majority and/or minority-owned by the state on the Zagreb stock exchange should be a common practice. This will enable the professional and accurate valuation of assets and improve the fiscal position of the state by reducing deficits and government debt.

Good corporate governance is relevant for all companies (not just listed companies). The currently ongoing assessment of corporate governance practices in Croatia should consider applying good corporate governance practices to all SOEs and rather than limiting them to listed companies alone. Specific actions should be taken to improve the effectiveness of SOE boards and the independence of directors by enforcing independent recruitment practices and eliminating conflicts of interest by providing a clear separation of functions.

Recommended actions:

- Strategic decision regarding state participation vs divestment based on Asset Management strategy and asset life-cycle principles, cost-benefit practices, and performance management framework (targets and mid-term results);
- Establish a well powered oversight unit for asset management/strengthen State Audit function;
- Prioritize transparency and accountability by reporting on asset performance;
- Build a publicly accessible database;
- Identify strategic priorities and streamline the assets portfolio;
- Develop methodologically standardized medium-term operating and business plans for all companies of strategic and special interest and companies with majority state ownership; and
- Implementation and enforcement of CGC:
  o Recruitment and professionalization of SOE boards
  o Independent recruitment of Board members with private sector and international experience
  o Adoption of Guidelines on Wage policy
- Linking the remuneration policy with performance in the implementation of medium-term goals.
6 Cross-cutting issues and their implications for policy

**Fiscal Sustainability** – the effective and efficient management of state assets has a direct implication on public debt and fiscal sustainability. As mentioned earlier, the achievement of high levels of public debt from 2008 to 2014, was significantly affected by off-budget transactions, including the materialization of some contingent liabilities in SOEs. The activation of state assets and divestment activities will reduce debt levels and bring revenue to the state budget.

**Improving competitiveness and private sector development** - through restructuring of SOEs. The presence of large, unproductive SOEs may affect the overall productivity of the industries in which they operate, as they hamper allocative efficiency. This is likely to be driven by the lower productivity of typically large SOEs and the potentially negative spillover effects on the allocation of productive resources. The presence of SOEs can hamper the reallocation of labor and capital to more efficient firms. In Croatia, SOEs play an important role in economic activity in almost all sectors, however their productivity lags behind private sector firms. The process of privatization is expected to improve competitiveness and sector performance.

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36 European Commission 2018
7 Proposed implementation roadmap

The proposed implementation roadmap takes a phased approach in suggesting activities and actions that intend to increase the productivity of state assets, thereby contributing to higher-level development goals. The broad implementation and phased-in approach recognize the need for a review and harmonization of the regulatory framework, but it does not propose any specific changes to the legislative process. A detailed list of specific implementation activities is presented in Annex 2.
Figure 12: Guidelines for Implementation Roadmap for Policy Recommendations

**Short Term: Rationale for state ownership and operationalization of strategy**

I. Develop a long-term vision

- Develop a long-term vision and business model; adopt business principles in asset management

II. Enabling Environment

- a) Legal and regulatory framework
- b) Management Model

**Medium term: Test framework, Improve institutional capacity, clear assets AND make decision on asset utilization**

II. Enabling Environment

- c) Institutional capacity

III. Strategic Approach

- a) Increase revenues from the activation of state property and divestment of state-owned enterprises
- b) Increase the productivity of SOEs

**Long-term: Management of strategic assets for Fiscal sustainability, Revenue generation, Regional development, Strategic assets, Competitiveness:**

I. Develop a long-term vision

- Regularly revisit vision, ownership policy and revise legislation, adjust strategy and list of strategic assets as needed

III. Strategic Approach

- a) Increase revenues from the activation of state property and divestment of state-owned enterprises
- b) Increase the productivity of SOEs
8 Proposals for strategic (“Flagship”) projects

To support the reforms, EC SRSP financing has been approved for technical assistance on Corporate Governance Enhancement in SOEs, specifically focusing on education of supervisory board and auditor committee. Further, three other activities will be measured under the NRP 2019:

- Program for improving the management of property items in the state ownership
- Activation and commercialization of non-operational assets in the state-owned enterprises
- Enhancing the Compliance Function in State-Owned Enterprises

Other ideas for flagship projects are the following:

Project 1: Unifying asset management policy as well as identifying a proven capacity building path.

The proposed project is aimed at helping the government to draw a unifying asset management policy as well as identifying a proven capacity building path.

First, the government might want to unify criteria as to what is the purpose and the expected overall impact of asset management. Today asset management appears to serve separate purposes, from hurried fiscal demands to guaranteeing strategic assets and helping social goals. The project will help with questions and examples or proposals to guide the government in defining or re-defining a unifying mission for asset management, in synergy with the country’s social and economic development goals.

Second, for Croatia, who has already embarked on the complex process of capacity building for asset management, the proposed project would provide external assistance in areas in which the government may benefit from an independent external evaluation. Further, the proposed project will draw relevant lessons from international experience and adjust them to the Croatian experience in such a manner that the progress achieved so far can be capitalized on as the baseline for the next phase of the reform program.

Third, the project could assist Croatia in formulating a comprehensive service business model that explicitly connects actors, information, technology, financial and infrastructure resources in a facilitating environment. Such a business model will help to integrate several sub-service models which are developed on the nature of the asset. Key asset management stakeholders and the public will have a reference-view of what everybody is doing and what is the purpose of their actions. Just as a private company needs to articulate the areas of planning, production, financing, marketing/communication, accountancy and reporting, so does the government need to do the same for asset management. Value chains need to be explicit and individual responsibilities must be monitored and controlled. Moreover, this flagship project would help the government raise the right questions and share lessons on the risk factors of alternative asset management models – as well as possibly, to even run simulations together with government expert practitioners.

Fourth, the project could help strengthen institutional capacity for asset management by supporting the implementation of a cost-benefit analysis which is the best available tool to reunite different purposes of asset management under a single umbrella while developing a business-like model.
Fifth, as indicated by contemporary EU trends, the final test for the value added by asset management lies in the results and impacts that managers directly produce or at least contribute to. Framing Croatia’s asset management policy and programs under a performance management approach will demand quality goals and result indicators, adequate human and information resources, increased monitoring and evaluation capacities, and reporting and accountability standards. The path towards performance-focused asset management is filled with risky steps the government should know about in advance. The project will not only help design a performance-focused asset management that fits Croatia’s institutional development but it will also propose risk-mitigations strategies that have demonstrated to be effective elsewhere. The Flagship project will also help launch prototypes that validate and adjust the initial proposals.

The above method will guarantee capacity formation as well as sound design and demonstration effects. The best method to integrate these three purposes is probably learning by doing. Technical assistance would be provided by external consultants who would work hand-in-hand and in close collaboration with the government practitioners. This method will allow the project to advance the specific reform recommendations included in the Policy Note.

**Project’s relevance to national strategic framework:**

Improving the disposition and management of State assets is relevant to achieve two of the main objectives of the 2018 National Reform Program, namely: (i) strengthening economic competitiveness; and, (ii) sustainability of public finances.

**Economic potential and exploitation:**

The most efficient and effective use of both financial and non-financial assets will have positive impacts in the economy. The disposition, use, lease or purchase of state-owned assets including homes, land, commercial or other properties will create revenues and reduce public recurrent expenditures and liabilities, accelerating economic growth and improving the country’s competitiveness environment.

**Sustainability:**

Efficient public assets management has a positive effect on public finances by freezing resources that can be used to implement the country’s social and economic development goals.

**Duration:**

2-3 years

**Estimated amount of funding required:**

Technical assistance for the preparation of a unifying asset management policy as well as to identify a proven capacity building within the institutions responsible for the administration of public sector assets.

$3-4 Million

**Preconditions - points for consideration before the project can begin:**

Three preconditions which are essential to initiate this project: political will, leadership and an adequate regulatory framework.

**Project leader:**

Ministry of State Assets

**Beneficiaries:**
Other Ministries including Ministry of Finance, Ministry of Economy, Center for Sale and Restructuring (CEPR), State Property LTD, and Ministry of Regional Development (MRDEUF), Regional Governments and Municipalities.

**Project 2: Simulating the development of financially “challenged” areas through the activation of state assets.**

Stimulating the development of financially challenged areas (mountainous regions, islands, assisted areas) through the activation of state assets. The state’s real assets, such as commercial property, land and apartments can be leased out or sold to investors with the objective of incentivizing regional development and entrepreneurship. The lease/sale of state-assets will be based on specific criteria and project guidelines aimed at activating dilapidated and unused state property to advance the economic development of the regional and national economy.

The project will facilitate the preparation of guidelines and criteria for activation of state property in challenged areas, including abandoned military and industrial complexes, light houses, sport facilities and other property owned by local and regional self-government units. The activities may include support for innovative projects to revitalize military and industrial complexes, and proposals to add new sustainable economic facilities to these properties (incubators/accelerators for entrepreneurs, social entrepreneurs, cultural and creative industries, etc.). Other examples of projects may be in individual/sustainable/ecotourism and include the activation of lighthouses into innovative tourist facilities in challenged “island” areas.

The project will conduct a review of international best practices from EU member states and other countries to provide relevant and innovative examples of projects that leveraged state property for the development of challenged regional communities.

**Project’s relevance to national strategic framework:**

Relevance for the Regional Development Strategy 2020, the EU Operational Program for Rural Development, and the Operational Program for Maritime and Fisheries of the Republic of Croatia 2014 – 2020. The disparities between the more prosperous parts of Croatia and those areas of the country which are lagging have been widening over the years. These imbalances constitute a fundamental obstacle to the sustainable competitiveness of the country as a whole – in terms of productivity, unemployment and quality of infrastructure.

**Economic potential and exploitation:**

The lease or purchase of state-owned homes, as well as commercial or other property under preferential conditions in the challenged areas will facilitate more balanced development throughout the country, as well as stimulating population, economic and social trends.

**Sustainability:**

Balanced regional development and the reduction of the socio-economic disparities between different parts of the country are central components in national efforts to achieve sustainable competitiveness at the global level.

**Duration:**

1-2 years

**Estimated amount of funding required:**
Technical assistance for the preparation of guidelines for the development and implementation of innovative projects aimed at increasing regional development in challenged areas through activation of state property.

$ 1-2 million

**Preconditions - points for consideration before the project can begin:**

Necessary preconditions described in the note include, clarifying ownership issues and the enactment of the new State Property Management Act

**Project leader(s):**

A multisectoral project that will include close cooperation and coordination of several line ministries depending on their authorities.

**Beneficiaries:**

LGUs in challenged areas, populations in challenged areas, youth in challenged areas.
Annex 1: International Case Studies of State Asset Management

Overview

The case studies focus on identifying common rules, institutional arrangements, and management incentives to improve the efficiency and public usefulness of government-owned property in three Eastern European economies – Poland, the Czech Republic and Lithuania.

Lesson learned: The experience of the countries summarized below is similar, as a result of their shared past and transition from a centrally planned to market economy. Until 1989 all properties were state-owned; thus, privatization was a critical component of the countries’ transformation process. The wave of privatization and gradual cultivation of the legal framework were key success factors for economic development. In all three countries the wave of privatization of SOEs has slowed down. Current policies aim at improving SOE productivity and competitiveness while only holding on to those companies which have strategic importance for the national economy.

The choice of a management model of state-owned assets (centralized, decentralized or hybrid model) is an important one. The OECD recommends that property ownership be exercised by a single dedicated, accountable entity within the government, rather than keeping ownership at the level of line ministries or local government. The benefit of the central approach is to ensure consistency and allow for concentrating relevant experts on key issues in one place. Experience shows that countries with weaker governance environments are at greater risk of losses to welfare, productivity and growth due to cronyism if they operate a decentralized governance model that leaves management in the hands of line ministries with little coordination across government entities. Some countries operate a hybrid model in which SOE management is under the individual line ministries with a central body/coordinating agency with responsibility for coordinating policy/financial performance (usually the Ministry of Finance) or other whole-of-government objectives. Together, these agencies share the overall execution of the ownership function commanding each individual SOE. Economic literature suggests that countries are likely to fare better with a centralized model, provided the central ownership entity is subject to effective accountability.

Lesson learned: As indicated above, Centralization of asset management practices is preferred as it ensures greater coordination of ownership policies and accountability in the management of assets.

The countries featured in this Annex have adopted different institutional arrangements and ownership models. Poland is currently transitioning from a centralized to a decentralized model in view of a new political course towards industrialization and regional development. It is yet to be seen how the new model will impact state asset outcomes. The Czech Republic applies a hybrid model for SOE management with the Ministry of Finance exercising a rather limited financial performance function (not all SOEs are subject to financial oversight) and there is no formal coordination agreement between asset stakeholders. Unlike SOEs, real property in the Czech Republic is managed centrally. The state has been able to activate real assets through the Office for Government Representation in Property Affairs (OGRPA) and its regional structure which follows the judicial network throughout the country. SOE management in Lithuania is under individual ministries, with the Governance Coordination Centre

(GCC) as the coordinating agency responsible for monitoring SOEs’ performance and compliance with specific guidelines, as well as playing an advisory role with regards to SOEs’ governance practices. The OECD has recognized the progress Lithuania has made in advancing corporate governance practices.

**Lesson learned:** If a decentralized model is pursued, a necessary precondition is a strong system of checks and balances to hold the managing body accountable. As indicated above, the decentralized model is suitable for countries with a strong institutional environment and corporate governance mechanisms already in place.

**A clear institutional objective is the foundation of a strong ownership policy.** This could be a state ownership framework, law or a high-level political document detailing the objectives, rationale and elements of policies, laws, and regulations applicable to state assets. It should further outline a coherent strategy for exercising the state’s ownership function. Lithuania’s Ownership Guidelines indicate profit maximization, national strategic interests as well as social purposes as key SOE policy objectives. In the Czech Republic, the Ministry of Finance attempted to pass a State Ownership Strategy — recommended by the OECD — which was rejected by the government in 2017. In Poland, the Council of Ministers holds control of the 47 strategic SOEs, the majority of which are in sectors regarded as particularly vital to the state and include, inter alia, areas such as energy, telecommunications, chemicals, refineries, and defense.

**Lesson learned:** A review of state ownership should take place regularly and make the case for divestment of assets if they no longer meet state ownership objectives and specified performance indicators.

**Table 1:** Case studies summary table

<table>
<thead>
<tr>
<th>Country</th>
<th>Organizational Structure</th>
<th>Management Model</th>
<th>Governance principles applied</th>
<th>Criteria for identifying assets of strategic/special interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poland</td>
<td>Prime Minister &amp; Coordinating Council (strategically important companies and those where the state has majority stake) Line Ministries</td>
<td>From centralized to decentralized with coordinating body (limited role)</td>
<td>Yes, currently implementing OECD corporate governance principles</td>
<td>Strategic industries (share of GDP, employment etc.);</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>Ministry of Finance (Financial performance supervised by MoF) Line Ministries</td>
<td>Hybrid</td>
<td>Yes, OECD governance principles are applied</td>
<td>Yes-based on profits/importance for the state budget</td>
</tr>
<tr>
<td>Lithuania</td>
<td>Coordinating Agency Line ministries</td>
<td>Decentralized with coordinating agency</td>
<td>Yes, OECD governance principles are applied</td>
<td>Yes – based on profits/importance for the state budget</td>
</tr>
</tbody>
</table>

Poland

Overview

Poland has embarked on a new approach to state asset management: moving away from a centralized to a dual state asset management system. Liquidating the Ministry of Treasury (MOT) in early 2017, symbolically ended a stage of Poland’s transition and privatization period.\(^{39}\) The goal of the MOT was to oversee and manage national property and to launch, organize and administer control over their privatization. SOEs form a large part of the Polish economy by dominating the energy, financial, rail, telecommunication and forestry sectors in terms of both economic activity and employment. Some SOEs are among the largest firms not only in Poland but also in Central and Eastern Europe, as well as in the world.\(^{40}\) The rise of protectionist policies in recent years - including a stronger state role in strategic sectors and in managing SOEs, creates the potential for politicization, which could negatively impact the efforts to improve corporate governance and commercial practices, as well as foster more competitive market segments.\(^{41}\)

The management of national property assets was previously entrusted to the Ministry of Treasury (MOT), which was abolished in January 2017. The liquidation of the ministry occurred in order to achieve more financially efficient and effective supervision of State-owned enterprises (SOEs), and to adopt better corporate governance processes. The new regulations are compliant with OECD guidance principles on corporate supervision.\(^{42}\) As part of the restructuring process, SOEs were divided among other line ministries according to the relevant portfolio. Enterprises in which the government was a majority share-holder and/or those classified as "strategically important" were placed under the supervision of the Council of Ministers.

As of December 31, 2016, the MOT supervised around 400 entities including 230 active entities (conducting business operations). The rest represented companies under bankruptcy, in liquidation and companies where MOT held employee shareholding. Poland’s 2017 Investment Climate statements provides the number of SOEs transferred to the relevant line ministries based on their function.\(^{43}\) Some examples include: Ministry of Energy – 42 firms, Ministry of Construction and Infrastructure – 47 firms, Ministry of Economic Development and Finance – 240+ firms among others.

The September 2018 report released by the European Commission\(^{44}\) indicates that the Government has more than 3,000 public sector holdings and controls 90% of the companies

Organizational Structure

The new governance framework is being implemented gradually. The new governance law of 2017 formally kept the oversight of SOEs centralized, while transferring the responsibilities from the MOT to the Council of Ministers. The supervision was delegated to line ministries, some of which (e.g. the Ministry of Energy) set their own supervisory guidelines. In October 2017, the Council of Ministers

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\(^{39}\) A NEW APPROACH TO COMPANIES WITH STATE TREASURY SHAREHOLDING – Warsaw Institute, 2017

\(^{40}\) Forbs magazine annual ranking of the top 2,000 public companies in the world, includes five Polish companies listed: PKN Orlen; PKO Bank Polski; Grupa PZU; Grupa PGNiG; and PGE Polska Grupa Energetyczna.

\(^{41}\) European Commission - Country Report Poland 2017, 2018

\(^{42}\) A NEW APPROACH TO COMPANIES WITH STATE TREASURY SHAREHOLDING – Warsaw Institute, 2017


issued supervisory guidelines as a reference governance framework for all line ministries. The Council of Ministers is preparing revisions to the January 2017 governance law, which would increase the Council of Minister’s supervisory rights. The objective of SOEs’ management function is defined as “sustainable growth in shares value, considering the economic policy of the state” (Republic of Poland, 2016). It is yet to be seen how the framework will be operationalized and to what extent it will help make sound economic investment decisions.

Furthermore, the Council for Companies with State Treasury Shareholding was established to act as an advisory body providing professional support to the Prime Minister. This Council will also assist in the coordination of corporate governance matters and in the assessment of the candidates seeking to become members of the management bodies in companies with State Treasury shareholding.

Existing Legislation

**Emphasis on protectionist policies.** In recent years legal instruments of protectionist or interventionist nature have been reinforced. As part of the reform efforts targeting the management of state treasury, Polish authorities implemented substantial legislative changes, including:

- The Act of 24 July 2015 on Control of Certain Investments;
- The Act of 9 June 2016 on Rules of Determining Remuneration of Persons Managing Certain Companies; and,
- The Act of 16 December 2016 on Rules of State Asset Management.45

**These actions are part of a comprehensive long-term development plan for the country.** The plan calls for a series of corrective actions aiming to develop the Polish economy based on five fundamental pillars: reindustrialization; development of innovative companies; raising capital for development; foreign expansion; and social and regional development.

The aforementioned legislative changes will substantially rearrange how SOEs function in Poland; among these changes, the Act on Control of Certain Investments is perhaps considered to be the most significant. The Act stipulates that an entity purchasing shares, which results in the acquisition of control, or the achievement of so-called ‘significant participation’ in, the company that is classified as a protected entity, are obliged to notify the Prime Minister or the relevant minister about the transaction (participation shares: 20%, 25%, 33% or 50%). These authorities will then have the right to object to the transaction within a period of 90 days. Such a decision is subject to judicial review. The Act on Control of Certain Investments aims to protect companies that are considered strategic for public security from hostile takeovers by external entities.

The Act on remuneration of persons managing certain companies aims to ensure the competitiveness of salaries for the management of SOEs, as well as to provide clear and transparent rules for determining remunerations. In contrast to former regulations, this Act does not impose fixed remuneration limits, but rather introduces a mechanism for determining remuneration that is composed of a fixed base salary and variable compensation.


46 A NEW APPROACH TO COMPANIES WITH STATE TREASURY SHAREHOLDING – Warsaw Institute, 2017
Strategic companies

Companies classified as important for the economy are under the supervision of the Prime Minister. The list of such companies can be found at the following link https://bip.kprm.gov.pl/kpr/bip-kancelarii-prezesa/podmioty-nadzorowane-pr/4884.lead.html. There are 47 SOEs under the direct supervision of the Prime Minister. Among them are companies of strategic importance whose shares cannot be sold, including but not limited to: Grupa Azoty SA, Grupa LOTOS SA, KGHM Polska Miedz SA, Energa SA. The majority of the companies are in sectors regarded as particularly vital to the state and include inter alia areas such as energy, telecommunications, chemicals, refineries, and defense. The government intends to keep majority share ownership of these firms, or to sell tranches of shares in a manner that ensures the state maintains control over them. The government is currently focused on improving the efficiency of the remaining SOEs.

The Act of December 16th, 2016 on Rules of State Asset Management stipulates that:

- Shares owned by the state treasury in companies of strategic importance to the state economy cannot be donated or transferred to local government units or a union of local government units.

- A company of significant importance for the state economy can be considered a company with the participation of the State Treasury or a state legal person conducting business activity, whose subject is:
  1) generation or transmission of electricity or
  2) production of motor gasolines or diesel oil, or
  3) pipeline transport of crude oil, motor gasolines or gas oil, or
  4) storage of motor gasolines, diesel oil, natural gas, or
  5) underground storage of crude oil or natural gas, or
  6) production of chemicals, fertilizers and chemical products, or
  7) manufacturing or trading of explosives, weapons or ammunition and articles or technology to be utilized by military or police officer, or
  8) regasification or liquefaction of natural gas, or
  9) transloading of goods in seaports, in particular in the field of oil and its by-products, and liquefied natural gas, or
  10) distribution of natural gas or electricity, or
  11) telecommunications activity, or
  12) transmission of gaseous fuels, or
  13) mining or processing of metal ores used for the production of explosives, weapons or ammunition and products or technology for military or police purposes, or
  14) mining of hard coal, natural gas or crude oil, or
  15) mining and processing of copper ore, or
  16) financial or insurance activities, or
  17) activities related to servicing the real estate market, or
  18) management of a special economic zone, referred to in the Act of 20 October 1994 on special economic zones, or
19) production of food products, or
20) activities of holding companies, or
21) activities in the field of land transport, water transport, including sea transport, or air transport, or Postal services subject to universal service obligations, or
23) information and communication activities

The Czech Republic

Overview

*The current objective of the government is to increase the efficiency of SOEs and improve corporate governance standards in accordance with the OECD recommendations. However, further plans for the privatization of SOEs are not in line with the Czech Government’s policy.*

While the management of property assets is relatively coherent and operates with the necessary degree of centralization, the management of SOEs does not. SOEs are managed by individual line ministries, with the Ministry of Finance exercising some limited oversight in regards to corporate governance principles and the setting of some basic objectives for SOEs. The Ministry of Finance attempted to pass a State Ownership Strategy – recommended by the OECD - which was rejected by the government in 2017.47

There is a lack of state ownership legislation, which leads to a fragmented strategic management of SOEs. The Czech legislation regulates the issue of SOEs very briefly. The most significant problem seems to be lack of state ownership policy. In addition, Czech legislation does not cover the rules for the appointment of persons to SOE bodies. There are some general rules for the nomination of candidates for Supervisory boards and the remuneration of board members and managers of SOEs. The supervision of economic activities of SOEs is not properly enforced– for example, some SOEs such as ČEZ do not fall under the jurisdiction of the Supreme Audit Office.48

The central government owns a large number of property assets: around 5,000 buildings across the whole country with a total cost of EUR 88.4 million for their operation. The total value of the buildings is estimated at EUR 2 billion. The state owns approximately 280 SOEs, the majority of which are in liquidation. SOE are a major player on the market in the Czech Republic. The turnover of publicly-owned enterprises exceeds EUR 25 billion, which accounts for about two thirds of the Czech state budget.

The September 2018 report released by the European Commission49 indicates that the Czech Republic owned stakes in almost a thousand firms and that about 80% of public sector holdings are fully controlled by Government.

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48 Governance of state institutions is controlled by the Supreme Audit Office, but it does not have the power to control all SOE. The Czech Republic fulfils only five recommendations out of 20 OECD recommendations for state-owned enterprises, which are perceived as a standard for the good practice of SOEs.
Organizational Structure

The management of property assets in the Czech Republic is based on two structures supervised by the Ministry of Finance (Figure 1a). These are the Legal and State Property Department (LSPD) and the Office for Government Representation in Property Affairs (OGRPA). The links and ways in which these two organizations cooperate are further illustrated in this chapter.

The LSPD is the central administrative authority in the area of state property management. This department operates under the Ministry of Finance, supervising and coordinating all legal matters related to state assets. The LSPD is organized into five units: (i) State Property Unit, (ii) Strategic Companies and Investment Incentives Unit, (iii) Compensation and Restitution Agendas, (iv) Discharge of Environmental Liabilities Arising During Privatization and (v) Legislation and Dispute Agenda.

Within its mandate, the department drafts laws, and implements legislation and the state’s financial policy for state asset management. It also provides coordination and guidance for the uniform exercise of the state’s ownership rights.

Figure 1: Public core bodies in charge of asset management in the Czech Republic

Figure 1a: Real property and Privatization of companies
Figure 1b: Management of SOEs

Property Assets

The State Property Unit (SPU) exercises the role of the Ministry as the central administrative authority for state property management, including taking on activities such as the general exercise of ownership and other property rights of the state. In relation to the privatization of State property, the Unit exercises the competencies of the Ministry in the preparation of transfers of State property to other persons pursuant to Act No 92/1991 and Act No 178/2005. In co-operation with the Office for the Protection of Competition, the Unit addresses issues related to EU State aid rules. The Department

50 The website of the Czech Ministry of Finance
carries out legislative activities in the field of State property management. The Department is responsible for the development of the State’s financial policy in relation to State property management and for the coordination and methodical guidance of State ownership right.

The Office for Government Representation in Property Affairs (OGRPA) was established in response to the need to modernize the property portfolio. The OGRPA is a governmental structure (established on July 1st, 2002) which is supervised by the Ministry of Finance. The main objective of the Office is to improve the legal services of the state and to ensure the efficient management of state-owned property. The OGRPA is often commissioned by police authorities, prosecutors or judges to administrate the property in penal proceedings.

Figure 2: OGRPA offices around the country

The structure of the OGRPA follows that of the judicial system in the country. The Office’s activities are spread out throughout the country. The office is structured in eight regional and 45 district offices. The headquarters office is in Prague. The OGRPA employs approximately 1800 staff members across the whole territory. The arrangements are such that solicitors dealing with legal proceedings and advisory lawyers are seated in Prague. Therefore, the regional departments’ staff is in charge of legal services and property management and administration.

In 2016 the Office achieved substantial financial results. In terms of income, the OGRPA submitted approximately EUR 40 million to the state budget. The revenue was mainly from the sale and lease of property. Moreover, in 2016, the Office registered the lowest expenditure since its establishment; about EUR 52 million. The Office manages over 365,000 properties for a total value of EUR 690 million. Its property portfolio includes real estate and other assets, while the real estate represents half of the total assets with a value of approximately EUR 434 million. In 2016, the OGRPA sold 3,479 properties and over 17,000 were transferred free of charge.

The OGRPA uses effective asset management software to improve data collection and use. High-quality data has the potential to enable centralized dashboards and wider use of predictive analytics.

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in property management. The Office’s asset management system is connected to other parts of the internal IT system and to other external data sources. For instance, the OGRPA’s system is connected to the Central Registry of Administrative Buildings (CRAB), and its information is used for the analysis of potential savings. The figure below represents the architecture for the asset management system.

**Figure 3: Structure of the OGRPA’s asset management system**

![OGRPA territorial structure](image)

Source: OGRPA, Basic Profile 2011

**SOE sector**

The SOE sector is managed under a hybrid ownership model where the individual line ministries oversee the operational performance of SOEs and the Ministry of Finance is responsible for their financial performance. Together, line ministries and the Ministry of Finance’s share the ownership function commanding each individual SOE. SOEs are managed by a Board of Directors (statutory body) and a Supervisory Board that generally includes representatives of the government and trade unions (representing employees, both union and non-union, as required by law).

The Ministry of Finance oversees the coordination and implementation of policies in the state asset management area through the unit of Strategic Companies and Investment Incentives. It ensures the exercise of ownership rights in accordance with legislation – mainly the Act on Property of the Czech Republic. The Civil Code and Business Corporations Act provides instructions for voting at general meetings of companies and thus decides on the constitution of boards of directors, approves financial/business plans, decides about distribution of profits/losses, approves investments in significant cases, and approves the treatment of equity interests etc. The ministry also exercises the rights and obligations of the shareholder in relation to state ownership interests in several SOEs: ČEB, a.s., ČMZRB, a.s., EGAP, a.s. and in other selected companies (typically joint-stock companies). It has created the Strategy of State Ownership Policy (*which has not been adopted*). Lastly, the ministry plays co-coordination role to ensure the implementation of OECD’s corporate governance principles.

**Existing legislation**

Except for the Act No 219/2000 Coll., On Property of the Czech Republic, there are no other formal setups to enable relationships between state property stakeholders managing state-owned
properties in the Czech Republic. When a certain SOE is owned by several state stakeholders, then there is usually a written agreement.

SOEs are governed by:

- Act No. 77/1997 Coll., on State Enterprise.
- Act No. 90/2012 Coll., on Business Corporations

The OGRPA’s work program is based on the following legislation:

- Act No. 279/2003 Coll., Act on execution of securing of the property and things during the criminal proceedings.

In terms of SOEs management, there is a lack of state ownership legislation, resulting in a fragmented strategic management of SOEs. The Czech legislation regulates the issue of SOEs very briefly. The most significant problem seems to be the lack of state ownership policy. In addition, Czech legislation does not include rules for the appointment of persons to SOE bodies. The supervision of economic activities of SOEs is not properly enforced— for example, some SOEs such as ČEZ do not fall under the jurisdiction of the Supreme Audit Office.  

Strategic companies

The strategic character of an SOE is given by the importance of the individual SOE for the Czech economy.

The Ministry of Finance exercises shareholder rights and obligations in connection with state ownership interests in selected companies of strategic importance through the department of Strategic Companies and Investment Incentives. These companies are ČEZ, a.s., ČMZRB, a.s., EGAP, a.s. and other selected companies (typically joint-stock companies). They are governed by Act No. 90/2012 Coll., on commercial corporations, which includes limited partnerships and joint-stock companies, that are primarily created for business purposes and therefore have as their main objective the achievement of profit. State-owned strategic companies are particularly relevant to the state as they make large contributions to the state budget. Even if they are not under the management of the Ministry of Finance, some trading companies, such as Czech Railways, can also be considered as companies of strategic interest.

Another group of entities representing a significant volume of state property consists of state-owned enterprises set up by individual ministries in order to satisfy important societal, strategic or public interests. Their goal is also to generate profits. These businesses manage state property without having their own property. Examples include Lesy České republiky, s.p., Česká pošta s.p., Air Traffic

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52 Governance of state institutions is controlled by the Supreme Audit Office, but it does not have the power to control all SOE. The Czech Republic fulfils only five recommendations out of 20 OECD recommendations for state-owned enterprises, which are perceived as a standard for the good practice of SOEs.
Control of the Czech Republic, s.p. The legal regulation regarding the status, internal organization and management of state-owned enterprises are contained in Act No. 77/1997 Coll., On State Enterprise. Usually, these companies have monopoly position in their respective sectors.

Lithuania

Overview

State property is understood as a particularly important priority in Lithuania’s economic policy as it ensures the country’s economic prosperity, democracy and state’s ownership role. This is especially relevant in the present stage of Lithuania’s economic development when factors of the global financial crisis have had a negative impact on the country’s social and economic welfare. In recent years, the state has initiated reforms aimed to activate state property so as to ensure fiscal sustainability and replenish the state budget.

Lithuania is an important shareholder or owner of roughly 160 enterprises engaged in economic activities with a combined asset value of roughly 20% of GDP, thereby controlling the largest share of commercial assets in the country. At the end of 2014, the calculated market value of state-owned enterprises amounted to EUR 4.8 bn, with transport and energy companies accounting for EUR 1.81 and EUR 1.78 bn, respectively. The September 2018 report released by the European Commission indicates that the Government has 177 public sector holdings, majority of which are fully controlled by the Government.

Over the last five years, Lithuania has made significant progress in SOE reform consistent with the OECD Guidelines. The accomplishments include the introduction of annual aggregate reporting at a comparatively high international level; the introduction of an ownership policy, including the classification of SOEs according to types of objectives; the establishment of an ownership coordination function; heightened standards of transparency and disclosure in SOEs; and the inclusion of independent directors in a number of SOE boards. This should, however, not distract from the continued need to clarify the rationale for state ownership of individual enterprises and subject these to recurrent reviews.

Governance Model

State asset management in Lithuania is decentralized and managed by a coordinating agency. While line ministries continue to be the main bodies responsible for exercising the state’s ownership rights, the Ministry of Economy plays a nominal role in coordinating SOE governance policies and practices across sectors. The Governance Coordination Centre (GCC) is the coordinating agency responsible for monitoring SOEs’ performance and compliance with specific guidelines, as well as playing an advisory role regarding SOE governance practices. Initially a public institution unit under the Ministry of Economy, the GCC was in 2012 transferred to the State Property Fund, a state enterprise under the Government. In 2014 the State Property Fund was merged with the Bank of Property under the

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55 OECD 2016 OECD REVIEW OF THE CORPORATE GOVERNANCE OF STATE-OWNED ENTERPRISES LITHUANIA
Ministry of Finance. The staff of the GCC consists of only five people (2015). Its future role and resourcing are unclear. The fact that it was transferred from the Ministry of Economy – the institution responsible for coordinating SOE governance policy – to an individual state enterprise arguably raises questions about the legitimacy of its institutional role and its capacity to effectively monitor SOE governance practices and advise on their improvement.

**SOEs**

**Lithuania has a decentralized state ownership structure**, with 12 ministries (in their own capacity, or via ministerial departments) and 5 other public institutions responsible for exercising ownership rights. Under the current SOE framework, there is no clear overall separation between the state’s ownership function and other functions that can influence conditions for Lithuanian SOEs. A number of line ministries simultaneously exercise sectoral regulation and ownership rights in SOEs. In some cases, the sectoral regulation and ownership functions are carried out by different departments within the concerned ministry, consistent with the recommendations of the Ownership Guidelines.

**The Ministry of Economy**: In 2013, a first attempt to identify and quantify the costs of SOEs’ public policy objectives was undertaken. The government’s disclosure guidelines for SOEs (“Transparency Guidelines”) were amended to include a new provision authorizing the Ministry of Economy to develop recommendations for defining SOEs’ public policy objectives (“special obligations” by national nomenclature) and for establishing related reporting requirements.

**The Governance Coordination Centre (GCC)** is established as an authority designated to monitor and analyze the implementation of the Ownership Guidelines by state ownership entities and carries the following functions:

- Receive, analyze and summarize the information disclosed by State-owned enterprises, including an enterprise’s sets of financial statements, audit findings and audit reports, annual and interim reports of State-owned companies, annual and interim activity statements of State enterprises. Actions related to the submission of of financial statements, annual reports, activity statements and other information to the relevant authorities, and make a public statement on compliance with the provisions of the Guidelines for ensuring transparency of the activities of State-owned enterprises, approved by Resolution No 1052 of the Government of the Republic of Lithuania of 14 July 2010 (Official Gazette, 2010, No 88-4637) (hereinafter referred to as ‘the Transparency Guidelines’). Present evaluations and summaries along with conclusions and proposals to the Government of the Republic of Lithuania (hereinafter referred to as ‘the Government’) and, where appropriate, to the Ministry of Economy and the authority representing the State;

- Monitor and analyze the financial and non-financial performance indicators of State-owned enterprises and present (to the Government and the authority representing the State) proposals to improve the performance efficiency of the State-owned enterprise;

- Prepare proposals for the Government and the Ministry of Economy in regard to the improvement of the governance policy for State-owned enterprises;

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56 OECD State-owned Enterprises Lithuania 2015
• Summarize the governance practices of State-owned enterprises, develop methodological recommendations on the governance of State-owned enterprises and present them to the authorities representing the State;

• Perform monitoring and analysis of the application of the Procedure and submit related recommendations to the Government;

• Provide technical service to the authority representing the State and the selection committee when they carry out their functions in relation to the selection and appointment of candidates for membership in the organs of State-owned enterprises;

• At the request of the authority representing the State, present its opinion or recommendations on specific issues in the governance of State-owned enterprises;

• At the request of the authority representing the State, advise it in the process of evaluating the performance of the members and leaders of the supervisory and management organs of State-owned enterprises;

• At the request of the authority representing the State or an organ of a State-owned enterprise, advise it in the process of drafting the working procedure of the collegial organ, the job description of the organ’s leader, as well as other documentation relating to the management organization of the State-owned enterprise;

• Present its opinion on whether or not it would be reasonable to invest State assets; and,

• Perform other functions assigned to it by the Procedure and other legal acts.

**Privatization of shares**

**According to the Law on Privatization of State-Owned and Municipal Shares, once the Government has decided that a (fully corporatized) SOE is to be privatized**, its ownership is transferred from the state ownership entity (e.g. line ministry) to the Manager of State Assets (managed on a centralized basis) - a function carried out by the Bank of Property, which is responsible for all privatization procedures. The privatization of certain state-owned enterprises is prohibited by other laws or Government decisions. This concerns notably all statutory SOEs and those recognized by law as being of strategic national importance.

**Real Estate**

**The Bank of Property (Turto Bankas) is responsible for implementing policies related to the management and disposition/privatization of administrative real estate and ownership shares in Lithuania. The Bank is an SOE under the Ministry of Finance.**

**The Ministry of Finance:** in addition to exercising state ownership rights in Lithuanian Energy, the Ministry exercises full ownership rights in five SOEs operating in the financial sector as well as the Bank of Property (Turto Bankas) – which is responsible for implementing policies related to immovable property. The responsibilities of the Ministry of Finance with regards to immovable property are:

• to supervise the activities of the Bank of Property related to the administration and coordination of the State-owned immovable property renewal process;

• to develop and assist in the development of the legislation regulating the State-owned immovable property renewal process;

• to examine and discuss the issues tied to the renewal of State-owned immovable property; and,
• to submit the draft List of State-owned Immovable Property under Renewal, developed by State Enterprise Bank of Property, to the Government for its approval.

The responsibilities of the State Enterprise Bank of Property (Turto bankas):

• to develop the draft List of State-owned Immovable Property under Renewal and present it to the Ministry of Finance;
• to enter into agreements on the State-owned immovable property renewal with the State-owned property managers and the State budget appropriation managers (in case the State-owned property manager is not the State budget appropriation manager);
• to manage, use and hold disposition of the renewable State-owned immovable property transferred to the Bank of Property in accordance with the agreements entered into with the State-owned property managers and the State budget appropriation managers (in case the State-owned property manager is not the State budget appropriation manager);
• to auction off the State-owned immovable property when/if it fails to meet the State-owned property managers’ requirements in performing the State functions appointed and the piece of land assigned thereto, unless the existing laws provide otherwise;
• to purchase new immovable property;
• to perform customer’s (contracting authority’s) functions, when the State-owned immovable property is reconstructed or newly constructed;
• to borrow the funds necessary for the State-owned immovable property renewal if the funds collected from selling of the State-owned immovable property are not enough, which failed to meet the State-owned property managers’ requirements in performing the State functions appointed; and,
• for the performance of the aforementioned procedures the Bank of Property is granted a remuneration.

Legislation

According to the Lithuanian authorities, all legal acts, including Government resolutions, are presented to the public for comments and opinion.


The disposition of property assets is regulated by the Law on Privatization of State-Owned and Municipal Shares. The Law on Privatization of State-Owned and Municipal Shares governs the transfer of state- and municipal-owned shares to private shareholders. It applies only to shares that the Government of Lithuania decides to privatize and outlines the procedures that must be followed in order to transfer them to private owners.

A number of amendments to the Law on Companies were adopted by the Parliament in November 2017 in response to Lithuania’s OECD accession process, and subject to implementation by the Corporate Governance Committee.

Strategic Companies

Categorization of SOEs is done according to their objectives. State-owned enterprises are classified into three groups according to their objectives (those in group 1A are expected to maximize profits, those in 1B to also fulfil objectives in the national strategic interest, and those in group 2 to primarily fulfil national, social or political objectives, with profit seeking taking a secondary role). State ownership entities shall, when necessary, review SOEs’ objectives as well as the rationale for their continued state ownership and their legal form.

Objectives of individual SOEs. State ownership entities shall ensure that SOEs in groups 1A and 1B seek growth in business value and obtain an adequate return on capital for the state, and that SOEs in group 2 seek profitability. Every three years the GCC shall calculate the target capital structures for all SOEs and, with the consent of the shareholding entity, submit them to the Government for approval. Short- and long-term financial and non-financial objectives shall be set for SOEs and their implementation shall be monitored by their governance organs.

Procedures for objectives-setting. The “relevant governance organs” of SOEs are to develop annual strategies and submit them to the GCC for review and comments, following which the state ownership entity submits the strategies to the Government for approval.
# Annex 2: Prioritized Policy Recommendations Table

## a) Short-term (0 - 2 years)

<table>
<thead>
<tr>
<th>Title</th>
<th>Problem</th>
<th>Approach</th>
<th>Required action</th>
<th>Risks management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of long-term vision and business model for asset management</td>
<td>Lack of clear vision for asset management rationale, fragmented regulatory framework, current management model falls short of ensuring coordination between asset holders/customians and enforcing horizontal coordinated management practices</td>
<td>Developing a long-term vision and business model with broad appeal for consensus that allows for flexibility. The Ministry of State Assets as a focal point and coordinator of state asset management policy</td>
<td>-Develop a long-term vision -Develop business model and adopt business principles in asset management</td>
<td>Sustained commitment to reforms</td>
</tr>
<tr>
<td>Lack of Ownership Policy</td>
<td>Large number of assets and bodies as holders/customians of state assets; necessitates the need for an overarching ownership policy framework governing all state property assets and correcting the existing fragmented management of state assets</td>
<td>Simplification and Harmonization of property asset legislation Property ownership strategy should be an integral part of a wider national development program and EU convergence program</td>
<td>-Develop a comprehensive ownership policy with all stakeholders -Review of existing regulatory framework -Simplify and harmonize legislation -Establish ownership rights</td>
<td>Commitment to and consistency of announced reforms</td>
</tr>
<tr>
<td>Limited Role of the Ministry of State Assets</td>
<td>The current role of the new Ministry as a custodian of state property does not extend to state assets under the management of other line ministries or local government entities. There is a vast number of state assets under the management of other government bodies. Lack of general principles for the management of state assets.</td>
<td>The Ministry of State Assets as a focal point and coordinator of state policy across numerous government institutions managing state assets, especially in setting the criteria for the classification, valuation, recording and reporting on state assets <strong>Target:</strong> Develop and adopt Ownership Policy and Strategy. Generate revenue from the lease/sale of assets Percentage of revenue target as per annual state assets plan</td>
<td>-Government Decree determines the Ministry of State Assets (or other body) as focal point and coordinator of the state policy on managing state assets -Develop and adopt Asset Management Strategy &amp; Implementation Plan -Develop uniform methodologies and procedures (Jointly with MoF) -Continue the practice of maintaining Annual State Assets Management Plans -Implement and enforce mid-term strategic planning and reporting activities at</td>
<td>What is the strategy behind decentralizing the asset management function? (Clearly specify objectives and put forward an ownership policy and action plan detailing how the hand-over of properties will be handled)</td>
</tr>
<tr>
<td>Title</td>
<td>Problem</td>
<td>Approach</td>
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</tr>
<tr>
<td>Limited institutional capacity to adopt policy</td>
<td>Divergent performance and practices in asset management and results measurement across government. Lack of professional property managers &amp; government entities.</td>
<td>Bridge the gap between central and local government units in managing assets. Professionalization of asset management, and cost/outcome measurement within entities. Develop unified management principles and standardized methodology for managing state assets.</td>
<td>- Develop capacity building plans. - Develop and coordinate recruitment and training plans for local asset managers.</td>
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</tbody>
</table>

b) Medium - term (5-10 yrs)

<table>
<thead>
<tr>
<th>Title</th>
<th>Problem</th>
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</thead>
<tbody>
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<td>Limited Role of the Ministry of State Assets</td>
<td>The current role of the new Ministry as a custodian of state property does not extend to state assets under the management of other line ministries or local government entities. There is a vast number of state assets under the management of other government bodies. Lack of general principles for the management of state assets.</td>
<td>The Ministry of State Assets as a focal point and coordinator of state policy across numerous government institutions managing state assets, especially in setting the criteria for the classification, valuation, recording and reporting on state assets. <strong>Target:</strong> Develop and adopt Ownership Policy and Strategy. Generate revenue from the lease/sale of assets. Percentage of revenue target as per annual state assets plan.</td>
<td>- Implement and enforce mid-term strategic planning and reporting activities at both central and local levels and develop uniform management principles. - Develop action plans detailing how the hand-over of properties towards local government units will be handled.</td>
<td></td>
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</tbody>
</table>

State asset management
| Limited institutional capacity to adopt policy | Divergent performance and practices in asset management and results measurement across government Lack of professional property managers & government entities | Number of assets/shares sold/activated | - Perform Gap analysis  
- Ensure prerequisites are in place prior to transferring property to LGUs (ownership, Asset Management Strategy, implementation plans, performance measurement)  
- Hire professional property managers  
- Train staff in LGUs prior to transferring asset ownership rights  
- Ensure regular communication with the MSA strategic property management staff  
- Implement Performance Management Framework  
- Enforce rules and strengthen financial and operational oversight (Audit Office, form unit within the Ministry of State Assets) |
| Expand data management systems and financial reporting standards | Lack of comprehensive financial performance data on all state properties. Management information system provides limited coverage of the types of state assets and does not allow high-quality decision-making | Transform the Central Register of State Assets from an administrative system to a "live" management system. Electronic connection of the state assets register and the basic and public registries Online access to the state assets register system | - Further expand the ISUDIO – integration with Land register, Cadastre, Concession register, Agriculture land register, Cultural heritage register  
- Reclassification of occurring forms of state assets in accordance with international public-sector accounting standards and budget regulations  
- Consolidate asset records in central asset register and the State Treasury General Ledger (MoF)  
- Implementation of an accrual basis ac-
| Mismanagement of assets as result of decentralization (Ensure prerequisites are in place prior to transferring property to LGUs) | | |

State asset management
c) Long-term (10 + years)

<table>
<thead>
<tr>
<th>Title</th>
<th>Problem</th>
<th>Approach</th>
<th>Required action</th>
<th>Risks management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low yield from the utilization of state property and divestment of state-owned enterprises</td>
<td>There has been a delay in the privatization process because of: Lack of ownership policy/strategy Lack of clarity on ownership rights Lack of uniform financial/accounting reporting</td>
<td>Implement business-like methodologies Reduce the state assets portfolio managed by the MSA and the RSC through acceleration of public tenders, calls, notices Increase the number of investment projects featuring activation of inactive state assets. Clarify ownership issues</td>
<td>- Make decision on asset utilization following asset management life-cycle and New Cost Benefit principles; - Clarify ownership issues (ownership disputes and restitution claims); - Increase the number of investment projects featuring activation of inactive state assets; - Maintaining an updated list of assets (companies and real estate) due for divestment based on performance against targets (as per targets and benchmarks in the business plan); - Implementation of the regulations on method of disposal of shares and stakes - Enforcement of mid-term strategic planning and reporting activities; - Operationalization of a comprehensive state asset register &amp; management system.</td>
<td>Delay in enactment of necessary legislation and its implementation, i.e. Government decision regarding disposal of real estate; Regulations on investment incentives; Regulations on method of disposal of shares and stakes (Government commitment to long-term property management strategy; Recruitment of property management professionals;_ ) Ownership disputes and restitution claims (long-term lease arrangements instead of sale)</td>
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57 Despite progress reported by the MoF issued “Instruction on valuation, value assessment and registering the Republic of Croatia assets”
http://www.mfin.hr/adminmax/docs/Uputa%20o%20priznavanju%20mjerenju%20vlasni%C5%A1tvu%20RH%20-%202018.pdf
Low productivity of SOEs

SOEs in Croatia lag behind private sector competitors in terms of financial performance. This is due to operational inefficiencies, weak corporate governance standards and the lack of clear and uniform criteria governing performance standards and classification of SOEs across government entities.

Strategic decision regarding state participation vs divestment based on Asset Management strategy and asset life-cycle principles, cost-benefit practices, and performance management framework (targets and mid-term results;)
- Establish a well powered SOE oversight unit/strengthen State Audit function
- Prioritize transparency and accountability by reporting on SOE results
- Build publicly accessible database, including SOE at sub-national level
- Identify strategic priorities and streamline the SOE portfolio
- Develop methodologically standardized medium-term operating and business plans for all companies of strategic and special interest and companies with majority state ownership
- Implementation and enforcement of CGC Recruitment and professionalization of SOE boards: Independent recruitment of Board members with private sector and international experience
- Adoption of Guidelines on Wage policy
- Linking the remuneration policy with performance in the implementation of medium-term goals

Delays in the implementation of the corporate governance code
Decentralized governance model, leaving SOEs management under line ministries/LGUs with little coordination across government and weak corporate governance practices may lead to ad-hoc political appointments and cronyism (mitigation: separation of the ownership function from the policy function; ensure effective implementation of the governance corporate code)