

PUBLIC SECTOR PROPERTY MANAGEMENT REFORM TO ENHANCE THE ECONOMIC DEVELOPMENT: CROATIA AND BOSNIA AND HERZEGOVINA CURRENT STATE AND CHALLENGES AHEAD

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1th International Conference: Economic System of European Union and Accession of Bosnia and Herzegovina – Challenges and Policies Ahead

THE INITIAL HYPOTHESIS - RESEARCH CONTEXT

- INEFFICIENT PUBLIC SECTOR DOES NOT CONTRIBUTE TO THE IMPROVEMENT OF ENTREPRENEURIAL AND INVESTMENT CLIMATE, ECONOMIC DEVELOPMENT AND COMPETITIVENESS
- POTENTIAL OF STATE PROPERTY IN POST TRANSITION COUNTRIES IS NOT RECOGNIZED AND EXPLOITED ENOUGH

SCOPE AND FOCUS OF RESEARCH:

QUALITATIVE ANALYSIS OF ACTIVITIES AND DIRECTIONS OF IMPROVING STATE PROPERTY / GOVERNMENT REAL ESTATE MANAGEMENT PROCESSES IN CROATIA AND BOSNIA AND HERZEGOVINA

COMPETITIVENESS RANKING

CROATIA AND BOSNIA AND HERZEGOVINA COMPETITIVENESS RANKING IS NEGATIVELY AFFECTED MOSTLY BY:

1. INEFFICIENCY OF PUBLIC ADMINISTRATION

2. UNSTABLE POLITICAL AND TAX SYSTEM

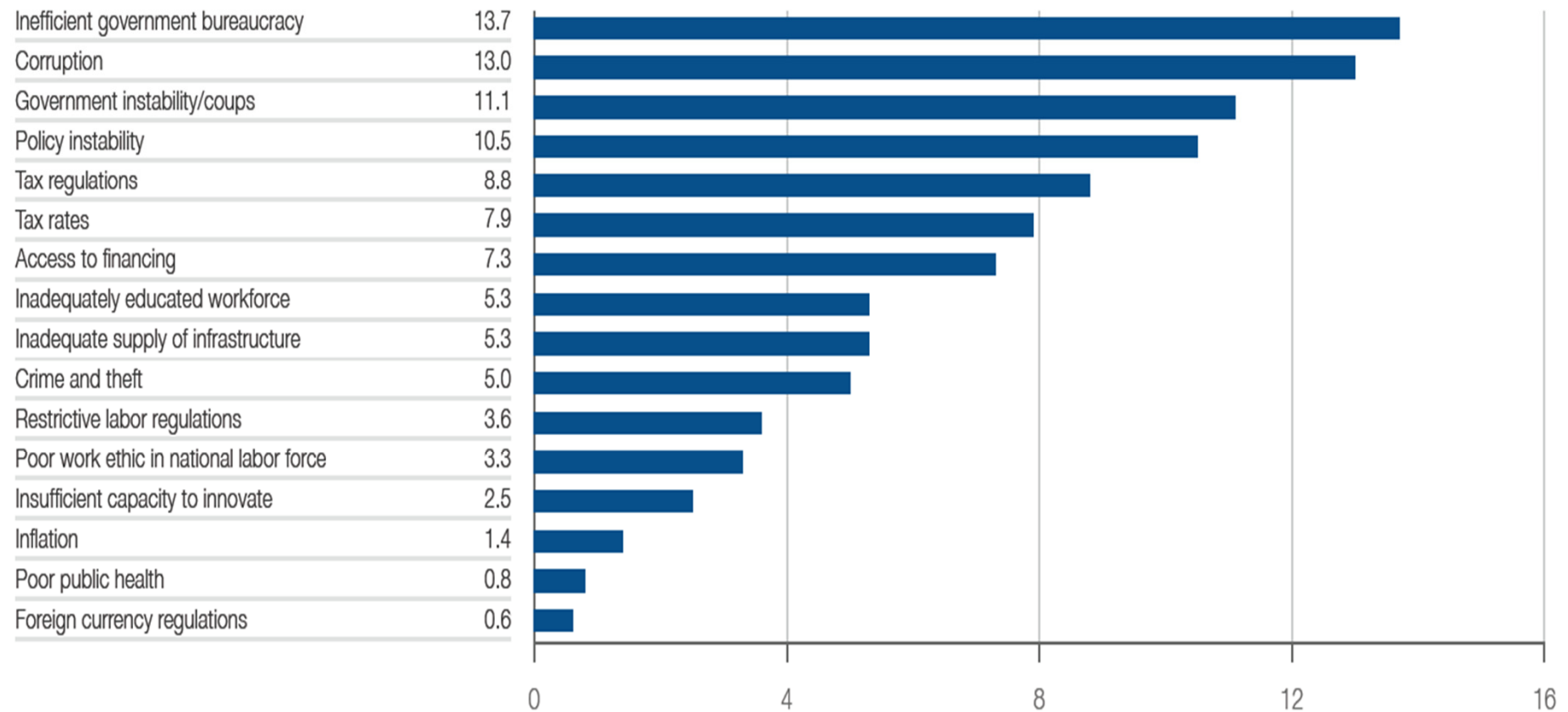
3. CORRUPTION PERCEPTION

Source: World Economic Forum: The Global Competitiveness Report 2016–2017

BiH – most problematic factors for doing business

Most problematic factors for doing business

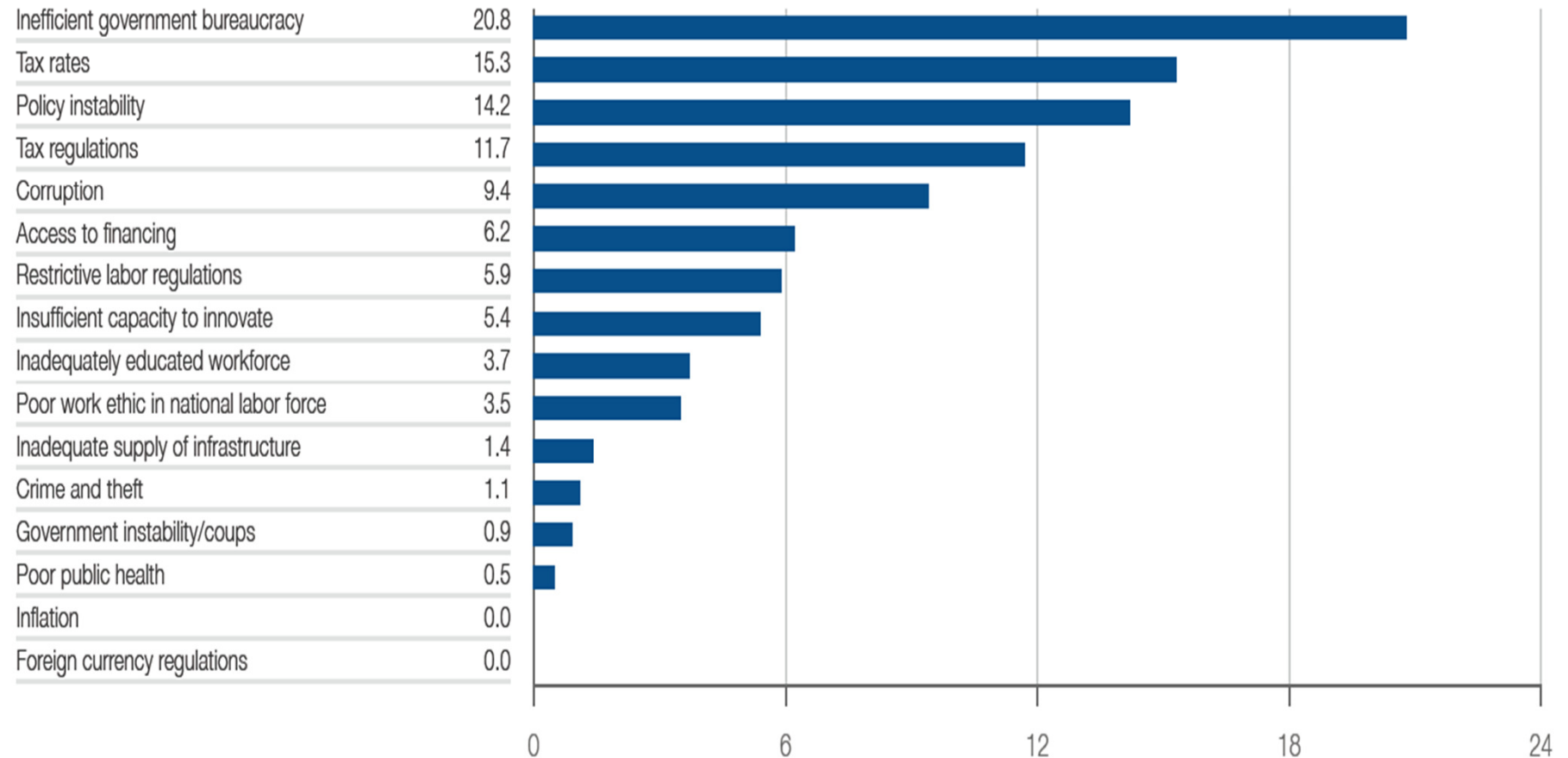
Source: World Economic Forum, Executive Opinion Survey 2016



Croatia – most problematic factors for doing business

Most problematic factors for doing business

Source: World Economic Forum, Executive Opinion Survey 2016

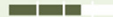
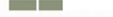


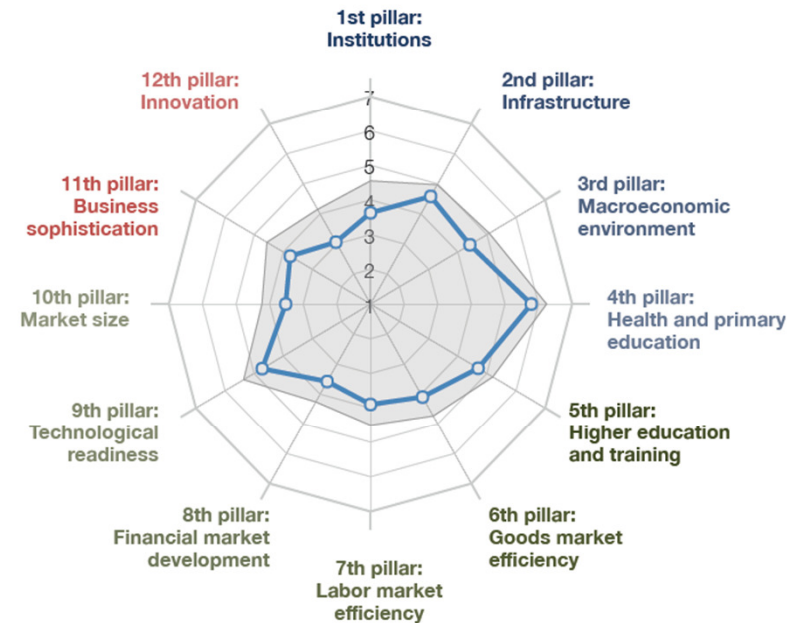
Bosnia and Herzegovina (GCI ranking 107/138)

	Rank / 138	Score (1-7)	Trend	Distance from best	Edition	2012-13	2013-14	2015-16	2016-17
Global Competitiveness Index	107	3.8			Rank	88 / 144	87 / 148	111 / 140	107 / 138
Subindex A: Basic requirements	94	4.2			Score	3.9	4.0	3.7	3.8
1st pillar: Institutions	126	3.1							
2nd pillar: Infrastructure	105	3.2							
3rd pillar: Macroeconomic environment	76	4.5							
4th pillar: Health and primary education	50	6.0							
Subindex B: Efficiency enhancers	106	3.6							
5th pillar: Higher education and training	92	4.0							
6th pillar: Goods market efficiency	129	3.7							
7th pillar: Labor market efficiency	125	3.5							
8th pillar: Financial market development	101	3.5							
9th pillar: Technological readiness	76	3.9							
10th pillar: Market size	98	3.1							
Subindex C: Innovation and sophistication factors	122	3.0							
11th pillar: Business sophistication	115	3.4							
12th pillar: Innovation	125	2.7							

Bosnia and Herzegovina
 Europe and North America

Croatia (GCI ranking 74/138)

	Rank / 138	Score (1-7)	Trend	Distance from best	Edition	2012-13	2013-14	2014-15	2015-16	2016-17
Global Competitiveness Index	74	4.1			Rank	81 / 144	75 / 148	77 / 144	77 / 140	74 / 138
Subindex A: Basic requirements	68	4.6			Score	4.0	4.1	4.1	4.1	4.1
 1st pillar: Institutions	89	3.6								
 2nd pillar: Infrastructure	46	4.6								
 3rd pillar: Macroeconomic environment	84	4.4								
 4th pillar: Health and primary education	66	5.8								
Subindex B: Efficiency enhancers	68	4.1								
 5th pillar: Higher education and training	49	4.7								
 6th pillar: Goods market efficiency	95	4.1								
 7th pillar: Labor market efficiency	100	3.9								
 8th pillar: Financial market development	95	3.6								
 9th pillar: Technological readiness	47	4.7								
 10th pillar: Market size	78	3.5								
Subindex C: Innovation and sophistication factors	92	3.4								
 11th pillar: Business sophistication	80	3.8								
 12th pillar: Innovation	103	3.1								



■ Croatia ■ Europe and North America

BETTER MANAGEMENT OF STATE PROPERTY / REAL ESTATE - EFFECTS

- **NON-TAX REVENUES - REDUCING TAX PRESSURE**
(concessions, leases, selling, alternative use...)
- **REDUCTION OF ASSET MANAGEMENT EXPENSES**
(maintenance costs, the loss of value, "opportunity" costs ...)
- **DECREASE OF CORRUPTION PERCEPTION INDEX**
(contracting the use and sale...)
- **INVESTORS, CUSTOMERS AND SHAREHOLDERS LEGAL SECURITY**

PREREQUISITES FOR THE EFFECTIVE MANAGEMENT OF STATE PROPERTY / GOVERNMENT REAL ESTATE

- **Integrated comprehensive state property registry**
- **Unified classification and definition of state property**
- **Standardised recognition and evaluation (measurement) of state property**
- **State property portfolio construction**
- **Institutionalization and professionalism in state property management**
- **Cost and outcomes measurement and management.**

The Situation in Bosnia and Herzegovina (1)

- The complexity of the political, territorial and legal structure significantly hinders the efficient functioning of the state. This also reflects the state assets coverage (physical and financial aspects) and management.
- State property management process is "stuck" in the initial phase of defining and determining who is the owner. Ownership is fundamental for further property rights and obligations.
- **Economic ownership and *de iure* ownership conflict**

The Situation in Bosnia and Herzegovina (2)

- **State audit reports on present problems related to the:**
 - lack of appropriate legislation and subordinated regulations,
 - unresolved status of the state property
 - not defined matter of who is the owner of the whole of property of BiH institutions
- **The political question: Agreement on succession of the former Yugoslavia or the "territorial principle" - is it the property of BiH or of the entities (RS, FBiH, local units)?**
 - due to the unresolved ownership issue, state property is not recognized in the General Ledger of the BiH institutions, which makes the process of listing the assets and determining its actual state difficult.
- **Data - inconsistent and / or inaccessible**
- **Management - inefficient**
- **The development of management system – setting the legal framework is the first precondition**
- **Situation is somewhat better at entities level** but studies have tried to include the property of the Republic of Bosnia and Herzegovina

The Situation in Croatia : Long term state asset management reform in Croatia

- Reform started in the year of **2013**.
- Reform evolves conceptually and gradually, and refers to:
 - ✓ building the integrated 5 year strategy and annual plans outline,
 - ✓ forming part of the national reform program documents (EU strategic document) and country-specific recommendations (EU semester),
 - ✓ reporting on the annual outcome basis (annual plans) and quartal basis (NPR documents),
 - ✓ the process of developing Information system for state asset management-ISUDIO (upgraded centralized asset register model and IT applicative solution),
 - ✓ the existing asset management regulatory framework amendments to support the ISUDIO set up.
- State Audit has recommended local and regional state units to pursue the strategic planning practice and internal registries set up in accordance to the central state practice.

The Situation in Croatia : Integrated strategy and annual plans outline (1)

- Croatian Parliament devised the Strategy of Government Assets Management and Distribution from 2013 to 2017 (Official Gazette No. 76/13):
- It determines medium-term goals and guidelines to:
 - assure efficient and transparent long-term management and effective utilization of the assets
 - boost economic growth and protect national interests
- It points out the necessity to register the assessed public sector assets in the public sector accounting system as the priority goal.
- It sets four main asset management principles: public availability, predictiveness, efficiency, responsibility.

* A note: Distribution encompasses but is not restricted to the disposal.

The Situation in Croatia : Integrated strategy and annual plans outline (2)

- Annual plans and plans' realization reports:
 - ✓ State asset management plan for 2014 (approved by the Government)
 - ✓ State asset management plan for 2015 (approved by the Government)
 - ✓ State asset management plan for 2016 (still not approved due to the election year and Government failure)
- Report on State asset management plan realization for 2014 (discussed in the Parliament)
- Report on State asset management plan realization for 2015 (discussed in the Parliament)
- State asset management plan for 2017 – to be submitted to the Government

The Situation in Croatia : Integrated strategy and annual plans outline (3)

- Three year strategic planning aligned with the MoF mandatory guidance and budget planning process:
- ✓ Strategic Plan of State Asset Management Office for the period from (a) 2013 to 2015, (b) 2014 to 2016, (c) 2015 to 2017
- ✓ Revised Strategic Plan of State Asset Management Office for the period 2016 -2018 aligned with the National Reform Program for 2016 measures.

Available at:

<https://imovina.gov.hr/UserDocsImages/dokumenti/Izvjesca/Revidirani%20strate%C5%A1ki%20plan%20Dr%C5%BEavnog%20ureda%20za%20upravljanje%20dr%C5%BEavnom%20imovinom%20za%20razdoblje%202016-2018.pdf>

RH National reform program 2016

- 4 main objectives and reform areas in 2016 and 2017.
- Available at:
https://vlada.gov.hr/UserDocsImages/Sjednice/2016/17%20sjednica%20Vlade/17%20-%201a_novi.pdf
- **Measure which regards the public sector asset management:**
Redefining the concept and structure of comprehensive state asset records
(Responsible institution: State asset management Office – Državni ured za upravljanje državnom imovinom; <https://imovina.gov.hr/>)
- Main objective and description of the measure:
 - ✓ To ensure transparent insight into the scope and structure of whole of assets owned by the Republic of Croatia through standardized and comprehensive data model and software upgrade of the existing Central State Assets Registry
 - ✓ Long-term transformation of the Central State Assets Registry from administrative towards management oriented system
 - ✓ **Report on NPR activities April – August has concluded significant outcomes regarding this measure and system improvements**

Central asset register data – property items data: current state

- In mid-January 2014 **Central asset registry**, though incomplete and comprising of two asset groups/types – shares/stakes and property, was made publicly available for the first time ([http://registar-
imovina.gov.hr/default.aspx?action=nekretnine](http://registar-imovina.gov.hr/default.aspx?action=nekretnine) ; [http://registar-
imovina.gov.hr/default.aspx?action=dionice](http://registar-
imovina.gov.hr/default.aspx?action=dionice); [http://registar-
imovina.gov.hr/default.aspx?action=udjeli](http://registar-
imovina.gov.hr/default.aspx?action=udjeli))
- Registry's content was structured in accordance with the guidelines of the Government Asset Registry Decree :
- ✓ **In July 2014** (July 24th), **the Registry comprised of 403328 property items**, divided in several categories: land and buildings (2%), agricultural land (1%), forests and woodland (76%), public water (11%), housing (7%); business premises (2,5%), property used by government bodies, residential buildings and villas,
- ✓ **In June 2016** (June 30th), **the Registry comprised of 1043668** property items, divided in several categories: land and buildings (2%), agricultural land (58%), forests and woodland (28%), public water (5%), housing (3%); business premises (1%), property used by government bodies, residential buildings and villas.
- Registry is filling up with the data out of internal records - all entites that either manage or use state property are obligated by law to send the data.

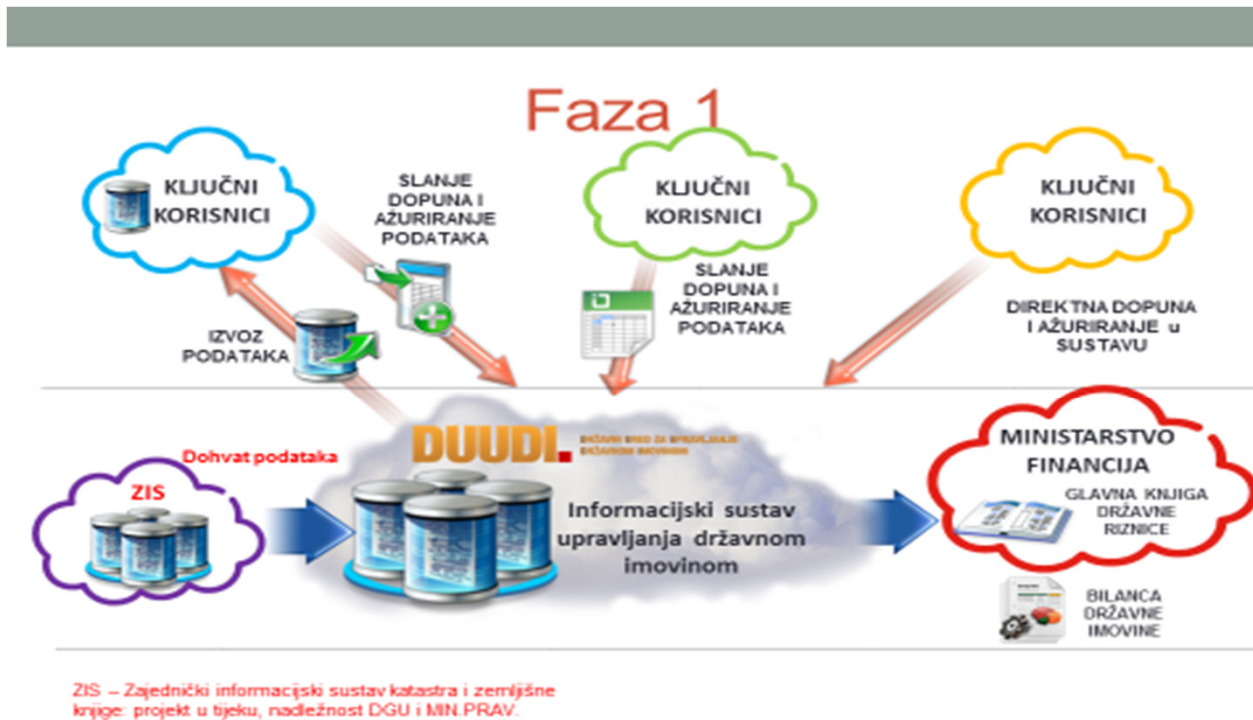
Information system for state asset management (ISUDIO): project goals and features

- Multidisciplinary, interinstitutional project, main proposer – State asset management Office
- Enabling Reporting to the Ministry of finance in accordance with the budgetary requirements
- Enabling electronic data entry
- More transparent and more accurate data - standardized and comprehensive data modelling
- **To be performed in three phases – gradually:**
 - **the first phase** of constructing the model for property items and the IT solution and connecting to the Land register and Cadastre: January 2015 to December 2016;
 - **second phase** of constructing the model for financial asset items, connecting to Central Depository and Clearing Company, Inc. and the IT support: June 2016 to July 2017.;
 - **third phase:** connecting to other registries (concesssion registry, cultural goods registry, agruculture registry.....)

Information system for state asset management (ISUDIO) project – I. phase: property items model

- Incorporates MoF guidelines:
- ✓ **Instruction on types and modalities of collecting data, content of data and information** on public sector assets necessary for the management of Government Assets Register and General government balance sheet
- ✓ **Instruction on valuation, value assessment (measurement) and recognition** of the Republic of Croatia assets
- The expanded form and logistic table for future data entry (physical data, legal data, economic data – means of utilization, financial data, and asset use outcomes' data)
- Asset items reclassification in accordance with the unified chart of accounts
- Gathering data out of asset users reports and other records, Land register, Cadastre, Concession register, Agriculture land register, Cultural heritage register.

Information system for state asset management (ISUDIO) project – I. phase: property items model



Legend Cro/Eng:

Ključni korisnici – key assets custodians and users (PS bodies, institutions.....

Ministarstvo financija – Ministry of finance

Glavna knjiga državne riznice - State Treasury General Ledger

DUUDI – State asset management Office

ISUDIO – Information system for state asset management

ZIS – The joint system of cadastre and land registry data

DGU – State geodetic administration

MIN.PRAV.- The Justice Department

Software as a service system:

Custodians and users with internal property recording applicative solution

Custodians and users with no internal property recording applicative solution and who will use ISUDIO solution, but that do have Excel spread sheets as internal recording solution.

Custodians and users with no internal property recording applicative solution nor structured data (Excel or other format).

Concluding remarks

- **State Property Management** insufficiently contributes to the economic development of post-transition countries. It has been performed on an ad-hoc, often reactive basis.
- **State of play in BiH** is unsatisfactory because, in addition to objective problems, resolving the status of an asset is the unresolved political issue with no agreement between the entities.
- **Croatia** has intensified the process of improving the management of state property, has made significant progress, but the efficient model outcomes are still to be reached.
- **Developed countries** have spent decades in developing public sector property management: it is a long term process which needs expertise and political support.
- **Croatian experience, approach and ongoing activities** may be helpful to other countries in the region in order to foster property management reform activities and efficiently reach the finish line - the efficient and effective state property management.

Thank you for your attention and patience!