Study on State asset management in the EU

Final study report for Pillar 3 – Croatia

Contract: ECFIN/187/2016/740792

Written by KPMG and Bocconi University

February 2018
Croatia

This country fiche presents a qualitative overview of the mix of governance models and investment strategies implemented by the Croatian general government to manage its assets portfolio.

1. MAPPING OF THE GOVERNANCE OF THE PORTFOLIO OF ASSETS

Croatia is a unitary State with three levels of governance: at the central level, at the regional level with the counties\(^1\) and at the local level with the municipalities\(^2\) and towns\(^3\). Throughout this country fiche, we re-cluster these public bodies into two categories, i.e. the "central government", which includes the central government, and the "local governments", which include both the counties, the municipalities, and the towns.

Croatia has a centralised asset management model where the Central government takes strategic decisions regarding the assets in its portfolio.

In compliance with the Act on Amendments to the Law on Organization and Scope of Ministries and Other Central Government Bodies\(^4\), the Ministry of State Properties was established in November 2016, with a view to improve the management of the State assets.

The Ministry of State Properties has the responsibility to oversee the management of state-owned assets. It is responsible for coordination and administrative tasks related to the management, disposal, acquisition and sale of properties owned by Croatia under the jurisdiction of other bodies (including central state’s own bodies). It is in charge of coordinating and harmonising the criteria for the management of state properties.

The Ministry also has responsibility to establish, maintain and publish a State Property Register\(^5\) (i.e. a central register for all assets and liabilities of the general government) on a monthly basis. The register was established in 2014, in accordance with the Act on the Management and Use of Property owned by the Republic of Croatia (Official Gazette 94/13). In compliance with the Regulation on the State Property Register (Official Gazette No. 55/11), it lists financial and non-financial assets owned by the state and by local and territorial (regional) self-government units.

1.1. Financial assets

The Public Sector Holdings (PSHs) owned by the Croatian general government operate in almost every sectors of the domestic economy. This variety is reflected in the patterns of ownership and governance. For example, some financial assets are owned by the central government; others by the local governments.

The reform of state-owned enterprises carried out in the 1990s led to the creation of the Restructuring and Sale Centre (i.e. Hrvatski Fond Za Privatizaciju - CERP), which is central public body created as a public-law entity by decree in 1993.

\(^1\) Županija.
\(^2\) Općina.
\(^3\) Grad.
\(^4\) Zakon o izmjenama i dopunama Zakona o ustrojstvu i djelokrugu ministarstava i drugih središnjih tijela državne uprave, November 2016 Available at: [https://narodne-novine.nn.hr/clanci/sluzbeni/2016_11_104_2200.html](https://narodne-novine.nn.hr/clanci/sluzbeni/2016_11_104_2200.html) [Accessed 04th December 2017].
\(^5\) For more details, please see: [http://registar-imovina.gov.hr/](http://registar-imovina.gov.hr/)
CERP currently manages many of the government’s stakes in those companies which are not considered to be “strategic”. It is a legal entity with public authority registered in the Court Registry of the Commercial Court in Zagreb. It is not funded by the state budget; by contrast, it is mainly financed from the receipts from its own activities.

The CERP controls 447 companies, according to its Management Plan for 2017 – weighting for around 2% of the total assets owned by the PSHs within the Croatian government’s portfolio. In 93.3% (417) of the companies publicly participated, the public share is in minority.

With regard to companies considered to be of strategic importance, they are controlled by the Ministry of State Properties (formerly, DUUDI - State Office for State Property Management). There are 28 companies labelled as being of strategic importance in Croatia (in 19 of them the state owns more than 50% of share capital).

With respect to financial assets in the government’s equity portfolio, the five most important sectors in terms of Value Added (VA) generated by PSHs are:

1. C – Manufacturing;
2. H – Transportation and storage;
3. A – Agriculture, forestry and fishing;
4. F – Construction;
5. I – Accommodation and food service activities.

Table 1 Governance regimes: Financial assets, Croatia

| Owners of the asset | Both central and local governments participate in the companies’ capital. Most of the PSHs labelled as “strategic” are owned by the Ministry of State Properties; while most of the other PSHs within the central government’s portfolio are owned and managed by the CERP. | C2 |
| | Most important sectors in terms of VA: | D1 |
| | 1. **Sector C – Manufacturing:** the majority of PSHs are owned by the central government. Some PSHs operating in the sector, whose assets are not labelled as “strategic” and/or of special interest for the Croatian central government, are directly owned by the CERP | | |
2. **Sector H – Transportation**: the majority of PSHs are owned by local governments. However, the central government retains the ownership in some PSHs (e.g. *HZ Infrastruktura d.o.o.*)

3. **Sector A – Agriculture**: the majority of PSHs are owned by local governments, although the central government retains the ownership of some PSHs. Some PSHs operating in the sector, whose assets are not labelled as “strategic” and/or of special interest for the Croatian central government, are directly owned by the *CERP*

4. **Sector F – Construction**: the majority of PSHs are owned by local authorities. Some PSHs operating in the sector, whose assets are not labelled as “strategic” and/or of special interest for the Croatian central government, are directly owned by the *CERP*

5. **Sector I – Accomodation**: the majority of PSHs are owned by the Central government. Some PSHs operating in the sector, whose assets are not labelled as “strategic” and/or of special interest for the Croatian central government, are owned by the *CERP*

<table>
<thead>
<tr>
<th>Bodies responsible for the strategic and investment decisions</th>
<th>Regarding the management of financial assets, different bodies play a key role:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- the central government is responsible for the decision related to the dismissal/acquisition of government shares in companies and for the definition of the overall strategy and the medium-term goals;</td>
</tr>
<tr>
<td></td>
<td>- the <em>Ministry of Finance</em> is responsible for the analysis of financial statements of public companies and companies whose majority shareholder is the State;</td>
</tr>
<tr>
<td></td>
<td>- the <em>Ministry of State Properties</em> identifies and proposes a list of companies and other legal entities of strategic interest for the country to the central government;</td>
</tr>
<tr>
<td></td>
<td>- local governments are responsible for strategic decisions regarding management and sale of their portion of Financial assets, in compliance with the strategic framework outlined by the central government.</td>
</tr>
</tbody>
</table>

**Most important sectors in terms of VA**: the relevant local governments and each relevant Ministry are responsible for strategic decisions on PSHs operating within their jurisdiction.
The CERP is responsible for carrying out the annual plan on privatisation, restructuring and management of state owned companies. It has responsibility to manage the government’s financial assets which are not identified as companies of strategic and special interest.

PSHs labelled as “strategic” are controlled by the Ministry of State Properties.

In addition, local governments are responsible for the decisions regarding the management of their own financial assets.

**Most important sectors in terms of VA:** since the majority of PSHs operating in these sectors are owned by the CERP, the Ministry of State Properties, and local governments, they are also responsible for the operational decisions on their respective scope.

### National Public Data Sources

The State Property Register of the Ministry of State Properties lists and reports main information regarding PSHs in the government’s equity portfolio (e.g. capital value, number of issued shares, percentage of ownership of the Croatian central government).

Source: KPMG elaborations.

(a) The network graphs in the table above highlight the main bodies involved for each role of the responsibility chain (e.g. the bodies owning the assets, the bodies responsible for operational decisions), for each asset cluster in the government’s asset portfolio. These models may not apply to all the individual assets within the cluster.

(b) For some cluster of assets the responsibility for some aspects of the governance regime is spread between more bodies at different levels of centralisation. Therefore, we represent these cases using two “network graphs” representing these bodies.

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10 Annual plan for assignments related to privatization, restructuring and managing companies; available at: [http://www.cerp.hr/UserDocsImages/Pravni%20i%20institucionalni%20okvir/Plan%20upravljanja%20imovinom%20u%20nadle%C5%Benosti%20CERP-a%20za%202017.g.pdf](http://www.cerp.hr/UserDocsImages/Pravni%20i%20institucionalni%20okvir/Plan%20upravljanja%20imovinom%20u%20nadle%C5%Benosti%20CERP-a%20za%202017.g.pdf) [accessed October 27th, 2017]

11 For more details, please see: [http://registar-imovina.gov.hr/](http://registar-imovina.gov.hr/)
1.2. **Non-financial assets**

- **Airports**

<table>
<thead>
<tr>
<th>Table 2 Governance regimes: Airports, Croatia</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Owners of the asset</strong></td>
</tr>
<tr>
<td><strong>Bodies responsible for the strategic and investment decisions</strong></td>
</tr>
<tr>
<td><strong>Bodies responsible for the operational decisions</strong></td>
</tr>
<tr>
<td><strong>National Public Data Sources</strong></td>
</tr>
</tbody>
</table>

Legend
- C1 = Central government
- C2 = Central public body
- C3 = Central company-type structure
- D1 = Local governments
- D2 = Local public body
- D3 = Local company-type structure
- PM = Private body

Source: KPMG elaborations.

(a) The network graphs in the table above highlight the main bodies involved for each role of the responsibility chain (e.g. the bodies owning the assets, the bodies responsible for operational decisions), for each asset cluster in the government’s asset portfolio. These models may not apply to all the individual assets within the cluster.

(b) For some cluster of assets the responsibility for some aspects of the governance regime is spread between more bodies at different levels of centralisation. Therefore, we represent these cases using two “network graphs” representing these bodies.

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\(^{12}\) In compliance with the *Transport development strategy of the Republic of Croatia* (2014 – 2030), the *Air Traffic Act* and the *Law for the implementation of the Law of airports*.


\(^{15}\) *Croatian Civil Aviation Agency website*. Available at: [http://www.ccaa.hr/english/aerodromes_21/](http://www.ccaa.hr/english/aerodromes_21/) [Accessed 12\(^{th}\) July 2017].
Table 3 Governance regimes: Ports, Croatia

<table>
<thead>
<tr>
<th>Owners of the asset</th>
<th>Ports’ infrastructures are owned by the central government, and can be granted in concession to the port authorities.15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bodies responsible for the strategic and investment decisions</td>
<td>The MPPI is the main body responsible for strategic and investment decisions related to the port infrastructures. In 2016, it launched the National port development plan, which sets the strategic goals and the budget that will be spent up to 2030.</td>
</tr>
<tr>
<td>Bodies responsible for the operational decisions</td>
<td>Port authorities are in charge of managing, building and using ports infrastructures. They have to manage and plan the strategic development of the port infrastructures, in compliance with the overall framework set by the Ministry of the Sea, Transport and Infrastructure. Port authorities are non-profit legal entities whose establishment, organization and activities are regulated by Maritime Domain and Seaports Act.</td>
</tr>
<tr>
<td>National Public Data Sources</td>
<td>The MPPI reports the list of Croatian port authorities.16 The Croatian Bureau of Statistics annually collects and reports certain information about the traffic in seaports, i.e. the traffic of passengers, goods and containers.17</td>
</tr>
</tbody>
</table>

Legend

\[ \text{C1} = \text{Central government} \quad \text{C2} = \text{Central public body} \quad \text{C3} = \text{Central company-type structure} \quad \text{D1} = \text{Local governments} \quad \text{D2} = \text{Local public body} \quad \text{D3} = \text{Local company-type structure} \quad \text{PM} = \text{Private body} \]

Source: KPMG elaborations.

(a) The network graphs in the table above highlight the main bodies involved for each role of the responsibility chain (e.g. the bodies owning the assets, the bodies responsible for operational decisions), for each asset cluster in the government’s asset portfolio. These models may not apply to all the individual assets within the cluster.

(b) For some cluster of assets the responsibility for some aspects of the governance regime is spread between more bodies at different levels of centralisation. Therefore, we represent these cases using two “network graphs” representing these bodies.


16 For more detail about the list of port authorities reported by the Ministarstvo pomorstva, prometa i infrastrukture Republike Hrvatske (MPPI), please see http://www.mppi.hr/default.aspx?id=4639 [Accessed 13th July 2017].

17 For more detail about the port information mapped by Croatian Bureau of Statistics, please see http://www.dzs.hr/default_e.htm [Accessed 13th July 2017].
• Roads

Table 4 Governance regimes: Roads, Croatia

<table>
<thead>
<tr>
<th>Owners of the asset</th>
<th>Highways and state roads are owned by the central government, while other roads are owned by the relevant local governments.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bodies responsible for the strategic and investment decisions</td>
<td>The MPPI is the main body responsible for strategic and investment decisions related to the state road network. It prepares a four-year Programme of Construction and maintenance of public roads, which sets the strategic goals to be achieved.</td>
</tr>
</tbody>
</table>
| Bodies responsible for the operational decisions | The responsibility for the operational management of the road network is entrusted to:  
  - concessionaire companies for highways;  
  - Hrvatske ceste d.o.o. for state roads (i.e. a PSH fully owned by the Croatia);  
  - local road authorities for management, maintenance and construction of other roads in their areas. |
| National Public Data Sources | The MPPI collects data about the total length of specific roads.  
  The Croatian Association of toll motorway concessionaires (HUKA)\(^{18}\) annually collects key information about highway infrastructures and highway traffics (e.g. the length of existing and newly opened roads, number of bridges and tunnels etc). |

Source: KPMG elaborations.  
(a) The network graphs in the table above highlight the main bodies involved for each role of the responsibility chain (e.g. the bodies owning the assets, the bodies responsible for operational decisions), for each asset cluster in the government’s asset portfolio. These models may not apply to all the individual assets within the cluster.  
(b) For some cluster of assets the responsibility for some aspects of the governance regime is spread between more bodies at different levels of centralisation. Therefore, we represent these cases using two “network graphs” representing these bodies.

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Table 5 Governance regimes: Railways, Croatia

<table>
<thead>
<tr>
<th>Owners of the asset</th>
<th>The railway infrastructure is state-owned and is managed by HŽ Infrastruktura d.o.o. 19, which is a PSH fully owned by the central government.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bodies responsible for the strategic and investment decisions</td>
<td>The MPPI is the main body responsible for strategic and investment decisions related to the Croatian railway network. In particular, it acts as coordinator of the railway sector addressing the activity of HŽ Infrastruktura. Furthermore, it is responsible for supervising and monitoring its activities.</td>
</tr>
<tr>
<td>Bodies responsible for the operational decisions</td>
<td>HŽ Infrastruktura d.o.o. acts as infrastructure manager; it is therefore responsible for operational decisions related to the Croatian railway network.</td>
</tr>
<tr>
<td>National Public Data Sources</td>
<td>HŽ Infrastruktura d.o.o. annually collects some key information regarding railway infrastructures (e.g. total length and specifics of railway, maximal speed of train) 20. HŽ Infrastruktura d.o.o annually publishes the “Network Statement”, which outlines the characteristics of the infrastructures and contains information on the conditions of access to it.</td>
</tr>
</tbody>
</table>

Legend

- C1 = Central government
- C2 = Central public body
- C3 = Central company-type structure
- D1 = Local governments
- D2 = Local public body
- D3 = Local company-type structure
- PM = Private body

Source: KPMG elaborations.

(a) The network graphs in the table above highlight the main bodies involved for each role of the responsibility chain (e.g. the bodies owning the assets, the bodies responsible for operational decisions), for each asset cluster in the government’s asset portfolio. These models may not apply to all the individual assets within the cluster.

(b) For some cluster of assets the responsibility for some aspects of the governance regime is spread between more bodies at different levels of centralisation. Therefore, we represent these cases using two “network graphs” representing these bodies.

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20 For more detail about the data collected by HŽ Infrastruktura d.o.o. please see: [http://www.hzinfra.hr/?page_id=8787](http://www.hzinfra.hr/?page_id=8787) [Accessed 26th October 2017].
### Mineral and Energy reserves

#### Table 6 Governance regimes: Mineral and Energy reserves, Croatia

<table>
<thead>
<tr>
<th>Owners of the asset</th>
<th>Mineral and Energy reserves are owned by the central government, which can grant them in concession to different companies to exploit them.²¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bodies responsible for the strategic and investment decisions</td>
<td>The <strong>Directorate for Mining of the Croatian Ministry of Economy, Entrepreneurship and Craft</strong> is the relevant authority for granting licences for exploring and exploiting Croatian mineral and energy reserves.</td>
</tr>
<tr>
<td>Bodies responsible for the operational decisions</td>
<td>Many companies are given the rights to exploit Croatian mineral and energy resources in concession. These companies are responsible for operational decisions.</td>
</tr>
<tr>
<td>National Public Data Sources</td>
<td>The <strong>Directorate for Mining of the Croatian Ministry of Economy, Entrepreneurship and Craft</strong> keeps updated the registry of the existing Mineral and Energy reserves.</td>
</tr>
</tbody>
</table>

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Other natural resources

Table 7 Governance regimes: Other natural resources, Croatia

<table>
<thead>
<tr>
<th>Owners of the asset</th>
<th>Other natural resource are owned by the general government.(^{22}).</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bodies responsible for the strategic and investment decisions</td>
<td>The <em>Ministry of Environment and Energy</em> is responsible for strategic decisions regarding natural resources in Croatia. In 2017, it prepared the <em>National Strategy and Action Plan for the Protection of Biological and Landscape Diversity</em> for the period 2017-2025 (<em>NSAP</em>), which outlined the strategic goals to be achieved with regard to environmental protection.</td>
</tr>
<tr>
<td>Bodies responsible for the operational decisions</td>
<td>The <em>Croatian Environmental Agency</em>(^{23}) is responsible for monitoring the implementation of the <em>Environmental Strategy and Action Plan</em>. In more detail, it publishes the <em>Report on the state of the Environment</em>, an indicator-based report aimed at monitoring the objectives of the <em>Environmental Strategy and Action Plan</em>. The <em>Ministry of Environment and Energy</em> submits the report to the government, which then presents it to the Parliament.</td>
</tr>
<tr>
<td>National Public Data Sources</td>
<td>The <em>Croatian Environmental Agency</em> is an independent, public institution established by a decision of the Croatian central government with the aim, among others, to collect, integrate, and process environmental data.</td>
</tr>
</tbody>
</table>

Source: KPMG elaborations.

(a) The network graphs in the table above highlight the main bodies involved for each role of the responsibility chain (e.g. the bodies owning the assets, the bodies responsible for operational decisions), for each asset cluster in the government’s asset portfolio. These models may not apply to all the individual assets within the cluster.

(b) For some cluster of assets the responsibility for some aspects of the governance regime is spread between more bodies at different levels of centralisation. Therefore, we represent these cases using two “network graphs” representing these bodies.

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\(^{22}\) *Nature Protection Act.*

\(^{23}\) *Agencija Za Zaštitu Okoliša.*
- *Dwellings, Buildings other than dwellings*

**Table 8** Governance regimes for Buildings cluster, Croatia

| Owners of the asset | Public assets falling into this cluster can be owned either by the central government or local governments. | C1  
D1 |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Bodies responsible for the strategic and investment decisions</td>
<td>The Croatian central government government is directly responsible for strategic and investment decisions related to public buildings(^{24}). It has prepared the <em>Government Asset Management Strategy</em> to set the goals to be achieved regarding public real estate management in Croatia.</td>
<td>C1</td>
</tr>
<tr>
<td>Bodies responsible for the operational decisions</td>
<td>The Croatian central government has appointed the <em>State Real Estate Company</em>(^{25}) with the authority to manage public apartments and business places as well as maintain residences and real estate owned by the state. It is a PSH fully owned by the Croatian central government. It operates under the supervision of the <em>Ministry of State Properties</em>.</td>
<td>C3</td>
</tr>
<tr>
<td>National Public Data Sources</td>
<td>The <em>State Property Register</em> is published by the Ministry of State Properties(^{26}) and it provides the list of government-owned real estates.</td>
<td>C1</td>
</tr>
</tbody>
</table>

**Legend**

\(C_1\) = Central government  
\(C_2\) = Central public body  
\(C_3\) = Central company-type structure  
\(D_1\) = Local governments  
\(D_2\) = Local public body  
\(D_3\) = Local company-type structure  
\(P_M\) = Private body

Source: KPMG elaborations.

(a) The network graphs in the table above highlight the main bodies involved for each role of the responsibility chain (e.g. the bodies owning the assets, the bodies responsible for operational decisions), for each asset cluster in the government’s asset portfolio. These models may not apply to all the individual assets within the cluster.

(b) For some cluster of assets the responsibility for some aspects of the governance regime is spread between more bodies at different levels of centralisation. Therefore, we represent these cases using two “network graphs” representing these bodies.

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\(^{24}\) *Act on the Management and Use of Property owned by the Republic of Croatia.*

\(^{25}\) *Državne nekretnine* d.o.o.

**Figure 1** Asset-responsibility chain and ownership matrix for the cluster of assets in government’s portfolio, Croatia

<table>
<thead>
<tr>
<th>Asset cluster</th>
<th>Role of the body</th>
<th>Responsible for the operational decisions</th>
<th>Responsible for the strategic decisions</th>
<th>Owner of the asset</th>
<th>National public data sources</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial assets</strong></td>
<td>C2</td>
<td>C1</td>
<td>C3</td>
<td>C1</td>
<td></td>
</tr>
<tr>
<td><strong>Airports</strong></td>
<td>C1</td>
<td>C1</td>
<td>C3</td>
<td>C1</td>
<td></td>
</tr>
<tr>
<td><strong>Ports</strong></td>
<td>C1</td>
<td>C1</td>
<td>C3</td>
<td>C1</td>
<td></td>
</tr>
<tr>
<td><strong>Roads</strong></td>
<td>C1</td>
<td>C1</td>
<td>C3</td>
<td>C1</td>
<td></td>
</tr>
<tr>
<td><strong>Railways</strong></td>
<td>C1</td>
<td>C1</td>
<td>C3</td>
<td>C1</td>
<td></td>
</tr>
<tr>
<td><strong>Mineral and Energy reserves</strong></td>
<td>C1</td>
<td>C1</td>
<td>C3</td>
<td>C1</td>
<td></td>
</tr>
<tr>
<td><strong>Other natural resources</strong></td>
<td>C1</td>
<td>C1</td>
<td>C3</td>
<td>C1</td>
<td></td>
</tr>
<tr>
<td><strong>Dwellings, Buildings other than dwellings</strong></td>
<td>C1</td>
<td>C1</td>
<td>C3</td>
<td>C1</td>
<td></td>
</tr>
</tbody>
</table>

**Legend**

- C1 = Central government
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- C3 = Central company-type structure
- D1 = Local governments
- D2 = Local public body
- D3 = Local company-type structure
- PM = Private body

Source: KPMG elaborations.

- Central gov. = Central government; Local gov. = Local government; Min. State Prop. = Ministry for State Property; Local PB = Local public bodies; Dir. Mining = Directorate for Mining.
- The network graphs in the table above highlight the main bodies involved for each role of the responsibility chain (e.g. the bodies owning the assets, the bodies responsible for operational decisions), for each asset cluster in the government’s asset portfolio. These models may not apply to all the individual assets within the cluster.
- For some cluster of assets the responsibility for some aspects of the governance regime is spread between more bodies at different levels of centralisation. Therefore, we represent these cases using two “network graphs” representing these bodies.

In light of the analysis presented earlier and summarised in Figure 1, the overall governance regime for the Croatian government’s asset portfolio can be defined as centralised both in terms of ownership and in terms of responsibility for strategic and investment decisions on the assets.

In particular, the central government owns the majority of state-owned assets and it also has the responsibility for strategic and financial decision relating to assets in its portfolio. More in detail, the relevant Ministries prepare strategic plans for the assets under their jurisdiction. These plans constitute the strategic and legislative framework in which the different authorities and public companies (e.g. HŽ Infrastruktura d.o.o for the railway network) take responsibility for the operational decisions.
2. MAPPING OF THE INVESTMENT STRATEGY OF THE PORTFOLIO OF ASSETS

The Croatian government has adopted a centralised model of investment strategy, in which the relevant ministries outline the objectives and investments for the state owned assets they are responsible for. Within this framework, in recent years the Croatian government has adopted many targeted strategies covering main areas (e.g. Strategy for management and Use of State Property, Government Asset Management Strategy, Transport development strategy of the Republic of Croatia (2014 – 2030)).

2.1. Financial assets

During the early 1990s Croatia transformed its economy into a free market economy and kicked off the transformation process. Within this framework, 2,860 socially owned enterprises (worth 11.5 Eur Bn in capital value) temporarily moved to the Croatian central government’s ownership. Later, during the privatisation process, and according to the Act on Social Companies Transformation and the Act on Privatisation, the Croatian government sold its shares in by means of funds. Throughout this process, the focus had been on privatisation of financial assets.

The state portfolio was reduced not only through privatisation but also through voucher privatisation, financial consolidation, restructuring, bankruptcy and liquidation.

In more recent years, according to the government strategy, one of the main goals was to reduce the number of state owned companies. In this sense, it is worth highlighting that the number of state-owned companies managed by CERP dropped from 573 in 2013 to 445 in 2016.

During 2002-2015, total privatisation proceeds stood at 2 Eur Bn, and total recapitalisation and restructuring expenditures amounted to 1.1 Eur Bn.

The current investment strategies for financial assets are mainly set by the Strategy for management and Use of State Property. The Strategy is developed by the Croatian parliament and sets medium-term goals. The 2013 - 2017 goals for privatisation of PSHs controlled by CERP, with longer or shorter timelines depending on the size of the company.

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27 The Social Yugoslav Federation, established from 1951 to 1990, introduced the so-called system of "social ownership". Within this economic system of self-management of workers, a company that was in social property had no owner. Following the breakup of Yugoslavia, the newly Croatian government took the ownership of these companies. For more details, please see Papajorgji, E., & Alikaj, G. (2015). An analysis of the Yugoslav socialist system. Academic Journal of Business, 1(5), pp. 47-51. Available at: http://iiipccl.org/wp-content/uploads/2015/03/Ajbals-47-51.pdf [Accessed 09th February 2018].


29 Report about implementation of Plan for State Properties Management in Jurisdiction of CERP; available at: http://www.cerp.hr/UserDocsImages/Pravni%20i%20institucionalni%20okvir/Izvrs%C5%A1%C4%87e_CERP.pdf [accessed 30th October].


As set by the *National Reforms Programme*\(^{32}\) for 2016, over the 2016-2019 period, receipts from privatisation of financial assets are expected to be equal, on average, to 0.5%/year of GDP.

**2.2. Non-financial assets**

With regard to non-financial assets, the Croatian government has not adopted a comprehensive plan and strategy for all non-financial assets.

However, in recent years, the government has launched and approved many specific plans and strategies for all assets in its portfolio (e.g. the *Programme of State Support for the Development of Ports opened for Public Transportation for the period 2017-2020* for ports, the *Public Roads Construction and Maintenance Programme for period 2017-2020* for the road network, the *National Programme for Railway Infrastructures for the period 2016-2020* for the railway network).

- **Airports**

The investment strategies for the airports in Croatia is mainly set by the the *MPPI* in the *Transport development strategy of the Republic of Croatia (2014–2030)*\(^{33}\). It outlines future investments in airports and air transportation in Croatia. Further development of all operating Croatian airports is planned for this period.

The key priorities regarding airports are to be focused on the modernisation of the Croatian core airports (i.e. Zagreb and Dubrovnik) and the increase in the sustainability of the aviation system, by performing a reorganisation of the sector that could improve efficiency of the maintenance of airports and reduce the environmental impact.

In order to enhance the efficiency and sustainability of the system, the *Transport development strategy of the Republic of Croatia (2014 – 2030)*\(^{34}\) suggests the development of new management strategies and to take into consideration possible changes of role/ownership for non-sustainable airports.

- **Ports**

Regarding port infrastructures, in 2017 the *MPPI* has managed to secure 41 Mn Eur from the state budget for the implementation of projects which had already kicked off.

In September 2017, the *MPPI* released the *Programme of State Support for the Development of Ports opened for Public Transportation for the period 2017-2020*. Based on this *Programme*, subsidies will be awarded to development projects for public ports.

Priorities for the development of public ports are as follows:

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\(^{34}\) *Ibid.*
• a balanced, coherent and sustainable development of ports of (international) economic importance for the Croatian central government, and achievement of their competitiveness in relation to neighboring ports in the northern Adriatic;

• increase port capacity; increase the standard of berths from the point of maritime security and increase standards of county and local ports.

• **Roads**

Regarding Non-financial assets, the road sector plays a prominent role in the Croatian government’s assets portfolio.

Every four years the Croatian government defines an investment plan for the four years ahead, establishing the level of investments and maintenance spending on public roads. *Public Roads Construction and Maintenance Programme for period 2017-2020* budgeted a total of 2.3 Eur Bn investments in public roads in Croatia35 (28% of the total amount is intended for highways, 55% for state roads and 17% for county and local roads).

However, the government intends to reduce the fiscal support it provides to the road sector, around 0.9 percent of GDP per annum. It is committed to restructure the operations and financing of the PSHs operating within the road sector, with the aim at putting the sector on a financially sustainable path over the medium term and reducing state support36.

Between 1997 and 2015, the PSHs operating in the road sector developed their networks using commercial loans and financing from international financial institutions – all fully guaranteed by the Government. In 2014, the debts of *Croatian Motorways (HAC)* and *Autocesta Rijeka - Zagreb (ARZ)* were consolidated into the general government debt, and, by the end of 2016, government guarantees had been issued covering some 72 loan facilities. The combined outstanding debt amounted to the equivalent of 5.2 Eur Bn. The debt situation is such that it hampers the capacity of the sector to invest in asset management37.

A government’s *Letter of Sector Policy (LSP)*, approved on 16th March 2017 proposed a set of reforms with a view to put the sector on a financially sustainable path and reduce the need for state support, *inter alia* by attempting to (a) optimize the debt of the road sector; (b) control investments, particularly in state roads, to limit debt and to focus spending on EU funded projects; (c) achieve a sustainable financing model through companies modernization; and (d) restructure the road sector by improving supervision and planning, controlling public investments, and increasing governance and operational efficiency - mainly by setting KPIs, staff rationalization, outsourcing and appropriate standards to maintenance works.

In 2017, the government supported the implementation of measures contained in the *LSP* by launching the *Modernization and Restructuring of the Road Sector project*38. The objectives are to strengthen institutional effectiveness, to enhance operational efficiency, and to increase debt service capacity of the Croatian road sector, through a

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35 For more details on this Programme please see: *Public Roads Construction and Maintenance Program for period 2017-2020*; available at: [https://narodne-novine.nn.hr/clanci/sluzbeni/2017_05_47_1096.html](https://narodne-novine.nn.hr/clanci/sluzbeni/2017_05_47_1096.html) [accessed 30th October 2017].


combination of public investment controls and operational improvements; debt optimizing and credit enhancement measures.

This project will be implemented by the MPPI and will be financed by the World Bank with (approximately 835 Mn Eur).

- **Railways**

The current governance regime adopted by Croatian government was established by the entry into force of the *Railway Act of July 2003*[^39], which incorporated the principles established at European level in the directives of the first and second railway packages:

- the separation of the management of the railway infrastructures, within the PSH HŽ Infrastruktura – i.e. the manager of railway infrastructures - and of the operation of the services;
- the progressive opening of the rail transport to competition.

The MPPI is responsible for strategic and investment decisions. It has reached the *National Programme for Railway Infrastructure for the period 2016-2020*[^40]. This is a basic document which sets priorities for development, construction, modernization, reconstruction and maintenance of the railways infrastructure network. The key goal for this *National Programme* is to improve the efficiency of the railway network in order to increase the satisfaction of end users.

According to the *National Programme*, planned investments into modernization and construction, as well as the costs of railway infrastructure maintenance for the period 2016-2020, amount to 2.3 Eur Bn (13.0% of the total amount is intended for reconstruction and modernization programs, 59.3% is intended for new railway lines and for upgrading existing railways and 27.7% is intended for maintenance costs[^41]). The state budget, EU funds, sales income and World Bank loans are the main sources of funding for these investments.

- **Dwellings, Buildings other than dwellings**

In the *Strategy for Management and Use of State Property*, set by the Croatian government, the following goals are defined for the period 2013-2017 regarding state owned dwellings and business spaces:

- the State has to rationally manage the use of its dwellings and business capacities; any unused dwellings have to be offered for sale or rent in the real estate market;
- standardize the use of state-owned dwellings;
- ensure maximum occupancy rate;
- sell parts of dwellings and business spaces, according to government decisions.


[^41]: Ibid
Based on government’s decision, the process of selling state-owned dwellings started in June 2014 and was continued through 2017.

- **Mineral and Energy reserves**

The current legislative framework on the Croatian government’s Mineral and Energy reserves makes very difficult to infer the general investment strategy for Mineral and Energy reserves within government’s portfolio.

- **Other natural resources**

The current legislative framework on the Croatian government’s Other natural resources makes very difficult to infer the general investment strategy for Other natural resources within government’s portfolio.

### 3. Perspective on the execution of the investment strategy

From the mapping of the governance regime (Section 1) and the investment strategies (Section 2) for the state-owned asset portfolio, some key insights about the perspectives on the execution of the investment strategies can be drawn as follows:

- the Croatian government has adopted a centralised model for investment strategies, in which the relevant ministries outline objectives and investments through targeted strategies covering the main areas (e.g. Government Asset Management Strategy, Transport development strategy of the Republic of Croatia);

- the current investment strategy is mainly focused on reducing the fiscal risk for the state budget and public debt through the improvement of the management of state assets. In 2016, the government established the Ministry of State Properties. It oversees various activities to reduce the fiscal risk for the state budget and public debt through responsible management of state assets.
Figure 2 Matrix of Governance regimes vs Investment strategy by clusters of assets, broad features, Croatia

Source: KPMG elaborations, based on governance regimes and recent observed strategies.

(a) The position of each asset cluster with respect to the “investment strategy” dimension (x-axis) reflects the general investment strategy adopted by the government for the cluster. The general investment strategy might not apply to every single asset within the cluster (e.g. the position of the cluster indicates that the government currently plans to invest/divest, and this does not imply that this applies to all assets within the cluster).

Regarding financial assets, as Figure 2 shows, the Croatian government is committed to privatise many PSHs. In more detail, several strategic objectives goals were defined such as the privatisation of commercial companies under CERP’s jurisdiction within two or three years.

Regarding Non-financial assets, network infrastructures remain one of the most relevant assets. As Figure 2 shows, the Croatian government is focused on investing in the maintenance and development of roads and railways. However, total investments in public roads over the 2013-2016 period amounted to 13.8 HRK Bn (approximately 1.8 Eur Bn), which is 38% less than initially planned. As defined in the annual report of HZ Infrastruktura, programmes and projects regarding railway infrastructures underperformed too, as for the period 2008-2012 only 49.12% of the revised budget was actually invested (333.7 HRK Mn (approximately 45.3 Mn Eur) out of 679.4 HRK Mn (92.3 Mn Eur)).

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42 In order to estimate the total investments in public roads in Euro, we have used the average exchange rate registered in the years 2013 – 2016 (from 1st January 2013 to 31st December 2016) - 1 HRK : 0.1318 EUR (source: European Central Bank) [Accessed 22nd January 2018].

43 In order to estimate the total investments in Euro, we have used the average exchange rate registered in the years 2008 – 2012 (from 1st January 2008 to 31st December 2012) - 1 HRK : 0.1359 EUR (source: European Central Bank) [Accessed 22nd January 2018].
4. SYNTHESIS OF STRENGTHS, WEAKNESSES, OPPORTUNITIES AND RISKS

**Financial assets**

- **Strengths/Opportunities:**
  - the Croatian central government has centralised the management of financial assets:
    - companies labelled as being of strategic importance are managed by the *Ministry of State Properties*;
    - other companies are managed by the *CERP*;
  - the presence of a “formal” investment strategy for financial assets, which is into the *Strategy for management and Use of State Property*;
- **Weaknesses/Risks:**
  - the time constraint set in the *Strategy for Management and Use of State Property* (forcing the privatisation process to be finished in two/three year-time) might have the negative effect of unnecessarily speeding up the process, hence closing the deals while not fully maximising the proceeds;

**Non-Financial assets**

- **Strengths/Opportunities:**
  - the Croatian government has implemented some measures in order to improve the management of state assets. The *Ministry of State Properties* was established in 2016 in order to have better control over state assets. The Ministry took over the function of several state agencies and brought the management of state assets under central control;
  - in 2012, the Croatian parliament created the first document for the management of state-owned assets, called *Strategy for Management and Use of State Property*. The goal of the document is to ensure long-term and transparent management of state-owned real estate and financial assets. Based on the *Strategy*, many other sectors created their own strategies and investment plans to be implement either by 2020 or by 2030. Examples of such documents are *Public Roads Construction and Maintenance Program* and *National Programme of Railway Infrastructure*;
  - in accordance with the *Act on the Management and Use of Property owned by the Republic of Croatia*, the Ministry of State Properties keeps updated the central register for all assets and liabilities of the general government (i.e. the *State Property Register*) on a monthly basis. It lists financial and non-financial assets owned by the state and by local and territorial (regional) self-government units.
- **Weaknesses/Risks:**
  - many strategies for different categories of state assets are in place, but there is a certain lack of focus on implementation of plans. For some strategies and plans there might be not enough ex-post evaluation of what was planned against what has actually been achieved;
in existing investment strategies, such as those for roads and railways, financing is planned based on the state budget, EU funds and bank loans, without any direct participation of the private sector.