

WORKING PAPER

Major Public Enterprises in Croatia

Anto BAJO & Marko PRIMORAC

CIRIEC N° 2015/09



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*Major Public Enterprises in Croatia**

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Abstract

The aim of this paper is to present basic characteristics of state-owned enterprises in Croatia, assess their financial operations and identify major trends in their operations and long-term development prospects. The analysis is carried out for the period from 2009 to 2013. The paper gradually examines financial operations, management system and the systems of accountability and transparency. The particular emphasis is on the comparative overview of major state-owned enterprises' missions and the extent to which they serve public purposes. Moreover, the paper evaluates capital investment plans and provides proposals for the reform of state-owned enterprises in Croatia. In all state-owned enterprises, a serious organizational restructuring - adjustment of the organizational structure and number of employees is still expected.

Key words: state owned enterprise, financial operation, management, accountability, capital investment.

1. Introduction

With the declaration of independence, Croatia has entered the transition process and thus in the process of conversion of ownership. The privatisation in Croatia has been carried out in five phases. According to Grgurek (2001) the *first stage of privatization* (1991-94) began with the introduction of the Conversion Act, which was carried out under the supervision of the Croatian Restructuring and Development Agency. With the transformation of ownership, all companies became joint stock companies or limited liability companies with well-known title of ownership. The *second phase* (1994-98) encompassed companies that had not self-performed the conversion by the deadline which was set up by the Law on conversion. Such companies fell directly under the control of the Croatian Privatisation Fund (2/3) and pension fund (1/3). However, large public enterprises were not covered by this Act, but their conversion should have been regulated by a separate law. Therefore, most of the public enterprises (INA-oil industry, Croatian Electricity Company, Croatian Radio and Television, Croatian Railways, Croatian Roads, Croatian Forests) remained in state ownership, and did not undergo serious restructuring. In the *third phase* (1998-00) there was no privatization of large public enterprises. The Law on Privatization Investment Funds (PIF) launches mass privatization based on the free allocation of shares to certain categories of the population (war veterans, families of killed, imprisoned or missing Croatian soldiers and civilians, Croatian soldiers etc.). In the *fourth phase* (2000-12), the privatization, restructuring and rehabilitation of legal persons and legal oversight of the Croatian Privatisation Fund were transferred to the Ministry of the Economy. State assets were consolidated in the Croatian Privatisation Fund.

The *fifth phase* of privatization starts from 2012. The beginning of this phase was marked by the termination of the Privatization Fund and the establishment of the Agency for the Administration of Government Property, and subsequently the establishment of the State Office for the Management of Government Property. At this stage, the Government adopted the Strategy for the Management of Government Assets, and then the law on the management and disposal of state-owned assets. From 2014 there are annual plans for state-owned asset management including the plans for privatization and management of companies in majority state ownership. The institutional infrastructure for quality management of financial and non-financial assets of the country is finally in place. However, the assessment of the implementation of plans and success in pursuing the objectives set in the Strategy for the Administration of Government Property is yet to be done.

The aim of this paper is to present business characteristics of the state-owned enterprises, assess their financial operations and identify trends and long-term development prospects. The paper is divided into six parts. After the introduction, the second part provides overview of privatization process and the status of public enterprises from 1991 to 2015. The third part offer key

information on the size of state-owned enterprises and assesses their financial operations from 2009 to 2013. The fourth part analyses the manner of the appointment of members of management and supervisory boards, the management system and the system of accountability and transparency. The fifth part analyses the mission of public enterprises and the size and structure of their capital investment. The sixth part focuses on the analysis of trends and proposals for the reform of public enterprises, the role of different social (and interest) groups in the reform process and the relationship between the operations of public enterprises and the fiscal position of the country. The seventh part is the conclusion.

2. The size and structure of public enterprises

Public enterprises in the context of this research are organizations: (a) directly producing public services, either through liberalized market arrangements or under franchised monopoly, (b) ultimately owned or de facto controlled by public sector entities, (c) with a public mission, (d) which ownership in principle can be shifted to the private sector, (e) with budgetary autonomy and managerial discretion.

By "ownership" is meant "effective control", regardless of the size of the share. This means that one or more branches of the state (parliament, government, ministries, local governments or other entities controlled by the state) effectively contribute to the appointment of the top management, or this is accountable to the policy-makers.

There are more than a thousand companies fully or predominantly owned by the state. These companies have assets worth over EUR 40 billion, they generate more than EUR 10 billion revenues and employ about 140,000 workers (Table 1).

Table 1. The size of the public enterprises sector in Croatia from 2008 to 2012

	Number of enterprises	Total assets (in billion EUR)	Total revenue (in billion EUR)	Number of employees
2008	951	42,0	10,3	146,140
2009	1,003	42,1	10,2	140,270
2010	1,021	41,4	9,7	137,878
2011	1,041	41,9	10,6	140,131
2012	1,062	41,2	10,7	139,657

Note: Values are converted from HRK to EUR using the EOY middle exchange rate of the Croatian national bank for each year.

Source: Public enterprises' financial statements.

In 2013 the Government with the Decision established enterprises and other legal entities of strategic and special interest. In enterprises and other legal entities of strategic and special interest to the state (as a shareholder) realizes economic, but also strategic objectives. These objectives are: legally and

effectively exercise transferred public authority, security, health insurance, insurance of critical infrastructure, uninterrupted supply of public goods and services and securing economic activities in the interest of citizens and the state. Public enterprises generate revenue based on the assigned public authority in which the state participates in the pricing of products and services.

In enterprises and other legal persons of special interest are classified legal persons in which the state holds a majority stake (and are not infrastructure, energy, etc.), need restructuring, recapitalization, or (complete or partial) privatization, but have high profits and value added. Companies and other legal persons of special interest are those whose shares are quoted on the capital market, in which the state has the share of less than 50% and attempts to achieve economic goals together with private investors.

For the sake of this study, only the enterprises that meet the above mentioned criteria are encompassed with the analysis. Therefore, agencies and companies that do not have a public mission (financial institutions, lottery, etc.) are excluded from the scope of analysis (which initially included all companies and other legal persons of special interest). The paper analyses public enterprises that mainly provide services at the national level and operate in the national or even international level. One company owned by the local unit is included in the scope due to its size and national importance. It is the Zagreb Holding - the enterprise owned by the City of Zagreb, which is primarily engaged in communal activities. The analysis included 28 enterprises (see Table 2).

Eighteen enterprises engaged in traffic – five in road, three in rail, two in maritime and eight in air transport. Four enterprises are involved in the energy, two in communications and one enterprise in each of the following sectors – forestry, water, postal services and utility. All enterprises are classified into five major sectors: energy, postal and communications, transport, utility and water and forestry. Enterprises' financial statements are analysed for the period from 2009 to 2013.

Table 2. The scope of the public enterprises analysed

No.	Name	Sector	% of state ownership
1	Highway Rijeka-Zagreb	Road transport	100
2	Highway Rijeka-Zagreb Maintenance and Collection	Road transport	100
3	Croatian Highways	Road transport	100
4	Croatian Highways Maintenance and Toll Collection	Road transport	100
5	Croatian Motorways	Road transport	100
6	Croatian Railways Cargo	Railway transport	100
7	Croatian Railways Infrastructure	Railway transport	100
8	Croatian Railways Passenger Transport	Railway transport	100
9	Jadrolinija	Maritime transport	100
10	Port Rijeka	Maritime transport	82.88

11	Airport Dubrovnik	Air transport	55
12	Airport Osijek	Air transport	55
13	Airport Pula	Air transport	55
14	Airport Rijeka	Air transport	55
15	Airport Split	Air transport	55
16	Airport Zadar	Air transport	55
17	Croatia airlines	Air transport	97.79
18	Croatian Control of Air Navigation	Air transport	100
19	Croatian Electricity Company	Energy	1000
20	Adriatic Oil Pipeline - JANAF	Energy	78.5
21	Plinacro	Energy	100
22	Underground Gas Storage	Energy	100
23	Croatian Forests	Forestry	100
24	Croatian Waters	Water	100
25	Croatian Radio and Television	Communication	100
26	Transmitters and Communications	Communication	100
27	Croatian Post	Postal	100
28	Zagreb Holding	Utility	100

Source: Public enterprises' financial statements.

Overview of economic size and importance of selected public enterprises

The analysis of operations of selected 28 enterprises of special state interest is provided below. Total revenue of 28 public enterprises in 2012 amounted to EUR 4.7 billion, which is about 45% of the total revenue of all 1,062 enterprises under majority or full state-ownership.

Figure 1. Total revenue of 28 selected enterprises from 2009 to 2013, in bil. EUR

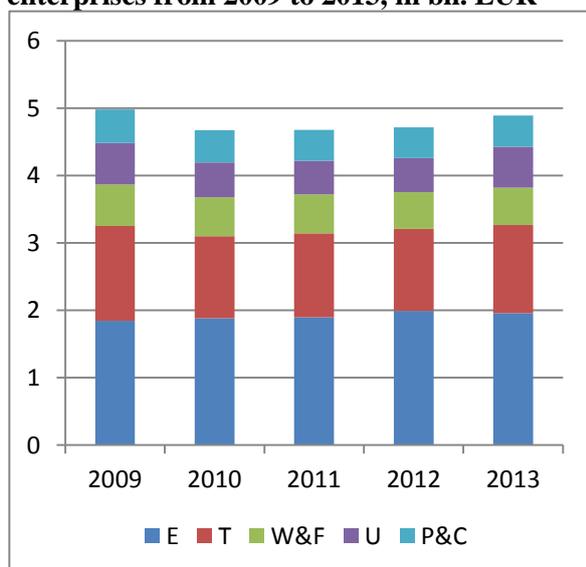
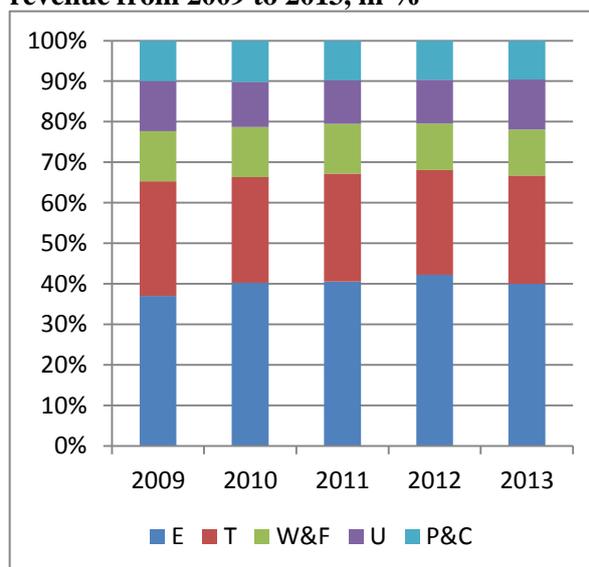


Figure 2. Structure of 28 selected enterprises' revenue from 2009 to 2013, in %



Note 1: E-energy, T-transport, W&F-water and forestry, U-utility, P&C-postal and communication.

Note 2: Values are converted from HRK to EUR using the EOY middle exchange rate of the Croatian national bank for each year.

Source: Public enterprises' financial statements.

In 2013 most of the revenue (40% of total) is generated by companies in the energy sector, followed by companies from the transport sector (27%), utility company Zagreb Holding (12%), water and forestry (11%) and post and communications (10%).

Figure 3. Total assets of 28 selected enterprises from 2009 to 2013, in bill. EUR

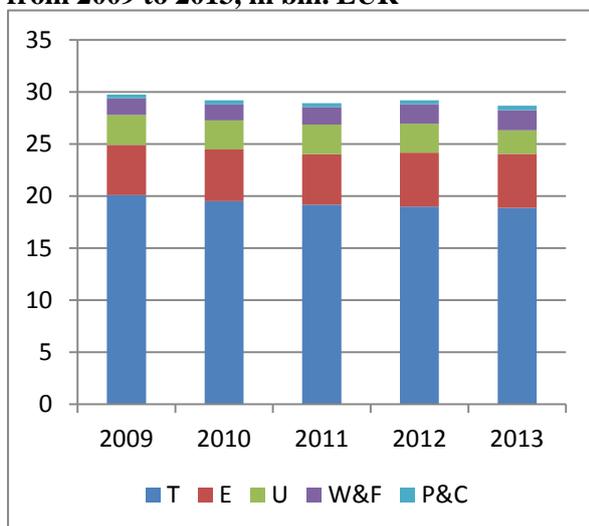
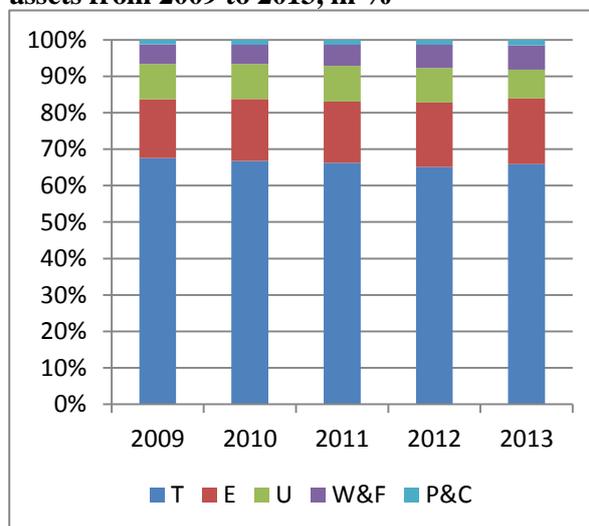


Figure 4. Structure of 28 selected enterprises' assets from 2009 to 2013, in %



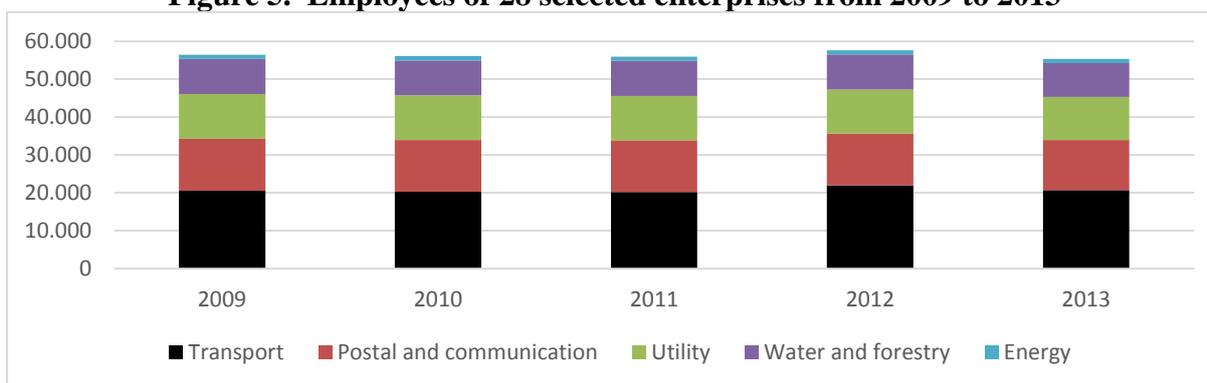
Note 1: E-energy, T-transport, W&F-water and forestry, U-utility, P&C-postal and communication.

Note 2: Values are converted from HRK to EUR using the EOY middle exchange rate of the Croatian national bank for each year.

Source: Public enterprises' financial statements.

In 2012, only 28 companies had total assets of EUR 29.2 billion, which is more than 70% of the total assets of all state-owned companies. Most of the assets in 2013 were in the transport sector (66%), followed by energy (18%), utility services (8%), water and forestry (7%) and postal and telecommunications (2%).

Figure 5. Employees of 28 selected enterprises from 2009 to 2013



Source: Public enterprises' financial statements.

Out of 140 thousand employees in companies fully or predominantly owned by the state in 2012, more than 40% (about 55,000) are employed in 28 selected companies. Most of them are employed in the transport sector (37%), followed by postal and communications (24%), utility services (21%), water and forestry (16%) and energy (2%).

Figure 6. Total value added of 28 selected enterprises from 2009 to 2013, in billion EUR

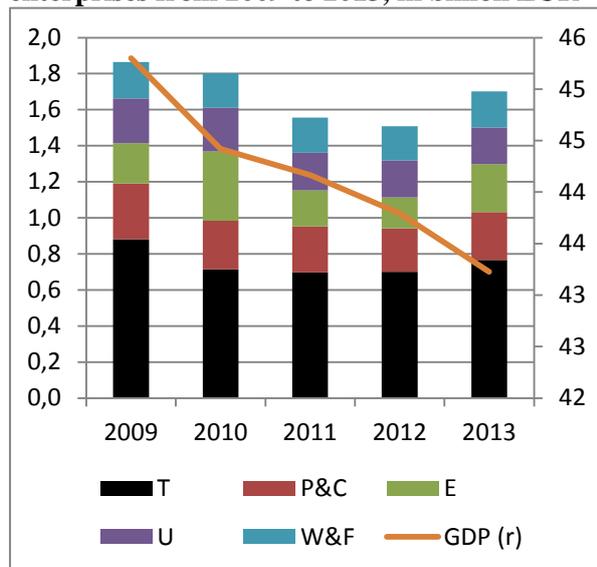
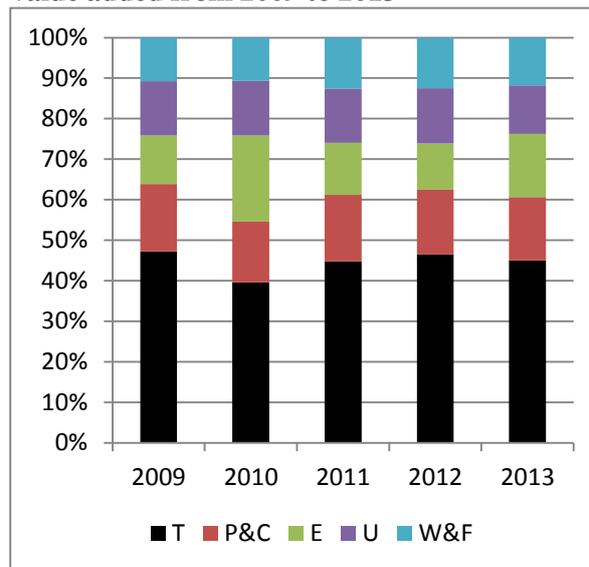


Figure 7. Structure of 28 selected enterprises' value added from 2009 to 2013



Note 1: E-energy, T-transport, W&F-water and forestry, U-utility, P&C-postal and communication.

Note 2: Values are converted from HRK to EUR using the EOY middle exchange rate of the Croatian national bank for each year.

Source: Public enterprises' financial statements.

Selected enterprises created in 2013 about EUR 1.7 billion value added (around 4% of GDP), mostly in the transport sector (45.1%), followed by energy (15.6%), postal and communications (15.6%), public utility services (12%) and water and forestry (11.7%).

Financial operations of selected companies

Financial operations of selected public enterprises and their financial stability is analysed through financial ratios.

Figure 8. Net profit of 28 selected enterprises from 2009 to 2013, in million EUR

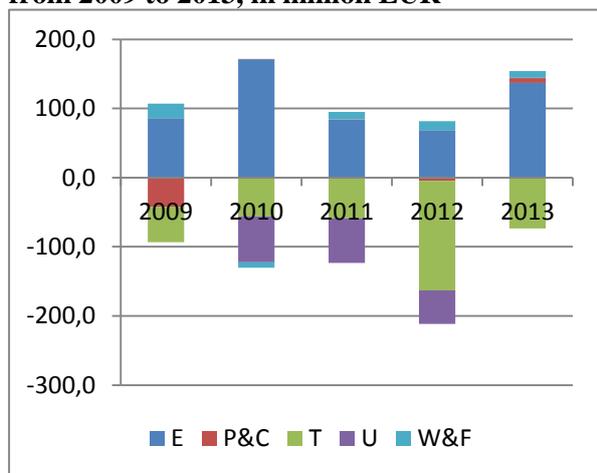
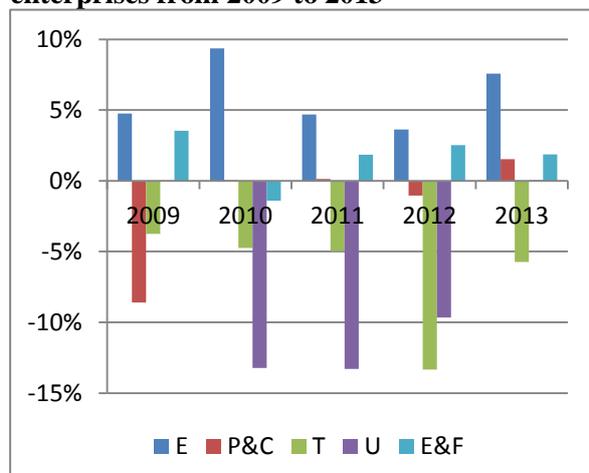


Figure 9. Net profit margin of 28 selected enterprises from 2009 to 2013



Note 1: E-energy, T-transport, W&F-water and forestry, U-utility, P&C-postal and communication.

Note 2: Values are converted from HRK to EUR using the EOY middle exchange rate of the Croatian national bank for each year.

Source: Public enterprises' financial statements.

The highest net profit in 2013, generate enterprises from the energy sector (more than EUR 137 million total), followed by the sector of water and forestry (10 million) and postal and communications (7 million). Utility enterprise Zagreb Holding realizes the profit of negligible EUR 0.3 million, while the transport sector is making a loss of EUR 73.6 million.

Figure 10. Return on assets of 28 selected enterprises from 2009 to 2013

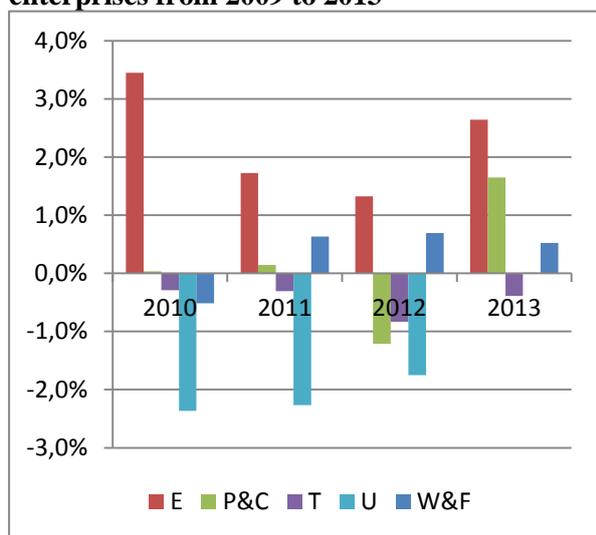
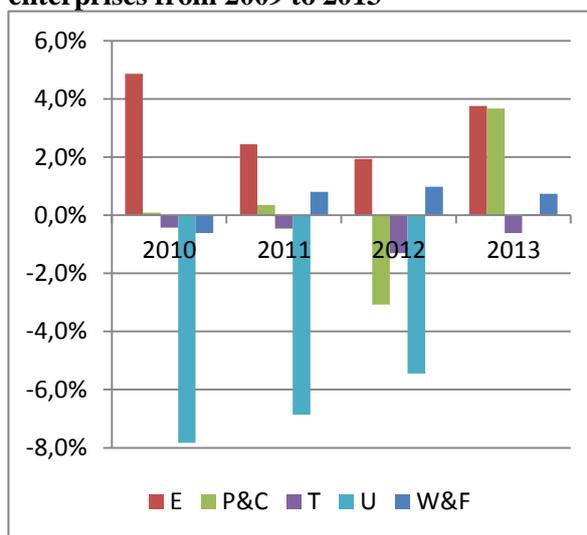


Figure 11. Return on equity of 28 selected enterprises from 2009 to 2013



Note: E-energy, T-transport, W&F-water and forestry, U-utility, P&C-postal and communication.

Source: Public enterprises' financial statements.

Utility and enterprises in the transport sector achieve also the lowest net profit margin for the entire period under observation in which they mainly operate at a loss. Naturally, these sectors have also been faced with the lowest return on assets and equity. Energy sector remains dominant in terms of business success.

Figure 12. Debt to equity ratio of 28 selected enterprises from 2009 to 2013

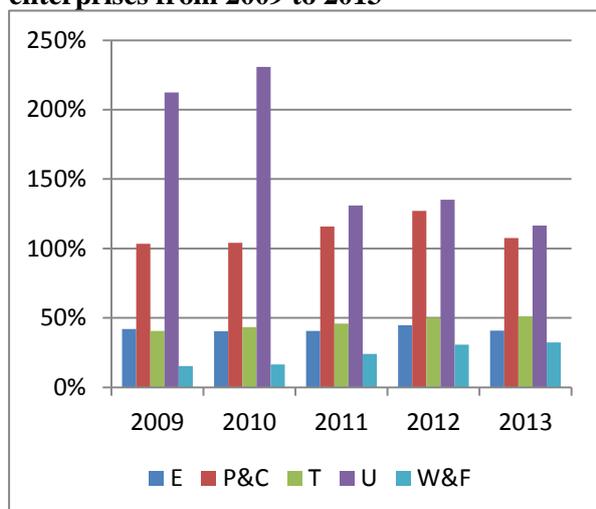
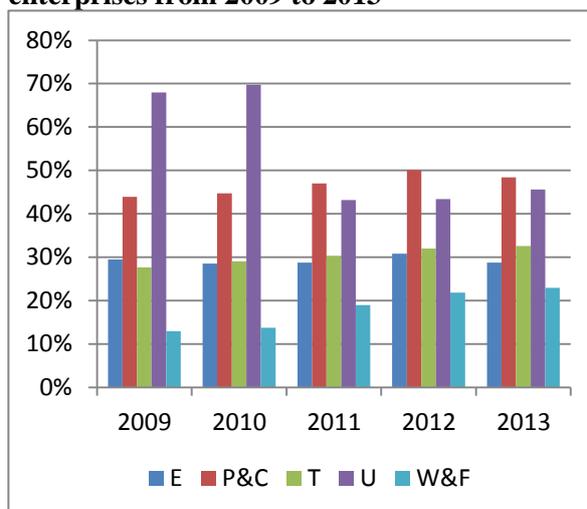


Figure 13. Debt to assets ratio of 28 selected enterprises from 2009 to 2013



Note: E-energy, T-transport, W&F-water and forestry, U-utility, P&C-postal and communication.

Source: Public enterprises' financial statements.

Debt to equity ratio indicates the extent to which enterprises finance their assets with debt (rely on financial leverage). In the transport and the postal and communication sector the debt dominates the capital structure – external resources are greater than own sources of funding. The same applies for the indicator of indebtedness – in these sectors, half of total assets are financed by debt. It is not unusual for companies to finance a part of their profitable assets by debt. Bearing in mind that these are public companies, their debt should be treated cautiously.

Figure 14. Current ratio of 28 selected enterprises from 2009 to 2013

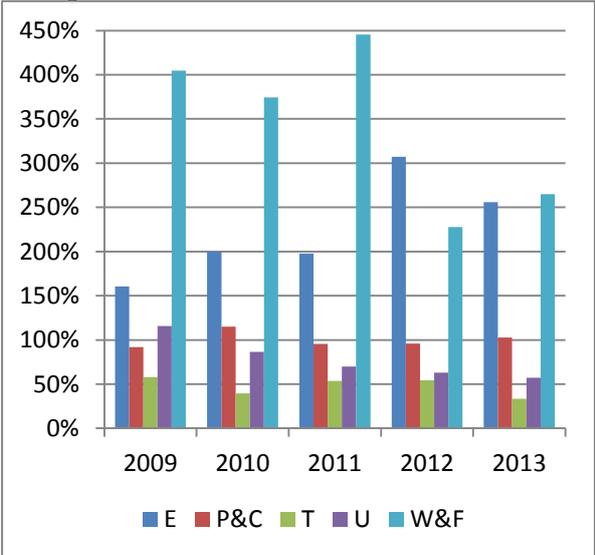
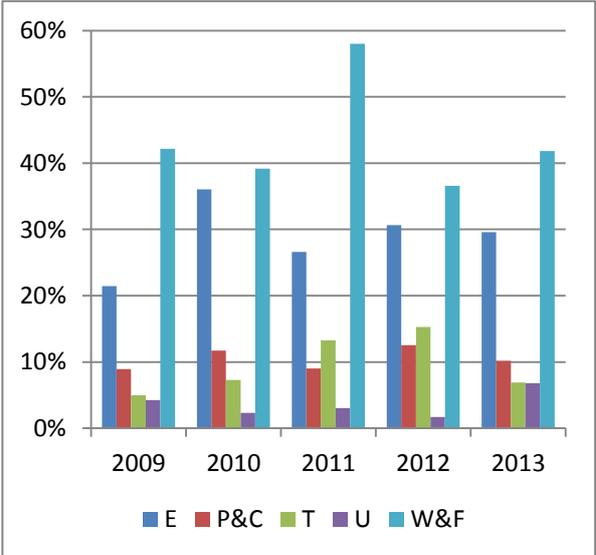


Figure 15. Cash ratio of 28 selected enterprises from 2009 to 2013



Note: E-energy, T-transport, W&F-water and forestry, U-utility, P&C-postal and communication.
 Source: Public enterprises' financial statements.

The *current ratio* (the ratio of current assets to current liabilities) indicator value greater than 100% indicates that a portion of current assets are financed by long-term sources, which is a reflection of prudent financial management. Prudent financial management is in place in the water and forestry and energy, slightly worse is in the sector of postal and communication, whereas utility sector and traffic face significantly lower liquidity levels. The *cash ratio* (ratio of cash to short-term liabilities) indicated to similar findings. Utility and traffic sectors are fairly illiquid which combined with the indebtedness represents a significant threat to their operations.

3. Governance and accountability

Croatia has a twofold structure of management in public companies consisting of the Supervisory Board and the Management Board. Pursuant to the provisions of the Companies Act (OG 152/2011), the Management Board is responsible for the business, and members of the Board shall direct the business of the company with the diligence of an orderly and conscientious businessman. The Supervisory Board supervises the management of the company and gives

approval to the decision of the Management Board. The state as the owner appoints representatives in supervisory boards of companies and other legal persons of strategic and special national interest. The state representatives in supervisory boards have the responsibility of the implementation of decisions and requirements of the state as the owner. The system of monitoring, analysing and reporting on business operations has been established only since 2014 as the part of the operational plan for the management of state assets. It focuses primarily on the liquidity, financial stability, investments and monitoring of the implementation of the restructuring process.

Evidence about the appointment of boards. In 28 analysed companies, as many as 223 people were involved in the management. These enterprises appointed 61 members of the management boards and 162 members of the supervisory boards. Overwhelming number of enterprises has five members of the supervisory board and one member of the management board. On average, state-owned enterprises with better financial results have more members appointed in the management and supervisory boards.

Table 3. Management and supervisory boards of selected enterprises in 2015

No.	Name	Members of the management board	Members of the supervisory board	Total
1	Highway Rijeka-Zagreb	1	5	6
2	Highway Rijeka-Zagreb Maintenance and Collection	2	3	5
3	Croatian Highways	4	5	9
4	Croatian Highways Maintenance and Toll Collection	2	5	7
5	Croatian Motorways	2	5	7
6	Croatian Railways Cargo	2	5	7
7	Croatian Railways Infrastructure	3	5	8
8	Croatian Railways Passenger Transport	1	5	6
9	Jadrolinija	5	5	10
10	Port Rijeka	3	5	8
11	Airport Dubrovnik	1	6	7
12	Airport Osijek	1	5	6
13	Airport Pula	1	7	8
14	Airport Rijeka	1	4	5
15	Airport Split	1	7	8
16	Airport Zadar	1	5	6
17	Croatia airlines	1	13	14
18	Croatian Control of Air Navigation	1	5	6
19	Croatian Electricity Company	6	7	13
20	Adriatic Oil Pipeline - JANAF	3	6	9
21	Plinacro	5	5	10
22	Underground Gas Storage	1	0	1
23	Croatian Forests	3	7	10
24	Croatian Waters	1	7	8

25	Croatian Radio and Television	3	5	8
26	Transmitters and Communications	4	5	9
27	Croatian Post	3	7	10
28	Zagreb Holding	5	7	12

Source: Systematization of authors, 2015.

Fees for supervisory board members on average amount to around 260 euro (HRK 2,000). While some enterprises face serious financial problems, their supervisory board members receive the same amount of compensation as their counterparts in companies with much favourable financial position. Despite improved transparency, the qualitative data point to significant problems in the system of financial management, strategic planning, transparency of expenditure and public procurement.

4. Public mission and capital investments

Observed public enterprises have established missions, which mainly focus on the provision of public services and the construction and maintenance of public infrastructure (Appendix 2). Missions are mostly poorly articulated often boiling down to the definition of the main goals and tasks. Although the missions of observed enterprises are quite different, they all have the public nature. Insufficiently clearly profiled missions are mainly a result of the lack of clearly defined strategic goals at the national level. Problems with the nonexistence of a clear mission (and vision) are more obvious in the context of capital investments.

Selected enterprises (especially in the transport, energy, utilities and public radio and television services) are users of numerous subsidies, grants, government guarantees and debt relief (especially for tax debts). Some enterprises had administratively fixed prices of public services that were not economic, considering the actual cost of doing business. Since 2006 Croatia has liberalized the public services market and founded regulatory bodies for certain services, which is a consequence of Croatian accession to the EU. In the field of energy, transport, water supply and broadcasting, regulatory agencies have been founded with authorities of approving changes in prices according to the market developments. The opinion of the Agencies is binding and has to be accepted by the state and local government bodies. That leads to the liberalization of the market and reduction of opportunities for quasi-fiscal activities and discretionary decisions of the politicians at the state and local level (Bajo, Ott, Klemenčić, 2014).

Former Croatian governments have not developed comprehensive lists of capital investment at the level of central and local government. Only in 2000 was there a list of capital projects of the public sector (central government and public enterprises), with sources of funding for the period 1996-99. In subsequent years, there has not been such report, nor have governments comprehensively discussed plans for capital investment in the public sector for a longer period of

time (by economic sectors or regions). Such a unified list does not exist for municipal infrastructure projects of local government units as well. Creating a registry of capital projects at the central or regional (local) government level is not demanding at all thanks to the introduced program budgeting and classification of state and local budgets according to programs and financing sources (Bajo, 2011).

Only in 2012 did the Government allocate public authority for the establishment and maintenance of the *Register of public enterprises' investments* with the *Law on the Centre for monitoring of the operations of energy sector and investments (OG 25/12, OG 120/12)*. The Government prescribed the establishment, content and maintenance of the Register by *Regulation (OG 87/12)*. Although the Register was established on January 1, 2013, in 2014 only 42 public enterprises entered the data on projects (60% of the total number of public enterprises that are required to enter information into the Registry of investments). Most investments were realized in the railway and road transport sector, followed by energy, water and forestry, maritime and air transport and modest amount in other companies. Most of the investment was financed from the loans (over 50%) and own resources, and to a lesser extent from EU funds. Enterprises from the energy sector are the only ones who can implement new investments without major borrowing.

**Table 4. Capital investments of public enterprises from 2011 to 2014
(in million EUR)**

mil euro	2011	2012	2013	2014
Croatia electricity group	277	260	222	195
Croatian Transmission System Operator Ltd	0	59	44	55
Jadran oil pipeline	37	40	35	8
Gas supply	30	20	14	6
National Gas storage operator	0	0	9	11
Total energy	344	380	325	275
Croatian highway	194	240	236	78
Croatian roads	185	225	217	194
Croatian railway - Cargo	21	23	8	0
Croatian railway - infrastructure	81	47	175	134
Croatian railway - transport passengers	10	5	13	43
Total transport	491	540	650	450
Croatian Water	211	277	210	161
Croatian forestry	92	65	80	80
Total agriculture	302	342	283	241

Maritime port management	0	76	55	50
Airport	0	13	12	13
Other companies under Ministry of Maritime, Transport and infrastructure competence	0	83	37	41
Total maritime and transport	0	172	104	104
Fund for environment protection and energy efficiency	0	34	36	78
Other companies	0	6	9	5
Total fund and other companies	0	41	46	83
TOTAL	1.137	1.594	1.394	1.153

Note: Values are converted from HRK to EUR using the average exchange rate of the Croatian national bank from 2011 to 2014.

Source: Centre for monitoring of the operations of energy sector and investments, 2015. Government Property Administration Plan for 2015.

5. Public discourse

In the operational plan for the management of government assets, enterprises of special interest are divided into three categories. For the part of these enterprises the state has not provided for the privatization. These are mainly enterprises from the areas of energy, transport, water, games of chance, and development banks. The second category comprises enterprises for restructuring, privatization, sale or initial public offering. These include railways, airports, companies in the field of tourism and one enterprise specialized in the IT support for the country. The third category includes enterprises for sale - mainly companies in which the state has a minority shares. The state has initiated the process of restructuring and resolving significant liabilities of public enterprises from the transport sector through refinancing (re-borrowing), giving into concession (the airport) and the subsequent approval of subsidies (railways). The state is trying to increase the share of EU funds in the financing of capital investments in all sectors. In the energy sector, the government will try to sell a small portion of Croatian Electricity Company through an initial public offering.

The restructuring of public enterprises in Croatia implies rationalization, restructuring and improvement of business processes and extraction non-core activities in specific companies to allow their privatization. Restructuring of public enterprises is mainly done for the purpose of their adaptation to the business environment, increase of competitiveness and reduction of the need for borrowing from financial institutions.

The restructuring processes that are accompanied with the reduction of the number of employees, as well as with new borrowing to finance operating expenses - salaries and interest payments on debt contracts, last for years now. This is particularly pronounced in public companies from the transport sector -

Croatian Highways, Highway Rijeka-Zagreb, Croatian Railways Cargo, Croatian Railways Passenger Transport and Croatia Airlines. Unfortunately, despite restructuring, financial liabilities of these companies grow. Country fully guarantees their debt contracts that are often converted into public debt. The observed enterprises generally do not plan to change ownership during 2015 (table 5).

Table 5. Plans to change ownership in selected enterprises in 2015

No	Name	Proposed changes in the ownership structure:
1	Highway Rijeka-Zagreb	Liquidation of the company (due to the implementation of the monetization)
2	Highway Rijeka-Zagreb Maintenance and Collection	Merged to the Croatian Highways Maintenance and Toll Collection
3	Croatian Highways	No
4	Croatian Highways Maintenance and Toll Collection	No
5	Croatian Motorways	No
6	Croatian Railways Cargo	Further implementation of the restructuring program and eventual sale
7	Croatian Railways Infrastructure	No
8	Croatian Railways Passenger Transport	No
9	Jadrolinija	No
10	Port Rijeka	Recapitalization carried out after the implementation of the restructuring process
11	Airport Dubrovnik	Not provided for restructuring, privatization or sale, but it is planned to form a company that would take over shares in airports from the Republic of Croatia, after which it is possible to give individual airports into concession.
12	Airport Osijek	
13	Airport Pula	
14	Airport Rijeka	
15	Airport Split	
16	Airport Zadar	
17	Croatia airlines	The continuation of the restructuring process and tapping the capital market (sale of a part or all shares - depending on the interest of the market)
18	Croatian Control of Air Navigation	No
19	Croatian Electricity Company	The possibility of an initial public offering of limited scope
20	Adriatic Oil Pipeline - JANAF	No
21	Plinacro	No
22	Underground Gas Storage	No
23	Croatian Forests	No
24	Croatian Waters	No
25	Croatian Radio and Television	Developmental restructuring – the extraction (exclusion) of non-core activities
26	Transmitters and Communications	No
27	Croatian Post	The possibility of recapitalization or initial public offering
28	Zagreb Holding	Separation of business entities not engaged in utilities

Source: Government Property Administration Plan for 2015.

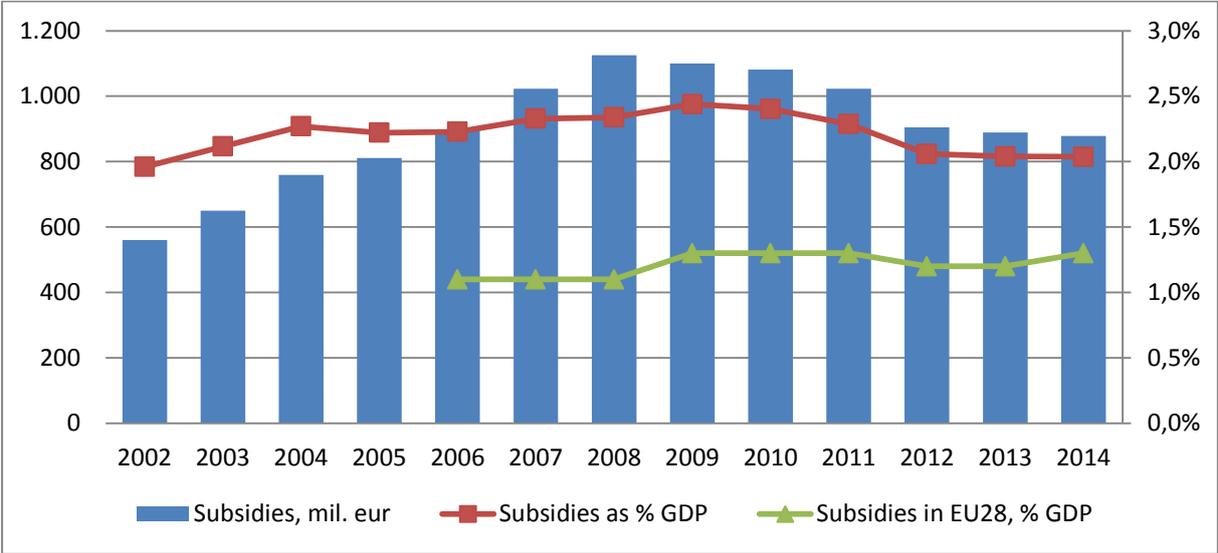
The reasons for the restructuring and privatization of state-owned enterprises include their high indebtedness, but also the inability of the state to approve high

subsidies and additional borrowings to those enterprises. The fiscal position of the country is getting worse, and liabilities of public enterprises and their additional requirements for borrowing in order to refinance the obligations and requirements for subsidies put additional pressure on the state finances. Some key fiscal indicators are provided in the remainder of this chapter.

On average, the state annually grants around 1.9% of GDP of guarantees for borrowing, out of which 1.2% of GDP to the transport sector - the largest part of guarantees is granted to companies from road transport sector. From 2001 to 2013, 80 guarantees were approved amounting to about EUR 7,641 million. From 2001 to 2013, the share of guarantees granted to three road transport companies in total amount of guarantees granted to the transport sector is higher than 55%. The largest share of guarantees granted to the transport sector in total guarantees approved occurred in 2011 (even 76%). Since 2011, most of the guarantees are granted to companies engaged in the construction, maintenance and management of highways.

In addition to guarantees, the state intensely awarded state aid in the form of subsidies. Subsidies grow by 2010 and then gradually reduce amounting to 2% of GDP in 2014 (figure 16). The level of subsidy is still significantly higher than the average of EU member states. It should be noted that most of the allocated subsidies relate to the rail transport. These are not investments in the infrastructure, rather support to the operations of enterprises which can't survive in the market without the government assistance.

Figure 16. Subsidies from the general government budget from 2002 to 2014 (in million EUR and % of GDP)



Source: authors' calculations based on the Ministry of finance's data, 2015.

General government deficit in 2014 was 5.7% of GDP. Interest expenditures for the repayment of general government debt are EUR 1.7 billion (3.4% of GDP). Interest payments are high and will grow significantly in the coming period.

Due to high financing needs Croatia has to make better use of the property income – especially profits of public companies (primarily in the energy sector – Croatian Electricity Company and Adriatic Oil Pipeline - JANAF). Property income of the general government in the first nine months of 2014 amounted to EUR 339 million, of which EUR 146 million related to profits of public companies, EUR 170 million was income from rent and concessions, and EUR 22 million referred to interest income (table 6). According to the decision of the State Office for the Management of Government Assets in 2014 EUR 115 million of profits of public enterprises should have been paid to the state budget. The greatest contributions were expected to come from the Croatian Electricity.

**Table 6. General government revenue from property from 2002 to 2014
(in million EUR and %)**

	Interests	Dividends	Drawings from the revenue of quasi-corporations	Rent (concession and similar)	Total revenue from property	Revenue from property as % of GDP	Revenue from property as % of total revenue
2002	17	55	126	88	287	1.0	2.6
2003	12	14	2	108	137	0.4	1.2
2004	21	260	73	157	511	1.6	4.0
2005	29	163	73	200	465	1.3	3.3
2006	36	25	109	156	326	0.8	2.1
2007	42	174	66	387	669	1.5	3.8
2008	45	36	124	216	421	0.9	2.3
2009	49	18	257	222	547	1.2	3.1
2010	49	18	113	209	389	0.9	2.3
2011	38	39	149	224	451	1.0	2.7
2012	30	94	64	281	469	1.1	2.8
2013	38	78	0	253	370	0.9	2.2
2014	31	153	0	260	444	1.0	2.6

Note: Values are converted from HRK to EUR using the EOY middle exchange rate of the Croatian national bank for each year.

Source: Ministry of finance of the Republic of Croatia, 2015.

The state will have to extend the financial reporting system and include enterprises owned by the state in the existing system. With the increased scope, the management philosophy amends accordingly - instead of budget management of the general government (consolidated state budget and local government and extra-budgetary users) the focus will be on the financial management of the entire public sector (general government and state and local government owned enterprises).

6. Conclusion

Public enterprises in the restructuring process reduce the number of employees, but are still significantly supported by subsidies from the state budget. The public mission of observed enterprises is not clear, nor is it profiled in line with the objectives of the government and the strategy of economic development. In Croatia, there is no program of public capital investment which would clearly identify priority areas and sources of funding. Insufficiently clearly profiled missions of public enterprises, with the lack of performance indicators, create barriers to more clearly determine the plans of engagement of financial sources.

The operation of public enterprises is not stable and they still rely on subsidies to a large extent, whereas the financing of capital projects is mostly carried out by borrowing, which is also used for financing of the restructuring costs. The country takes part of the available funding from the most profitable sectors - energy - through the withdrawal of profits.

Enterprises from the transport and energy sectors have the largest contribution to the GDP growth. At the same time the number of employees gradually decreases. Actual restructuring is just starting. Enterprises from the energy sector can implement new investments without major risks of borrowing. The second group are enterprises that are in the process of restructuring. For those enterprises, the strengthening of the financial capacity and, thus, their ability to finance larger investments, depends on the implementation of the restructuring measures. The increasing growth of new borrowings (with state guarantees) of enterprises from the transport sector directs the activities of the Government to find alternative funding models including the concessions. Because of the opposition from trade unions and interest groups, the financing of the road transport sector will more likely rely on new borrowing. There is a greater possibility for the air traffic sector (airport) to be given into concession.

The future status, position, number and type of public enterprises will significantly depend on the size and frequency of government borrowing needs. In the next 10 years, Croatia will face very high (even record) borrowing needs in order to refinance its debt. Government assets management has so far mainly served a function of restructuring and preparing enterprises for sale or giving into concession.

Because of the public resistance, it is more likely that the government will use the concession model and IPOs for the sale of the part of attractive profitable enterprises - mainly from the energy sector. The railway transport sector will for the time being remain the beneficiary of subsidies and contractually associated with the government. First seriously interested investors will have a chance of acquiring these enterprises.

Greater exposure of the country to markets and more clearly profiling market activities and separating them from activities of public interest should be

expected in the near future. Croatia does not have the budgetary possibilities for maintaining subsidies at the level of 2% of GDP. Therefore, giving the enterprises into concession or selling their parts should be a prelude to reducing the need for government subsidies. An increased focus on EU funds is expected in most infrastructure investment (especially in the field of railway transport). In all public enterprises, a serious organizational restructuring - adjustment of the organizational structure and number of employees is still expected.

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Strategic plan of the State office for the management of government assets for 2014-2016.

Strategic plan of the State office for the management of government assets for 2015-2017.

Strategy for the management and disposal of assets in the ownership of the Republic of Croatia for the period 2013-2017 (OG 76/2013).

Appendix 1. Statistical annex

Table A1. The share of employees of selected public *enterprises* in total number of employees in Croatia

	2009	2010	2011	2012
Transport	20,561	20,296	20,164	21,982
Postal and communication	13,734	13,652	13,678	13,642
Utility	11,789	11,789	11,685	11,623
Water and forestry	9,221	9,208	9,318	9,237
Energy	1,132	1,123	1,100	1,116
Total 28 enterprises	56,437	56,068	55,945	57,600
Total employees	1,153,441	1,075,442	1,033,145	1,002,905
% of total				
Transport	1.8	1.9	2.0	2.2
Postal and communication	1.2	1.3	1.3	1.4
Utility	1.0	1.1	1.1	1.2
Water and forestry	0.8	0.9	0.9	0.9
Energy	0.1	0.1	0.1	0.1
Total 28 companies	4.9	5.2	5.4	5.7
Total employees	100	100	100	100

Source: CBS and companies' financial statements for a period from 2009 to 2013.

Table A2. The share of revenue of selected public *enterprises* in total revenue of companies in Croatia (in billion EUR)

	2009	2010	2011	2012
Energy	1.8	1.9	1.9	2.0
Postal and communication	0.5	0.5	0.5	0.5
Transport	1.4	1.2	1.2	1.2
Utility	0.6	0.5	0.5	0.5
Water and forestry	0.6	0.6	0.6	0.5
Total 28 companies	5.0	4.7	4.7	4.7
Total revenue	82.1	77	76.5	75
% of total				
Energy	2.2	2.4	2.5	2.7
Postal and communication	0.6	0.6	0.6	0.6
Transport	1.7	1.6	1.6	1.6
Utility	0.8	0.7	0.7	0.7
Water and forestry	0.7	0.8	0.8	0.7
Total 28 companies	6.1	6.1	6.1	6.3
Total revenue	100	100	100	100

Note: Values are converted from HRK to EUR using the EOY middle exchange rate of the Croatian national bank for each year.

Source: CBS and companies' financial statements for a period from 2009 to 2013.

Table A3. The share of the value added of selected public *enterprises* in GDP
(in billion EUR)

	2009	2010	2011	2012	2013
Energy	0.2	0.4	0.2	0.2	0.3
Postal and communication	0.3	0.3	0.3	0.2	0.3
Transport	0.9	0.7	0.7	0.7	0.8
Utility	0.2	0.2	0.2	0.2	0.2
Water and forestry	0.2	0.2	0.2	0.2	0.2
Total	1.9	1.8	1.6	1.5	1.7
GDP	45.3	44.4	44.2	43.8	43.2
% of GDP					
Energy	0.5	0.9	0.5	0.4	0.6
Postal and communication	0.7	0.6	0.6	0.5	0.6
Transport	1.9	1.6	1.6	1.6	1.8
Utility	0.5	0.5	0.5	0.5	0.5
Water and forestry	0.4	0.4	0.4	0.4	0.5
Total	4.1	4.1	3.5	3.4	3.9
GDP	100	100	100	100	100

Note: Values are converted from HRK to EUR using the EOY middle exchange rate of the Croatian national bank for each year.

Source: CBS and companies' financial statements for a period from 2009 to 2013.

Appendix 2. Missions of selected public enterprises

No.	Firm	Mission
1.	Highway Rijeka-Zagreb	Build the highway and service facilities and manage with the due care and diligence of a prudent businessman by providing safe, well-maintained and free flowed highway.
2.	Highway Rijeka-Zagreb Maintenance and Collection	Build the highway and service facilities and manage with the due care and diligence of a prudent businessman by providing safe, well-maintained and free floated highway.
3.	Croatian Highways	The management of highways, construction, reconstruction and maintenance of highways and facilities managed.
4.	Croatian Highways Maintenance and Toll Collection	Performing maintenance and toll collection, thereby ensuring a secure and free-flowing highway to the satisfaction of all stakeholders: customers, suppliers, employees, founders and the local community.
5.	Croatian Motorways	The mission is defined by the Law on public roads and the Memorandum of Association whereas the basic task is management, construction and maintenance of public motorways.
6.	Croatian Railways Cargo	Ongoing compliance to the requirements of customers and users of services, owners and other interested parties by applying a high standardised technology with the help of skilled and motivated staff.
7.	Croatian Railways Infrastructure	To be the service of general, transport and economic interests of Croatia. The ongoing goal is to create conditions to increase the flow of movement of passengers and goods by rail, both through commercially acceptable quality and network capacity and access charges for users of the railway infrastructure and as well through the exploitation costs of the carrier on the network.
8.	Croatian Railways Passenger Transport	Passenger transport by providing quality, reliable and economical and environmentally friendly services in urban and suburban, local - regional, and international and domestic remote transport through modern mobile capacity.
9.	Jadrolinija	Ensuring ongoing and uninterrupted regular maritime transport of passengers, vehicles and cargo in territorial waters and internal waters, and the implementation of development policies of (maritime) transport, which are, as part of the strategy and policy of economic development, determined by the Croatian Parliament.
10.	Port Rijeka	Being the largest concessionaire for the transshipment of dry cargo in the area of the Rijeka port basin and providing services in maritime transport, port services and storage services, which in the manner of a reliable business partner continuously adapt to the needs of clients.
11.	Airport Dubrovnik	Providing a safe and regular transport of people and goods by air, in accordance with international standards.

12.	Airport Osijek	Active involvement in the Croatian, European and global transport and economic flows, along with continued investment in infrastructure (adapting to the needs of the growth of traffic and the requirements of safe and regular flow of traffic), implementation of new technologies, especially the education and training of all employees in order to achieve professional conduction of core business.
13.	Airport Pula	Handling of passengers, aircraft, cargo and goods in domestic and international air traffic, while providing services in a safe and quality manner.
14.	Airport Rijeka	Fulfilling a significant social role in meeting the needs of the community for the disposal of adequate infrastructure that provides safe and regular air transport of people and goods by air.
15.	Airport Split	Create conditions for the safe and regular air traffic, with continuously increasing quality of service and customer satisfaction. Ensure positive impact on the environment, sustainable development and care for the environment and supporting tourism development in central Dalmatia. To contribute to the economic development of the Croatian transport and, nurturing the status of safe airport.
16.	Airport Zadar	Play an important role in meeting the public and social needs and to strive for ever greater achievements of the quality of services and development.
17.	Croatia airlines	To connect Croatian cities with the most important European cities and through them with the whole world
18.	Croatian Control of Air Navigation	Achieve the best quality of air navigation services, in accordance with national and international regulations, to the complete satisfaction of customers.
19.	Croatian Electricity Company	Safe and quality supply of consumers with energy, with a high degree of social responsibility.
20.	Adriatic Oil Pipeline - JANAF	To ensure a safe and high-quality system for the transport of crude oil and storage of crude oil and petroleum products by applying the world's highest technological standards and with concern for the preservation and protection of the environment, health, safety and employee development.
21.	Plinacro	To be responsible for: transportation and transit of natural gas; keeping (monitoring and management), maintenance and development and construction of the gas transmission system; non-discriminatory access to the transmission system when it is economically and technologically reasonable and justified; balance the amount of gas in the transportation system; connect with other gas systems.
22.	Underground Gas Storage	To be responsible for managing, maintaining and developing a safe, reliable and efficient gas storage system. Also, to be responsible for ensuring the long term ability of the storage system to meet the requirements of customers and other stakeholders and to enforce laws and regulations and other applicable positive regulations.
23.	Croatian Forests	Ensure sustainable integrated management of state forests throughout the Croatian territory in an environmentally sensitive, economically efficient and socially responsible way towards society and employees of the company.

24.	Croatian Waters	Manage water in Croatia in order to protect life, health and property from the harmful effects of water and to ensure permanent availability of water through optimizing the economic and environmental benefits based on the principles of sustainable development.
25.	Croatian Radio and Television	Preserves and promote European values and fundamental human rights, national and cultural values and contribute to the creation of the modern Croatian society.
26.	Transmitters and Communications	Provide services of terrestrial and satellite broadcasting of radio and television programs, building and leasing electronic communications networks, power lines and infrastructure, providing multimedia services, as well as other professional and communications services in the field of electronic communications, especially taking into account the quality of service and customer satisfaction, sustainable development, energy efficiency and environmental protection and social responsibility.
27.	Croatian Post	To remain the central communication facility and by modernization of existing and introduction of new services - to be a reliable business partner and a leader in the Croatian market of postal services.
28.	Zagreb Holding	To be an example of excellence in public service delivery in line with EU standards, satisfying the needs of citizens beyond expectations, actively supporting utilities, management, economic and urban revival of Zagreb. In doing so, act in a socially responsible manner towards employees, environment and the community.

Source: Systematization of authors according to the missions stated in companies' web pages, 2015.

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