2. Od javne odgovornosti do učinkovitog upravljanja državnom (narodnom) imovinom i blagostanja

ZNANSTVENI RAD

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Sažetak

U radu se istražuju mogućnosti učinkovitog upravljanja državnom (narodnom) imovinom s ciljem očuvanja narodnog bogatstva. Istraživanje je potaknuto iskustvima razvijenih zemalja u kojima se upravljanje državnom imovinom odvija pomoću državnih investicijskih fondova osnovanih za tu namjenu. Polazeći od koncepta da javne vlasti u razvijenim zemljama u svojim investicijskim pothvatima prakticiraju ponašanje privatnih investitora, te da se državnom imovinom može i treba upravljati, rad se bavi načinima očuvanja, korištenja i povećanja vrijednosti javnog (narodnog) bogatstva. Ustrajući na načelu odgovornosti javnih vlasti, analiziraju se preduvjeti za efikasno upravljanje državnom imovinom. Budući da se privatizacijskim procesima u većini tranzicijskih zemalja nazire kraj, propituje se može li stavljanje u upotrebu različitih pojavnih oblika državne imovine, pod nadzorom profesionalnog menadžmenta, osigurati kvalitetnije javne usluge i blagostanje građanima.

Ključne riječi: upravljanje državnom (narodnom) imovinom, fondovi državne imovine, profitno orijentirano upravljanje imovinom, odgovornost za upravljanje, država blagostanja, tranzicijske zemlje
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2 From Accountable Government to Public Asset Management Reform and Welfare

RESEARCH PAPER

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Abstract

This paper examines the way public assets should be managed to preserve the national wealth. The research idea arises from experiences of some developed countries that manage their public assets through public investment funds, i.e. sovereign wealth funds. Drawing on the knowledge that public authorities in developed countries follow investment practice the same way that private investors do and that public assets are "manageable", the paper deals with public property preservation and usage, and value enhancement in transition countries. We analyse the preconditions for efficient public asset management and ask whether the employment of public assets under the supervision of professional management can ensure better public services and welfare to the citizens of transition countries, once privatisation processes of public assets are close to being finalised.

Keywords: public asset (financial) management, public asset funds, profit-oriented asset management, good governance, welfare state, transition countries
JEL classification: H82, H83

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1 Introduction[1]

In the last two decades of the 20th century, many countries started investing in the modernisation of the public sector. The entire public sector modernisation process is often summarised under the broader term of the "New Public Management" (NPM), which refers to the overall set of financial and administrative reforms in the public sector. The changes in public asset management and governance policies are considered the greatest challenges in the history of the NPM implementation to date.

We understand public sector asset management reforms as a major factor and one that is increasingly changing public sector organisations. There are plenty of studies on experiences with public asset management reform (PAMR) in various countries (Likierman, 1994; Barret, 2004; Lyons, 2004). The studies on PAMR, in particular, take into account the implementation of market efficiency and good governance principles as well as business-style accounting and financial reporting practices in general government.

In parallel with the NPM reforms, a trend of tremendous public assets growth has accelerated worldwide. The surge in public assets was most evident in central banks' reserves, especially in Asia, followed by an increase in public assets in the existing and newly formed state-owned funds. Since the 1950s, different types of entities established by the state or government have emerged as managers of sovereign wealth funds (SWFs).

The discussion on the SWFs' presence in the global financial market and their impact on local economies was vividly addressed in the business and scientific literature during 2007 (Aslund, 2007; Brooks, 2007; Gjessing and Syse, 2007). The investment policy of the SWFs is similar to that of other institutional investors - pension funds, investment funds, and hedge and private-equity funds. However, the fact that the SWFs are state-owned raises many questions

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regarding their role in international relations. This refers in particular to the corporate governance and accountability policies SWF managers adopt to the owners of the monies managed in the funds during the course of the investment process.

Like other NPM reform mainstreams, corporate governance was firstly developed and implemented in the private sector and then translated into the public sector. The foundations of corporate governance are separation of ownership and management (control) and separation of the roles of chief executives and chairmen. Corporate governance has been considered a serious issue in the public sector due to concerns over confidentiality in decision making, openness and accountability within the government, and accountability of the government to the citizens. Governance in the public sector implies all principles of corporate governance such as a clear definition of desired outcomes, well-defined functions and responsibilities of public management, an appropriate corporate culture, transparent decision-making and accountability to the citizens.

Good governance in the public sector financial management cannot be separated from good governance in the state in general. We understand good governance as a result of the legitimacy earned by those who enjoy the public trust to exercise institutional power over public resources, taking care of the public interests and common welfare. Likewise, the postulates of the civil society can be regarded as vital in implementing sound and efficient public sector financial management.

The aim of this paper is to examine why property ownership rights in the public sector are quite often equated with the rights to manage public property (Nivet, 2004; Ostrom, 2003). This phenomenon particularly concerns those transition countries of Southern and Eastern Europe (SEE) and Central and Eastern Europe (CEE) wherein the transformation from planned to market economy has failed to enhance the welfare of the citizens. The equation of ownership rights with control rights can happen whenever a natural monopoly is concerned. But, in circumstances in which no chain of accountability has been distinguished, there is often a crucial misconception concerning what ownership and management mean in general.

In this paper, we argue that it is incorrect to regard ownership and management rights as equal. We discuss the difference between the two, and establish some guidelines concerning possible public property usage and good governance mechanisms linking the managers and owners of the public assets. Throughout the paper we rely on the presumption that all property that belongs to the state actually belongs to its citizens. Appointees in the top state/governmental institutions are only agents or intermediaries, chosen, by the democratic will of the citizens as expressed in the parliamentary elections, to fulfil public duties. In other words, the state institutions should be held accountable to act in the best interest of the citizens with respect to the preservation, employment and value enhancement of the national property. Therefore, the existence of a responsible and accountable government, oriented towards achieving welfare for all its citizens, is a precondition for an efficient PAMR. Once the accountability chain has been clearly defined, PAMR can start. Although there are various options for the use of public assets, in this paper we shall examine more closely the management practices for public assets pooled into public investment funds.

The structure of the paper is as follows. The second section discusses the differences between private and public property rights and the types of public assets over which these rights are exercised. It also deals with the classifications of public assets and liabilities. The main postulates of modern public asset management and good governance within the broader concept of the NPM are presented in the third section of the paper. The fourth section is devoted to the way in which state-owned and government investment companies and funds are created, and to the types of public assets that are managed that way. The accountability of investment companies to the public is also considered. The fifth section evaluates if and to what extent public asset management can be organised for the accomplishment of public goals in transition countries. Bearing in mind the current economic, political and government organisation settings in transition countries in general, this section of the paper offers some recommendations for better public asset management. The last section concludes.

2 Defining Features of Property Rights, Public Assets and Liabilities

Governments in transition countries do not often possess even the basic knowledge of the types of assets that comprise the public asset portfolio, of who is the actual and who is the institutional owner of public assets, and who has the right (privilege) to control public assets. Therefore, although property rights features are more or less widely recognised, we deem their brief summary necessary for a better understanding of property rights perception and enforcement in transition countries.

The basic definition of property rights is that they are institutional rights that determine the allocation of assets among the public, public institutions, public/private entities and individuals. The precondition for realising property rights is their wide recognition and enforcement, ensured by legislation and judicial systems. Once properly registered, property rights to both private and public property can be enforced. Libecap (1989) defines property rights as the rights to use, to earn income from and to transfer or exchange the assets and resources. Similarly, Schlager and Ostrom (1992) describe the following composite characteristics of the property rights:

- access is the right to enter a certain property;
- withdrawal is the right to enjoy the material and immaterial "products" of the property;
- management is the possibility to regulate internal use patterns and transform the resource by making improvements;
- exclusion is the right to determine who shall have an access right and how that right may be transferred; while
- alienation is the right to sell or lease either or both the management and exclusion right.

According to Schlager and Ostrom (1992), the term property rights refers to operational rights such as access and withdrawal right, and to management rights including management, exclusion and alienation of certain property. It may be that the best definition of property rights is given by the property rights theory which suggests that two economic elements are critical to understanding ownership: residual control rights and residual rights to income. We adopt such an economic approach to property rights when discussing property rights to public assets, treating property rights and ownership rights as synonyms.

The first step in defining public property rights is to determine what public property is. In other words, we need to determine the objects over which property rights can be exercised.

Public property is sometimes referred as "commons", although the term "commons" also implies physical resources that are neither owned privately nor by the state, including those that are not closely regulated by the state (Berge, 2007). Similarly, Schlager and Ostrom (1992) define "common-property" resources ("common-pool" resources) as property owned by a government, property owned and protected by a community of resource users,[2] and property owned by no one. Their first two defining features of "common property" imply that there is no difference between common and public property. However, the first term refers to state or central government ownership, while the latter is related to the ownership rights of municipalities/local administrative bodies/local government. The third defining feature of "common property", i.e. that the property is owned by no one, is nowadays frequently used in academic polemics on so-called open-access resources, such as oceans, sea, lakes, air and inaccessible forests. These debates, often provoked by uncontrolled pollution, mainly focus on resources that are not covered by tight regulation and that are accessible to anyone.[3]

A further gradation of common property is given by McKean (1992: 251-252) who classifies the property according to the type of its owner into the following groups:

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[2] *The term used in the UK for this type of common property is the "commons".*

[3] *The last feature of the "commons", according to which they belong to everybody and no one at the same time, is meritorious for the creation of the term "global ownership" on certain resources.*

- unowned non-property (or open-access resources) to which no one has rights and from which no potential user can be excluded;
- public property held in trust by the state, to which the general public often has access, e.g. national parks, municipal parks, city streets, highways, waterways;
- state property that is essentially the exclusive property of government bodies, such as government offices, office furniture and equipment of public administration;
- jointly owned private property whose individual co-owners may sell their shares at their own will without consulting other co-owners;
- common or communal property or jointly owned private property without unilaterally tradable shares;
- individually-owned private property whose owners generally have full and complete ownership rights except when these are attenuated by government regulation.

Ownership rights entrusted to certain institutions cannot by any means be assumed as essentially the same as private ownership rights, as is often the case in transition countries. Ownership rights entrusted to public institutions can be reckoned as the rights adopted by regulation that oblige public institutions to act as stewards of public assets. The public institutions represent a broad owners' base of people living in a certain central or local state area. If public institutions were not committed to the stewardship of public assets, it would be very difficult to regulate the real ownership rights that change constantly and in line with the changes in demographic picture.

The question that evolves here is whether public property is the same as public good. The answer is no, since public property includes public good. Therefore, public good is always treated as public property but public property is much broader in scope than public good.

The economic theory defines public good as public property with two prevailing characteristics: non-excludability of access to public good (though it does not mean that multiple users' access to public good is granted for free), and non-rivalry in consumption (Apesteguia and Maier-Rigaud, 2006). We would make an add-on to both of these features stating that public good only relies to the access to and non-rivalry in consumption of people living in the certain area that is the subject of the (state) regulation. A user should not be excluded from access to and benefits from the public good. Such exclusion would be possible in case of access to and benefits from the public property, although it might be difficult if users have become accustomed to public property usage. Although states have a sovereign right to declare public good and public property, the public good is more a matter of positive international practice than national legislations. The reason for this is that most public services are regarded as public goods. Even though public services can be provided by the private sector as well, their existence is impossible without strong regulation and support from the state. Thus, the state, by means of its institutional power, constantly creates preconditions for providing better public services, some of which are commonly treated as public goods.

An illustration of the distinction between ownership rights and other rights that are often misinterpreted as ownership rights is shown in Table 1.

Table 1 **Bundles of Rights Associated with Positions**

Ownership rights' features	**Types of rights according to the regulated role of:**				
	Full owner	**Proprietor**	**Authorised claimant**	**Authorised user**	**Authorised entrant**
Access	x	X	X	X	x
Withdrawal	x	X	X	X	
Management	x	X	X		
Exclusion	x	X			
Alienation	x				

Source: Adopted and adapted from Ostrom (2003: 251).

The first two defining features of ownership rights presented in Table 1 refer to access rights with usufruct, while the latter three focus on the enforcement of management rights. Pure ownership rights have to have all five defining features as shown in the case of "full owner". Although all rights presented are guaranteed by regulation, the most prevailing provision in almost all constitutions relies on the enforcement of private ownership rights. All other categories of ownership rights belonging to various state or governmental institutions have limitations. A proprietor may be understood as an equivalent to a concessionaire, while authorised claimant has rights of stewardship. An authorised user is the same as a lessee while an authorised entrant has access to resources only, mainly for the purpose of recreation. So, the regulated role of the property depends on its predetermined usage.

There are two understandings of the concept of property – the broad view and the narrow view. Each relies on the management of property. According to the narrow view, property rights imply almost absolute right of asset disposal, and can be restricted only by (ex-ante) state regulation. The narrow view can, therefore, be equated with private property rights. The history of the narrow view of property rights, i.e. private property rights, dates back to 1236 when the English parliament enacted its first law on enclosure (Berge, 2007). Private property rights are usually connected with the ideology of liberalism, or laissez faire, which reached its peak in the 1980s when lots of public utilities were privatised for the sake of greater efficiency and the achievement of profitability. Secure, exclusive, transferable private property rights represent the main element of the incentive system of market economy. They are the necessary complement of financial discipline and competition, and they allow the development of efficient product, factor and financial markets (World Bank, 1996).

Under the broad view, property rights ban the exclusion of anyone from enjoying the rights guaranteed by place of birth. Demsetz (1967: 354) defines communal ownership as "a right which can be exercised by all members of the community". According to Shachar and Hirschl (2007: 264) "the right not to be excluded means that, as members of political community, individuals are seen as equal partners in the common enterprise of governing the commonweal". The broad view encourages the concept of public ownership rights, treating the citizens not as stakeholders but as shareholders of common property. It also stresses the collective responsibility for public property usage. Unlike traditional forms of wealth, which are related to private property, valuables associated with the citizenry are derived specifically from holding a status-entitlement that is dispensed by the state. For each community member, citizenry further entails a share of "ownership" and governance of that polity's communal and pooled resources (Shachar and Hirschl, 2007: 261-262).

As far as public property rights are concerned, many governments have adopted good governance and citizen-oriented public management as two prevailing principles. This is in fact a mixture of the broad and the narrow view on the enforcement of property rights, meaning that governments treat the citizens as stakeholders and partners in performing day-to-day public management (OECD, 2001). For state-owned enterprises (SOEs) governments are required to state their objectives as owner. According to an OECD study (2008), countries' objectives range from "creating the value-added" (in France) to "attending to the common good" (in Norway).

Taking the enumerated defining features of property rights into consideration, it becomes evident that although legally treated in the same way, property rights exercised by the public as the ultimate shareholder differ from property rights exercised by an individual or a private entity. After all, what makes them different is the usage value they provide to their beneficiaries/shareholders, as illustrated in Table 2.

Table 2 **Responsibilities under Various Property Rights**

Type of right	**Type of property**		
	Private property	**Commons**	**Public Domain**
Right of access	Exclusive	Limited	Open (conditional on good behaviour)
Responsibility	Individual (includes corporate)	Community	Social

Source: Kneen (2004).

The right of access can be perceived as a pure ownership right, while the responsibility right can be understood as management right. In that sense, as noticeable from Table 2, private property owners are in most cases the managers of their property, especially when real estate and small family businesses are in question. On the other hand, the owners of public property can be denied access to their property, but the responsibility for managing public assets, whose institutional owners are certain general government bodies, always remains responsibility towards the community and/or the entire society, for the ultimate owners of public assets are the citizens. Stemming from this, a government is to protect private property rights and regulate public property rights (Yiu, Wong, and Yau, 2006: 90). The mechanisms that governments use for the protection and enforcement of property rights are legislation and governmental (public) institutions.

When public sector reforms commenced in the 1980s, public property and the services resulted from its use started to be treated in the same way as the assets of any private entity. In other words, the property dimension was matched to the resource dimension (Pallot, 1990). The Public Sector Committee of the International Federation of Accountants (IFAC) published its Study 2 entitled "Elements of Financial Statements by National Governments" in 1993. This Study adopts all defining features of assets as applied for business purposes, whereby public assets are controlled by their reporting entities. According to the Study, public assets are characterised by:

- the existence of a service potential or future economic benefits; and
- the service potential or future economic benefits that arise from past transactions/events.

One of the subsequent IFAC studies - Study 5 (1995), entitled "Definition and Recognition of Assets", distinguishes between the following types of public assets:

- financial assets including cash, receivables, contractual rights to exchange financial instruments with another enterprise under potentially favourable conditions, and the equity instruments of another enterprise, i.e. shares in SOEs; and
- physical assets consisting of inventories, long-term fixed assets, infrastructure, heritage assets, defence assets, natural resources, community assets, and intangible assets.

Assets in general give rise to certain liabilities. Public assets are often recognised as pure budgetary expenditures. This is because the revenues of assets are separated from the assets' sources of finance. The separation of assets from the liabilities generated by the use of these assets prompts the accounting reform undertaking, i.e. introducing accruals. Accruals introduction is deemed necessary because under cash basis accounting that has prevailed in many countries for a long time no liabilities are recorded. Furthermore, in transition countries it often happens that public authorities are not aware of the actual size of the state-backed guarantees that have been issued, guarantees that are legally enforceable and sometimes huge.

Public liabilities are defined and classified in IFAC Study 6 (1995), entitled "Accounting for and Reporting Liabilities". The same study elaborates the effects of different accounting bases on the recognition and financial reporting of public liabilities. Public liabilities can be treated the same as the liabilities of any business entity, consisting of the accounts payable arising from the purchases of goods and services, accrued salaries and wages and other monetary and non-monetary compensations, employee pension obligations, accrued interest payable, amounts payable under guarantees, borrowings including short-term borrowings, long-term debt, loans and advances payable to other levels of government or government entities, lease obligations related to capital leases, but also currency issued and transfer payments payable. Owning to IFAC's public liabilities' classification, it is evident that the state must account for the entirety of its debts, both current and long-term. However, for the purpose of this research we disregard public debt and currency issuance-related liabilities. We rather focus on the liabilities that are directly connected to physical public assets.

We take a broad view of property rights, treating citizens as the shareholders of national wealth, i.e. as the owners of public assets. Thus, the public property rights refer to the ownership rights that belong to the whole of the citizenry and/or the ownership rights that belong to local authorities/municipalities. Consequently, centralised state or government public asset management and decentralised municipal or local public management can be distinguished.

Private entities/individuals that enjoy the benefits of property are responsible for the property they have exclusive access to. Unlike them, public officials in democratic countries have a limited right but unlimited responsibility for public asset maintenance and for settling the liabilities arising from the existence or use of public assets. In other words, public officials have the privilege of managing public assets, of exercising a fiduciary duty to the citizens.

Common ownership rights became increasingly bound to management rights throughout the 20th century, especially when the famous and often cited work "The Tragedy of the Commons" by Garret Hardin was published in 1968. The main premise of that work is that when a resource is owned by everyone, nobody has incentives to conserve it. The policy implication of the "tragedy of the commons" is to either privatise and/or regulate, or nationalise the resources, constantly keeping in mind that property rights are claims over future income from assets (Heltberg, 2001).[4] Nowadays, we see that the existence of both public and private ownership options is possible, even at the same time.

3 From Public Administration to New Public Management and Good Governance

One of the crucial questions we aim to address is whether government officials can be as efficient as managers in private enterprises or whether they should delegate the managing role with respect to public assets to somebody else.

The main premise of the modern property rights theory is that ownership rights are residual rights of control over assets. Demsetz (1967) pointed out that shareholders own only the shares of a corporation, not the particular parts of the corporation, and they, accordingly, are not owners but lenders of capital. Transferred to the state organisation, the citizens are lenders of capital who have a right of demanding the highest possible return on capital invested, i.e. money paid through taxes. Similarly, Duruigbo (2006: 67) states that "governments as trustees have a responsibility to discharge their obligations in

[4] Hardin's concerns on resource depletion should be observed in the context of strong population growth, which is an important problem in the countries with large population.

good faith. Governments are in a fiduciary relationship with the citizens that they cannot rightly or lightly be permitted to abuse".

Everyday government business activities are conducted by a public administration that is decentralised into administrative branches in charge of certain activities. There is a long-term development path from pure public administration to a publicly accountable management. As described by Sindane (2004: 668), "public administration is the organisation, mobilisation and management of human and material resources gathered to achieve the purpose and aims of the government". In that sense, public administration should be perceived as a responsible government. The concept of accountable government prevailed before governments were flawed by corruption and scandals, before public officials started to be considered as bureaucrats acting by the book without taking the responsibility for their actions, and even worse, before the harmful effects of public officials' work for the society started to be overlooked. This concept has been revived and popularised under the NPM approach. NPM became a synonym for ongoing processes of modernising governmental management and achieving efficiency in the public sector. Countries like Great Britain, Australia and New Zealand started the modernisation reform of their public sector in the 1980s (Pallot, 1996; Simpkins, 1998; Hepworth, 2002). Sets of improvements in public sector administrative and managerial functioning are described by numerous authors (Guthrie et al., 2005; Bolivar and Galera, 2007; Guthrie, Humphrey, and Olson, 2007). Azuma (2002) states that when applied in practice the NPM theory points out the following reform process determinants:

- reposition of the general government and modification of its role within the economy – the general government is treated as a business entity that continuously and efficiently performs its activities (the "going concern" principle);
- the implementation of good governance practice and business-style accounting and reporting in the general government sector; and
- "performance-based management".

Similarly, Hood (1995; 2004) suggests that NPM postulates include:

- greater emphasis on citizen satisfaction since citizens are the clients for public sector services;
- greater emphasis on management and accountability assessment methods;
- the opening up of public sector entities to competition;
- development of arrangements for the systematic comparison of activities between management units (benchmarking); and
- the separation of policy-making from service delivery and the creation of agencies to deliver services.

Governments tend to be linked with wider international public sector reform trends concerning the management of public expenditure and resource use that is to be carried out under the two basic concepts: governance and transparency. Hughes (1994) indicates that under NPM models the public administration that tends to be receptive must be based on the increase of the involvement of citizens as customers, on increased transparency and accessibility of public information to citizens. This refers to encouraging efficient control of public expenses and strengthening the level of accountability for managing public resources proactively. Thus, the three particularly important issues the NPM model emphasises are: citizen-centred services, value for taxpayers' money and a responsible public service workforce (Bourgon, 2007).

In the literature the term governance has multiple meanings. Most often it concerns the overall reform of public administration, as of the 1980s, and the analysis of corporate governance. Accordingly, various definitions of governance (Keefer, 2004: 4) tend to encompass one or both of the following:

- the extent to which governments are responsive to citizens and provide them with certain core services, such as secure property rights and, more generally
- the rule of law; and the extent to which the institutions and processes of government give government decision makers an incentive to be responsive to citizens.

In developing country literature governance most often refers to the process of decision-making and the process of implementing the policy decisions. Public institutions conduct public affairs, manage public resources and guarantee the realisation of human rights and at the same time they are responsive to the present and future needs of the society.

The striking idea of the NPM is that improved asset management results in better service delivery to and outcomes for the public (Lyons, 2004). According to Guthrie, Humphrey, and Olson (2007: 17), “in democracies, politicians are elected and they are supposed to represent the ideas and interests of the citizens. One of their roles is to allocate resources to appropriate activities or programs”. Therefore, the transparency principle is treated as a fundamental assumption for efficient public asset management.

NPM postulates have often been criticised for their reliance on private sector management tools (McLaughlin, Osborne, and Ferlie, 2002; Pollitt and Bouckaert, 2004). In the private sector, the investor invests capital in a company with the aim to obtain financial return. The public sector is supplied with financial resources (taxes), which are not related to particular services. The primary difference between the public and the private sector is that governments have to provide public services to citizens by utilising budgetary income. The insufficient amount of budgetary revenues for financing the increasing public needs has led to greater readiness of the states to enter the projects with private sector entities, primarily in order to learn from them and make use of their valuable business experience. This refers to the ongoing process of modernising general government, which gradually becomes identical to a business entity that continuously and efficiently performs its activities, treating the citizens as customers. In order to supply the citizens with good quality of service in exchange for financial resources received, governments need to create an environment for improved, professional and responsible public asset management. This refers mostly to introducing governance and business-style reporting practices in governments whose quality of work becomes open to the citizens. Nowadays governance is used interchangeably both in the private and public sector, good governance being usually linked to the way business is conducted in the public sector while corporate governance is more common in the practice of the private sector.

According to the World Bank study (1994: Ch. vii), good governance is defined as the "manner in which power is exercised in the management of a country's economic and social resources for development. Good governance is epitomised by predictable and enlightened policy-making (that is, transparent processes); a bureaucracy imbued with a professional ethos; an executive arm of government accountable for its actions; and a strong civil society participating in public affairs and all behaving under the rule of law". Good governance practice is also addressed in the literature as the "market model of governance" that has resulted "from government to governance" trend (Argyriades, 2006). "From government to governance" reflects the development of largely decentralised, cooperative ventures in which both public sector entities and private enterprises take part.

Even though a uniform European Corporate Governance Code has not been developed yet, certain good governance principles have been incorporated in company acts and legislation of the member countries (Commission of the European Communities, 2003). Some of the most obvious linkages between governance principles in the private and public sectors are given by OECD *Principles of Corporate Governance* (2004) and OECD *Guidelines on Corporate Governance of SOEs* (2005). The two sets of principles are shown in Table 3.

The OECD *Principles of Corporate Governance* have become an international benchmark for policy-makers, investors, corporations and other stakeholders in both OECD and non-OECD countries. These *Principles* have also been immanent within the 'Lamfalussy Directives' that relate to public sector financial reform.[5]

[5] *Lamfalussy Directives encompass the Prospectus Directive that proclaims investor protection and market efficiency, the Market Abuse Directive that ensures integrity of community financial markets and enhances investor confidence in those markets, and the Transparency Directive that advocates information availability on issuers whose securities are admitted to trading on a regulated market situated or operating within a Member State.*

Table 3 **Similarities between OECD Principles of Corporate Governance (OECD PoCG) and OECD Guidelines on Corporate Governance of SOEs**

Main principles of corporate governance in enterprises	Main principles with most outstanding explanations of corporate governance in SOEs
1 Ensuring the basis for an effective corporate governance framework The corporate governance framework should promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities.	**1 Ensuring an effective legal and regulatory framework for SOEs** (in line with OECD PoCG) • There should be a clear separation between the state's ownership function and other state functions that may influence the conditions for SOEs, particularly with regard to market regulation. • SOEs should not be exempt from the application of general laws and regulations. • SOEs should face competitive conditions regarding the access to finance. Their relations with state-owned banks, financial institutions and other companies should be based on purely commercial grounds.
2 The rights of shareholders and key ownership functions The corporate governance framework should protect and facilitate the exercise of shareholders' rights.	**2 The State acting as an owner - *The State should act as an informed and active owner and establish a clear and consistent ownership policy, ensuring that the governance of SOEs is carried out in a transparent and accountable manner, with the necessary degree of professionalism and effectiveness.*** • The government should not be involved in the day-to-day management of SOEs and allow them full operational autonomy to achieve their defined objectives. • The state should let SOE boards exercise their responsibilities and respect their independence. • The exercise of ownership rights should be clearly identified within the state administration. This may be facilitated by setting up a co-ordinating entity or by the centralisation of ownership function. • The co-ordinating or ownership entity should be held accountable to representative bodies such as the parliament and have clearly defined relationships with relevant public bodies, including the state audit.
3 The equitable treatment of shareholders The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.	**3 Equitable treatment of shareholders (in accordance with OECD PoCG)** • The co-ordinating or ownership entity and SOEs should ensure that all shareholders are treated equitably. • SOEs should observe a high degree of transparency towards shareholders. • SOEs should develop an active policy of communication and consultation with all shareholders.

4 The role of stakeholders in corporate governance The corporate governance framework should recognise the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.	**4 Relations with stakeholders** • The state ownership policy should fully recognise the SOEs' responsibilities towards stakeholders and request that they report on their relations with stakeholders.
5 Disclosure and transparency The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership and governance of the company.	**5 Transparency and disclosure** • The co-ordinating or ownership entity should develop consistent and aggregate reporting on SOEs and publish annually an aggregate report on SOEs. • SOEs should be subject to the same high quality accounting and auditing standards as listed companies. Large or listed SOEs should disclose financial and non-financial information according to high quality internationally recognised standards. • SOEs should disclose material information on all matters described in the OECD PoCG and focus on areas of significant concern for the state as an owner and the general public.
6 The responsibilities of the board The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders.	**6 The responsibilities of the boards of SOEs** • The boards of SOEs should be assigned a clear mandate and ultimate responsibility for the company's performance. The board should be fully accountable to the owners, act in the best interest of the company and treat all shareholders equitably. • SOE boards should carry out their functions of monitoring of management and strategic guidance, subject to the objectives set by the government and the ownership entity. They should have the power to appoint and remove the CEO. • The boards of SOEs should be composed so that they can exercise objective and independent judgement. • SOE boards should carry out an annual evaluation to appraise their performance.

Source: OECD (2004; 2005).

Nevertheless, due to the fact that in the case of SOEs the state holds the role of both representative owner and regulator, the SOEs are subject to even stricter governance standards. No matter whether used in the private or the public sector practice, (good) governance tends to have several major characteristics. Good governance is:

- participatory – it encourages citizen (customer) participation in providing feedback on service quality;
- consensus oriented – it tolerates and accepts diverse perspectives;
- accountable – it takes responsibility for decisions that are in the interest of the public;
- transparent – the decision-making processes are known to all;
- sustainable – the gains it brings are able to survive political and administrative changes;
- effective and efficient in the use of resources – it recognises the 3 Es: economy, efficiency and effectiveness;
- equitable – it is concerned with equity and social justice;
- legitimate and acceptable to the people – it follows the rules of law and the people recognise and accept the legitimacy of the institutions of governance;
- enabling and facilitative – it is regulatory rather than controlling and it provides the context for innovation and creativeness.[6]

The fact that public services differ from those provided by the private sector has resulted in the issuance of many different types of individual codes that apply to the specialised groups of public bodies. For example, the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Office for Public Management in the UK established the Independent Commission that published *Good Governance Standard for Public Services* in 2004. *The Standard* sets out six core principles of good governance and their supporting principles for public service organisations, which are shown in Table 4.

[6] *United Nations Development Programme (1997).*

Table 4 **Core Principles of Good Governance for Public Service Organisations**	
Core principles of good governance	**Supporting principles**
1 Good governance means focusing on the organisation's purpose and on outcomes for citizens and service users.	• To be clear about the organisation's purpose and its intended outcomes for citizens and service users. • To make sure the users receive a high quality service. • To make sure the taxpayers receive value for money.
2 Good governance means performing effectively in clearly defined functions and roles.	• To be clear about the functions of the governing body. • To be clear about the responsibilities of non-executives and executives, and to make sure that those responsibilities are carried out. • To be clear about relationships between governors and the public.
3 Good governance means promoting values for the whole organisation and demonstrating the values of good governance through behaviour.	• To put organisational values into practice. • Individual governors should behave in ways that uphold effective Governance.
4 Good governance means taking informed, transparent decisions and managing risk.	• To be rigorous and transparent about how decisions are taken. • To have and use good quality information, advice and support. • To make sure that an effective risk management system is in operation.
5 Good governance means developing the capacity and capability of the governing body to be effective.	• To make sure that appointed and elected governors have the skills, knowledge and experience they need to perform well. • To develop the capability of people with governance responsibilities and evaluate their performance, both as individuals and as a group. • To strike a balance, in the membership of the governing body, between continuity and renewal.
6 Good governance means engaging stakeholders and making accountability real.	• To understand formal and informal accountability relationships. • To take an active and planned approach to dialogue with, and to be accountable to, the public. • To take an active and planned responsibility approach to staff. • To engage effectively with institutional stakeholders.

Source: Adopted and adapted from CIPFA (2005).

The *Good Governance Standard for Public Services* (CIPFA, 2004) is recommended for use by all levels of government, governing bodies involved in policy-making, public-service partnerships and members of the public, for the sake of understanding the purpose of governance, assessing its effectiveness and demanding improvement if necessary.

The resemblance of *The Good Governance Standard for Public Services* and *The Principles of Corporate Governance*, in that they both emphasise managing under the concepts of transparency, accountability, sustainability, efficiency and effectiveness, serves as a proof that in today's economies interest in corporate governance goes beyond that of shareholders' interest in the performance of individual companies. It even goes beyond the business sector. In the private sector the board represents a link between the shareholders and the managers. The board is an instrument in which managers are accountable to the owners, the performance of the managers thus being appraised. This so-called "board model" combines a monitoring and supervisory function of governing body (represented by non-executive directors) with a management function (represented by executive directors employed directly by the company). Likewise, "boards" of public service bodies – the so-called governing bodies, play a similar role to those of the private sector. The difference is that the boards in the public sector are chaired by the state or government officials on behalf of the wider community. The immediate result is that policy-makers are more aware of the contribution good (corporate) governance makes to financial market stability, investments and economic growth.

Transferred to the determination of the property rights to public assets, good governance principles would, according to Berge (2007: 15) mean the following: "If and when governments want to change property rights there are some issues that need to be considered. One question that needs to be considered carefully is the purpose of ownership. Acting as a trustee, as most public ownership is about, requires a different institutional environment than ordinary ownership. Another issue is the choice between individual and collective ownership. There are good arguments for preferring collective ownership if, for example:

- resource characteristics and available technology imply that it is impossible, difficult or too costly to exclude appropriators;
- resource interactions imply a necessity for appropriators to coordinate activities so that a commons regime will provide a setting for solving their collective action problems;
- the problems of distribution of goods and equity in access to vital resources will be easier to solve. The commons may provide a safety net for the poor and new generations".

4 On International Experiences in Public Asset Management

Not all countries are unaware of the property rights they have to public assets and the revenue-generating possibilities that public assets can offer. Among transition countries, there are differences regarding the valuation of public assets and property rights enforcement (Lízal and Kočenda, 2001; Woodruff, 2004; Nušinović and Teodorović, 2002). Public asset management practices of the countries that have the intention to preserve the national heritage for future generations should not be understood as the only means of public asset management but they can certainly serve as guidance to countries that are striving to achieve better outcomes in the public sector, particularly those coming from better public asset usage.

The governments have three possible channels through which to invest their excess funds – through monetary authorities (central banks), sovereign investment companies and through the SOEs. All these state investment vehicles are separate legal entities in state ownership which differ in the business goals they are supposed to achieve:

- The central banks are the most risk-averse and cash-rich investors in the world. They try to ensure the back-up funds for keeping the domestic currency relatively stable against foreign currencies. The central banks' portfolio consists mainly of government debt, money market instruments and gold. Commensurate with the risk taken, their average real return is historically very low, barely reaching 1 percent annually in the period from 1946-2004 (Kern, 2007).

- Investment companies invest state-owned assets concentrated into funds according to an investment strategy that is very much like that of the pension funds. The investment companies invest about 60 percent of their portfolios in debt securities and the rest in equities and other assets, dispersing the risk across various countries and currencies. Investment companies can be in major private or state ownership, but the assets they manage are always state-owned.
- SOEs have their own core business activities, but sometimes employ an investment strategy that mainly mirrors the state goals rather than the goals of their own (M&A activities). The state can have a 100 percent or majority ownership in these enterprises that mainly operate in strategic industries such as oil and gas, defence, banking, telecommunications, etc.

Countries rich in public assets of any type (foreign exchange reserves, natural resources including mineral deposits, fiscal surplus, state-owned entities, public savings, privatisation receipts) usually establish a fund of designated public assets and employ either an existing or a new company to manage it. The second name for a state-owned fund is an extra-budgetary fund, while their managing investment companies are also called extra-budgetary companies. An extra-budgetary entity is an entity which uses extra-budgetary accounts and it may have its own governance structure. The legal status of an extra-budgetary entity is often independent of government ministries and departments (Allen and Radev, 2007). Extra-budgetary funds' transactions refer to general government transactions with separate banking and institutional arrangements, not included in the budget accounts (Allen and Radev, 2007: 3).[7] However, the concept of extra-budgetary funds is much broader than assumed in this paper, including not only the excess public funds, but also various social security funds that collect and transfer designated public

[7] *Similarly, according to the IMF's definition, extra-budgetary funds generally refer to government transactions that are not included in the budget totals or documents and typically are not subject to normal budgetary execution and control procedures. Such transactions may be financed by foreign aid or by earmarked revenues that are not included in the budget (for more details see Potter and Diamond, 1999).*

revenues to their beneficiaries - citizens. The extra-budgetary funds can be divided into various sub-categories of funds, but in this paper we consider only the following:

- Savings funds (non-renewable funds) or funds that invest and store current public assets for future generations. These include, for example, oil saving funds. Such funds have a long-term investment horizon.
- Stabilisation funds or funds established to reduce the impact of price volatility in commodities, which some countries are exposed to, either through above-average export or import activities. These funds are directed to keep budgetary and fiscal policies consistent and thus have to take account of the term structure of assets.
- Development funds or funds set up to support development programmes usually involving internal contributions such as privatisation receipts or donor contributions, i.e. transfers from the budget. Sometimes they are called special or strategic funds.[8]

The described categories of extra-budgetary funds are sometimes broadly considered as sovereign wealth funds (SWFs), provided that they act primarily as investment vehicles. The constant increase of assets in the SWFs is granted by continuous contributions of assets and the return on (re)invested assets. The continual contributions of assets into funds stem from earmarked revenues which come mainly from special taxes, foreign exchange reserves, budgetary transfers, sale of financial and non-financial assets including privatisation receipts, sale of goods, provision of services, and borrowing (Blundell-Wignall, Hu, and Yermo, 2008). The prime differences between the SWFs and other extra-budgetary funds, SOEs and central banks are depicted in Table 5.

[8] *All extra-budgetary funds are enumerated and described in Allen and Radev (2007), but precaution must be taken as different terms might be employed across various countries.*

Table 5 **Differences between State Investment Vehicles**

Features	SWFs	SOEs	Public pension plans	Central banks
Asset ownership	government/ state	primarily government/state	pension members/state	state
Primary purpose	depends on the goals of the state	depends on the type of economic activity they deal with	meeting the fund assets with defined benefit obligations	maintenance of national currency stability and liquidity in the domestic financial system
Funding source	commodity/ non-commodity	government/ corporate earnings	pension contributions	foreign exchange reserves
Government control	very significant	significant	insignificant	insignificant
Disclosure	varies, but usually poor	varies	varies	transparent
Investment horizon	long	long to indefinite	long	usually short to medium
Explicit liabilities	low	usually moderate	usually high	vary, but typically lower than assets
Investment return	usually moderate to high	usually low and steady	low to moderate and steady	low and steady
Possibility to create their own companies	yes (sovereign wealth enterprises – SWEs)	yes	no	no

Source: Adopted and adapted from SWF Institute (2008).

As evident from the data in Table 5, the influence of the state is greater in the SWFs and SOEs than in central banks. The control rights of the state arise through the appointed members of the board but the degree of control in daily operational decisions varies among countries. One of prevailing features of the SWFs is that they are established to shield the domestic economy and to increase the value-added of domestic assets. Unlike SOEs that are established for manufacturing or for providing services, and extra-budgetary funds that serve as transfer vehicles from the budget to designated cost-centres, the SWFs, though classified as a type of extra-budgetary funds, are primarily investment vehicles.[9] Even when the SWFs are funded to fulfil specific goals, they rarely have explicit liabilities, and that is the main distinguishing feature between SWFs and other extra-budgetary funds such as pension and social security funds.

The formation of public pension plans and social security funds is quite common throughout continental Europe, while the CEE countries have in addition established off-budgetary funds to facilitate the privatisation processes. The off-budgetary funds in transition countries have been by and large treated as being in economic ownership of the government, meaning that the government is allowed to dispose of the assets of the funds by decrees or by changes in the law (Kraan, 2004).

Sometimes the role of each group of the state investment vehicles is not clearly distinguished, mainly because some of them act as trustees for others. Although we limit the discussion to the investment companies and SWFs they manage, we do not exclude some of the state-owned funds being directly managed by the central bank or the ministry of finance (MoF), as in Norway, Singapore (GIC), Russia and Saudi Arabia.

According to Hildebrand (2007), a vice-chairman of the Swiss National Bank, the first SWF in the world, was the French Caisse des Dépots et Consignations (CDC) - the investment bank for the government and oversees tax-exempt savings funds collected by savings banks and the post office, established in 1816. However, the history of SWFs is broadly considered to have started in 1953 when the Kuwait Investment Authority was established. The non-renewable funds were the first SWFs. Most non-renewable funds originate in areas abundant in oil reserves (Arabian countries, Norway, Alaska) as well as from countries rich in other natural resources such as copper (China, USA, the Philippines). Today the non-renewable funds are the largest in the entire SWF universe, whereby some SWFs, created on the foundations of export revenues from oil exploitation, also belong to the group of stabilisation funds (i.e. Russian stabilisation fund). Temporarily there are about 50 SWFs

[9] *An overview of numerous definitions of sovereign wealth funds is given by Balding (2008).*

estimated to comprise an aggregate amount of USD 2.5-3 trillion of assets (Kern, 2007). The asset size of the majority of funds is difficult to estimate, as most governments are not required to disclose information on the fund's assets, liabilities, and underlying investment strategy. However, some influential research departments and institutions have tried to approximate the assets size of major SWFs. A brief overview of world's major SWFs and their investment companies deriving from this research is presented in Table 6.

As shown in Table 6, The Government Pension Fund of Norway is the largest SWF in Europe, while the Abu Dhabi based ADIA's managed fund takes the first place worldwide with approximately USD 900 billion worth assets. The latter has the largest amount of accumulated assets per citizen of more than USD 1.5 million. The asset size of the SWFs is a constant cause of dispute even in democratic countries such as Norway, where elections are lost and won due to the various political proposals for finding an alternative practical use for the fund's assets rather then (re)investing them (Aslund, 2007).

In China, the investment company in charge of the fund's asset management is China Investment Corporation (CIC). China followed the example of Taiwan, Thailand and India (Rozanov, 2005), imitating, just like South Korea, Temasek Holdings' investment principles in acquiring stakes in interesting companies. Moreover, China's SWF is projected to grow by USD 200 billion yearly while Russia is lagging behind with USD 40 billion annual increase (Whyte and Barysch, 2007). Such projections of a surge in some SWF assets are bound to the high oil prices and global macroeconomic instabilities that enabled the Russian economy to earn USD 850 million, while Saudi Arabia earned more than USD 500 million USD from oil exports a day (Rozanov, 2005).

Table 6 **An Overview of Wealthiest State-Owned Funds and their Investment Companies Worldwide**

Country	Name of the investment company	Name of the fund(s)	Inception year	Estimated assets -USD bn	Source of funding
UAE	Abu Dhabi Investment Authority (ADIA) with affiliates	Portfolio split into asset classes	1976	875	Oil
Saudi Arabia	Ministry of Finance / Saudi Arabian Monetary Agency (SAMA)	Foreign holdings	N/A	433	Oil
Singapore	Government of Singapore Investment Corporation (GIC)	Several funds that invest in equities, real estate and special investments	1981	330	Non-commodity
China	State Administration of Foreign Exchange (SAFE) Investment Company in Hong Kong	Fund of equity holdings	1997	311.6	Non-commodity
Norway	Norges Bank Investment Management (NBIM)	Government Pension Fund - Global (GPFG)	1990	301	Oil
Kuwait	Kuwait Investment Authority (KIA)	General Reserve Fund (GRF), Future Generations Fund (FGF)	1953	264.4	Oil, public revenues' surplus
China	China Investment Corp (CIC), that includes Central Hujin Investment Corp.	Sovereign Wealth Fund of China	2007	200	FX reserves
Hong Kong	Hong Kong Monetary Authority (HKMA)	Investment portfolio and backing portfolio	1998	173	Non-commodity
Russia	Ministry of Finance (MoF)	National Welfare Fund , that invests in equities emerged after split of Stabilisation Fund	2008	189.7	Oil
Singapore	Temasek Holdings	Portfolio is split into various investment classes	1974	134	Non-commodity
UAE – Dubai	Investment Corporation of Dubai, a holding broken into several operating investment companies	Manages sovereign wealth enterprises (SOEs), domestic and foreign equity holdings	2006	82	Oil
China	National Council for Social Security Fund (SSF).	National Security Social Fund (NSSF)	2000	74	Non-commodity
Qatar	Qatar Investment Authority (QIA)	State Investment Fund	2003	60	Oil
Libya	Lybian Investment Authority and external managers	Reserve Fund	2006	50	Oil
Algeria	Bank of Algeria	Revenue Regulation Fund	2000	47	Oil
Australia	The Future Fund Management Agency	Australian Future Fund (AGFF)	2004	43.8	Non-commodity

Kazakhstan	National Bank of the Republic of Kazakhstan	Kazakhstan National Fund	2000	38	Oil
Brunei	Brunei Investment Agency (BIA)	Government of Brunei's General Reserve Fund	1983	30	Oil
South Korea	Korea Investment Corporation (KIC)	Foreign Exchange Stabilisation Fund	2005	30	Non-commodity
USA (Alaska)	Alaska Permanent Reserve Fund Corperation (APRF)	Alaska Permanent Fund	1976	29	Oil
France	Caisse des Dépôts	Strategic Investment Fund for enhancing equity and help stabilising French firms	2008	28	Non-commodity
Malaysia	Khazanah Nasional (KNB), oversees government controlled companies and invests surplus funds	Government Investment Fund	1993	25.7	Non-commodity
Ireland	National Treasury Management Agency	National Pensions Reserve Fund	2001	22.8	Non-commodity

Source: Sovereign Wealth Fund Institute (2008).

The accumulation of assets in the SWFs in the hands of potential geopolitical rivals has caused fear in the West, especially regarding takeovers in some strategic industries. A nascent issue is whether governments have a legitimate right to protect domestic strategic companies, while urging the takeovers of their counterparties in less developed countries. In fear of some Arabian funds' investments, the developed countries announced official stances towards SWF investments, which are articulated in Table 7.

As shown in Table 7, the validity of the fear factor should be judged according to asset size and public accountability. Most analysts share a view that the SWFs' asset size is significant but not huge in comparison to the assets of other institutional investors. For example, the combined value of traded securities in Africa, the Middle East and emerging Europe was about USD 4 trillion, which corresponded to all Latin American companies' capitalisation (Johnson, 2007). Before the distortion of asset prices caused by the financial crisis, the amounts of assets in the SWFs were estimated to exceed the world national foreign exchange reserves held and managed by the central banks/state treasuries in 2011, reaching USD 12 trillion by 2015 (Morgan Stanley, 2007).

Table 7 **Developed Countries' Stance Towards the SWFs' Investment Presence**

Country	Views on SWFs' growth
United States of America	Treasury officials underlined the country's commitment to an open investment climate, welcoming the SWFs in principle. It has been suggested that the International Monetary Fund (IMF) and the World Bank provide a set of best practice rules for the SWFs. The best practice rules should provide guidance and incentives to ensure appropriate institutional arrangements, governance, operational and risk management, accountability, as well as the transparency of rules, operations, asset management and investment performance.
United Kingdom	The government maintains the UK's traditional liberal position in attracting foreign capital. It has rejected discouraging foreign state investment funds from pursuing investments in the country, and the negotiations of common rules at the international level. However, the reciprocity in market access is considered a vital precondition for the SWFs presence in the long run.
European Union	The EU has reiterated its commitment to open markets, emphasising that it would be disconcerting if the EU countries were not open and attractive to SWF investments. However, the Commission acknowledges the potential need to protect sensitive industries, especially where buying countries protect those domestically. The importance of reciprocal market openness is emphasised. Recently the Commission has considered the introduction of a regime of European golden shares.
France	France already has a stringent legal framework that allows the protection of key industries against foreign ownership. Although no concrete policy measures have been announced, the current government has indicated that it is pursing an industrial policy that considers the national interest.
Italy	The Italian government has taken a liberal stance on the SWF presence issue and announced its support for liberal market access and indifference regarding the nationality of potential investors. The concept of golden shares has been met with reserve.
Germany	The government has suggested that the G8 develop a set of transparency rules for the operation and asset management of the SWFs. With respect to the protection of the vital industries, a working group among the Chancellery, and the Economics and Finance Ministries has been formed to review SWF investment policy options. The German government is considering establishing an investment fund of its own, which could serve as a strategic investor in selected German companies and protect them against undesired foreign investment. In terms of industrial policy, the government is seeking coordination at the EU level in order to avoid a patchwork of national rules and their potential negative impact on the Internal Market.
Russia	Operating a large SWF itself, the Russian government takes a protectionist stance on foreign investments. Following recent legislation, the Russian national intelligence agency - Federal Security Service (FSB), is actively involved in decisions regarding foreign ownership in 39 key industries, such as nuclear energy, aerospace, natural resources and the arms industry.

Source: Adopted and adapted from Kern (2007).

To check whether the efforts of governments to implement transparency in financial reporting for the SWFs are justifiable, we examined if and to what extent the state-owned funds' investment objectives are open to the public, both domestically and abroad. Surprisingly, we came across only a couple of investment companies that may be called transparent investment vehicles. We estimated their transparency according to: existence of separation of ownership and management of assets in the funds, investment policy and objectives disclosed, and degree of public accountability. This is illustrated in Table 8.

When examining the investment policy of the SWFs we paid much attention to the accountability of the investment companies to the ultimate asset owners in order to prevent any possible misconduct and malpractice. In our opinion, the most transparent investment strategy is that disclosed by Norwegian Government Pension Fund Global, followed by the Alaska Permanent Fund Corporation (the only investment company that regularly pays dividends to its citizens), Singapore's Temasek Holdings and GIC, whose corporate governance premise is that "it does not own the funds it manages, but manages them on behalf of its clients".[10] If the Kuwait Investment Authority opened the door to the public, it would also belong to that group. According to the data disclosed in Table 8, it is evident that the fear factor varies depending on the level of transparency shown in external reporting. The greater the financial reporting transparency the lower the fear factor in countries that perceive that their companies might become the investment targets of the SWFs. This is of no wonder since billions of dollars can easily find a prey struggling for capital injection. It is a fact that government or state-owned investment companies are formed as a tool for conducting government policies ranging from raising funds to strategic industry sector restructuring. Consequently, the advisory role that some developed countries' officials take towards those of the developing countries has to be estimated in line with the goals of the "advisory" governments in question. This is so especially because governments are accountable to their own citizens only, not to the entire world, whatever their international policy stance might be.

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[10] *For more details see - http://www.gic.com.sg/aboutus_check.htm.*

Table 8 **Ownership, Management, Public Accountability and Estimated Fear Factor of Selected SWFs**

Name of the investment company	Ownership	Management	Accountability	Investment policy	Fear factor - Transparency
ADIA, the UAE	100% government-owned	It is chaired by the Emirate's ruler. Apart from the chairman who is also a managing director, the Board of Directors has 8 directors, four of whom belong to the chairman's family.	To the Emirate's ruler only.	Investing in US private companies, staying away from the Middle East	High, in 30-year history it has never disclosed the value of the fund.
GIC, Singapore	Wholly owned by the government of Singapore. The MoF represents the Government in dealing with GIC.	GIC manages the funds on behalf of its clients - the Government of Singapore and the Monetary Authority of Singapore. The clients set the investment objectives for GIC and monitor its performance. GIC receives a fee to finance its operating expenditures. GIC's management team runs daily operations and it has autonomy in deciding where and how to invest, recruit and remunerate.	GIC is accountable to its clients. The management reports to its own Board of Directors. The appointment/ removal of GIC's directors requires the assent of the President. GIC is also required to submit its financial statements and proposed budget to the President for approval. The President is entitled, at his request, to any information concerning GIC. GIC is regularly audited by the Auditor-General.	GIC invests internationally surplus of foreign reserves that are not necessary for monetary policy management. It invests into equities, fixed income, foreign exchange, commodities, money market instruments, alternative investments, real estate and private equity in more than 40 markets worldwide. Its portfolio structure is of 50% equities, 20-30% bonds and 20% private equity, real estate and commodities. Average return since inception has been 9.5%.	Low to Medium. GIC is open about its structure but does not publish detailed financial reports. It has close ties to the government, but outside of Asia, Singapore is seen as a friendly trading partner.
NBIM, Norway	100% government-owned.	The MoF is responsible for the management of the Fund, but operational management of the Fund is delegated to NBIM. NBIM manages the Fund partly internally and partly by engaging external managers. The Board of Directors supervises daily management of the Fund.	In 2004, the MoF laid down ethical guidelines for the Government Pension Fund – Global. The Government has appointed a separate Advisory Council on Ethics, which advises the MoF. The Board protects shareholder interests and it is accountable for the decisions made.	The assets are invested in foreign financial instruments (bonds, equities, money market instruments and derivatives) in 42 developed and emerging equity markets and 31 currencies for fixed income investments.	Almost none. Provides an annual list of its holdings. It is a welcome investor almost anywhere.

Table 8 **Ownership, Management, Public Accountability and Estimated Fear Factor of Selected SWFs - continued**

Name of the investment company	Name of the investment company	Name of the investment company	Name of the investment company	Name of the investment company	Name of the investment company
KIA, Kuwait	Autonomous government body owned by the MoF for and on behalf of the State of Kuwait.	5 representatives including a CEO are elected from the private sector. Other 4 representatives are the Minister and undersecretary from the MoF, the Minister of Energy, and the Governor of the CB. An Executive Committee of five Board members, of whom at least 3 are from the private sector, are formed from the Board. The primary role of the Executive Committee is to assist the Board of Directors in setting strategic goals and investment objectives of the KIA.	Annual closed door presentations on all funds under KIA's management to the Council of Ministers and to the National Assembly. Disclosure to the public is prohibited. Subject to Internal, External and State Audit.	Investing in local, Arab and international markets. KIA's asset allocation process is based on World GDP contributions. Exceptions to this rule are those countries where the weighting was greater due to the core holdings in BP and DaimlerChrysler.	High. Domestic law prevents revealing detailed information. Its close ties to the government make it look like a political arm of the state.
Temasek Holdings, Singapore	100% owned by MoF.	The government-backed group is theoretically independent of the state. The Board of Directors has 8 members, with 8 members belonging to Senior Management Team. Temasek operates with full discretion and flexibility, under direction of the Board of Directors.	Audited annual financial reports and periodic updates are submitted to the MoF. While not required to release financials publicly, since 2004 group financial highlights in annual Temasek Review have been published.	Invests primarily in Asia, in diverse industry sectors. Total shareholder return since inception is more than 18%, compounded annually.	Medium. Despite a questionable independence, its holdings in financial institutions worldwide are not viewed as a threat.
APFC, Alaska	100% owned by the state of Alaska.	A six-member, governor-appointed Board of trustees oversees APFC. The Board appoints an executive director, who manages a staff of about 35, both internal and external fund managers.	The Board meets around six times each year. APFC issues annual public reports detailing asset size and holdings of the Fund.	The fund invests into stocks, private equities, bonds, real estate infrastructure and absolute return strategies. A permanent fund dividend program is established, benefiting all citizens of Alaska.	Low. Alaska's fund is welcome wherever it goes.

Source: Adopted and adapted from Kern (2007); data collected on available web sites such as: http://www.kia.gov.kw; http://www.norges-bank.no/Pages/Article____41137.aspx; http://www.gic.com.sg/; http://www.apfc.org/theapfc/topAboutAPFC.cfm; http://swfinstitute.org/index.php. For details on Middle East SWFs see: Middle East Business Information website: http://www.zawya.com/cm/default.cfm?cc.

We understand the common features of all the SWFs as the following:

- the funds are "owned" either by the government/ministries or by the state, on behalf of the citizens;
- the investment management companies employ professionals from the business world, who are independent in their day-to-day activities;
- disclosure is mostly limited to National Assembly (Parliament) and Government, especially for Arab countries' funds;
- both internal and external audits are applied.

The questionable transparency of some SWFs' investments may not only provoke a fear of prospect M&A activities internationally, but also a fear of possible corruption among the administrative personnel managing the funds or even governments themselves. For some small countries such as Kuwait, the investment companies that manage the SWFs act not only as public funds' managers, but also as: agents in the privatisation process, trustees for other state-owned financial companies, liquidity supporters as well as export and investment promotion agencies. As a matter of precaution against corruption, we deem the state-owned funds should employ the reporting and disclosure standards of investment profession in general. This is because the investment policy applied in the SWFs may be influenced by political rather than economic factors.

The debate on the international impact of the SWFs has provoked the supranational institutions such as the IMF and the OECD to announce the development of a voluntary code of conduct for the SWFs. Meanwhile, in October 2008 the SWFs themselves developed their own proposal for a voluntary code of conduct, known as "Santiago Principles", which target greater transparency of the SWFs with special regard to their connectivity with domestic ruling authorities (International Working Group of Sovereign Wealth Funds, 2008). Until the voluntary code of conduct is generally accepted, the Linaburg-Maduell transparency index serves as a general guidance of rating the SWFs according to their transparency.[11]

[11] *For more information on Linaburg-Maduell index and SWFs rankings see: http://www.swfinstitute.org/research/transparencyindex.php.*

Rather than being concerned with the transparency of the SWFs, we try to stress the responsibility of the funds' managing personnel towards the true owners of the assets – the citizens, and then to the participants in the global financial market. If the transparency of the state-owned funds is astonishingly low even in developed countries, a logical question posed is what developing countries can do to preserve their natural and other resources.

5 Public Asset Management and its Perspectives in Transition Countries

Many transition countries experienced a sudden change in political regimes that influenced all structures of their societies. Some of the adverse consequences of the change in the political system were stagnant economic growth, persistence of the inherited bureaucracy, abolishment of the existing legislation and abandonment of the moral acquis. The political elites of former times have been transformed into the political elites of the new time, offering the people the new ideology of capitalism. But the truth was that even political elites, unaware of their incompetence and totally unprepared for market economy, got lost in the transition process. The corruption that emerged at all levels of the government was an expected consequence of the process. People's adaptation to changes that transition process has brought was unfortunately not that fast, confirming that the people's minds and competencies do not change overnight.

Sometimes the damage to society was inflicted deliberately with the aim of achieving or maintaining individual welfare (Nellis, 1999) but sometimes the damage resulted from ignorance. The inexistence of public officials' reaction to prevent corruptive behaviour has let corruption become an integral part of adaptation to a new system. Inefficient judicial systems were more occupied with proposals for "new" laws than with determining the clauses on the responsibility for the harm done to the society. Instead of being rooted out quickly, corruption became a norm of behaviour. Public asset management was in no better state than the government administration as a whole in that scene. The lack of cadastral evidence, which was regarded as unnecessary in the socialist culture, in which everything was "common", enabled malversation in the trade in newly established property rights. In many transition countries the enterprises in "common" or "social" ownership were transformed into the state or governmentally owned ones. The subsequent privatisation of many of them served as a means of filling the state budgets to decrease huge public deficits. Unfortunately, the privatisation receipts were often one-off as many of the privatised enterprises were liquidated or went bankrupt thereafter. The public officials' way of thinking was unilateral and short-term, while the interests of the well-being of the society were generally disregarded. The usual excuse for all the evils that occurred was found in the transition process itself.

In all the fuss of transition, the basic accounting equation, according to which public assets equal the sum of public liabilities and public equity, was forgotten or misinterpreted. Especially this equation was abused in the case of SOEs whose assets were estimated at book-keeping values, which had not been changed for many years, even when the enterprises were to be sold. Meanwhile, the liabilities were recorded at market values since they were piling up continuously. In the shortage of fresh capital available for new investment, the asset base gradually decreased due to accounting for depreciation. If the basic accounting equation had been rearranged in such a way that "citizen/taxpayer equity = public assets – public liabilities", as suggested by Gauthier (1997), and if the values entering the equation had been revalued at least annually, the erosion of public assets would probably not have happened to such a great extent. As stated by Peterson (1999), though at the municipal level:

- "The assets (and liabilities) of municipalities in developing and transitional countries often are very large compared to their annual budget revenues or expenditures. Often, a municipality may have only a vague idea of the economic value of some of the most important assets it owns or may have no clear conception even of the "things" that it owns. Municipalities frequently are startled to find the magnitude of cash holdings they possess, once a thorough accounting of the cash on hand is taken into account. Local governments often have even less awareness of their liabilities.

- Municipalities usually have much more freedom of choice over their handling of municipal assets and liabilities than they do of municipal revenues. While central governments in developing countries often impose rigorous limitations on the right of local governments to establish their own taxes, set their own tax rates or borrow from the credit market, they rarely place any limitations on the rights of local governments to own, operate, acquire or dispose of discretionary assets not critical to public service delivery.
- A municipality that reconsiders its appropriate mix of asset ownership, in light of its service priorities and its mission, may decide to sell off some of the housing stock or municipal enterprises that it owns, in order to reinvest the sale proceeds in assets (like the public water or wastewater system) that are more critical to its mission. It is possible to consider the choice within a budgetary framework, but it seems more natural and useful to analyse it as a portfolio choice. Decisions about municipal borrowing likewise often need to be made in the context of the balance sheet. In countries other than the United States, including some countries in Western Europe, the equivalent of general obligation borrowing is balance sheet borrowing where municipal debt is secured by all of the assets owned by a municipality".

In some small transition countries, all assets were initially recorded as state-owned assets, whereas the local authorities were occasionally bestowed with land or certain enterprises by government decrees, or they were permitted to take part in the privatisation process, as in the case of Hungary. As pointed out in Kaganova and Nayyar-Stone (2000), public real estate was commonly treated as the public good until the 1980s, when public real estate started to be considered as public assets producing a mix of both measurable and immeasurable returns. Almost at the same time, this approach appeared at the local level in some US cities, and as a central government policy in New Zealand. As Kaganova and Nayyar-Stone (2000: 310) further state: "The vision of public real estate as a productive asset had serious implications for public sector accounting. In particular, acknowledgement of the importance of public capital assets for the overall financial health of governments, coupled with the idea of making public authorities accountable, resulted in a growing tendency to introduce accrual accounting for (central) and local governments". The authors reiterated that the introduction of accrual accounting at the government level does not by itself guarantee more efficient public asset management, but it is certainly one of preconditions towards greater efficiency.

For the purpose of efficient public asset management, the real estate has to be divided into:

- real estate serving central or local government officials, or real estate for the "main" business of government; and
- manageable real estate in state ownership.

Although all government premises with public administration might fit the first category, the latter category is much more difficult to determine. However, if the IFAC's definition in determining what assets are public is taken into consideration, it becomes evident that all asset categories that can find their place in the balance sheet of each enterprise can belong to public assets. The decision of finding an appropriate use of public assets depends on the following features:

- constitutionally determined goals of a country;
- strategic goals of national economy development;
- public interests in terms of historical, traditional and revenue generating possibilities, targeted to better public services providing; and
- public administration competencies.

Strategic economic and development goals in transition economies are rarely clearly defined. Some development strategies even served more for the payment of foreign consultants than for the finding of an adequate purpose for public assets usage and revenue generation streams. Historically, both developed and developing countries have protected their vital economic sectors. This is, although to a lesser extent, present even nowadays, when the ideas of free trade and internal markets are strongly promoted.

The 20^{th} century witnessed times of extreme state protectionism as well as times of entire market liberalisation. Both concepts claimed that ownership structure matters for the purpose of achieving higher economic growth. Since the break-up of the Eastern Bloc in the 1990s there have been continuing pressures on the governments of the CEE and later the SEE countries to privatise the companies in state ownership. By allowing takeovers, the governments freed the way to foreign direct investments and multinational companies' presence. Once unsuccessful, formerly state-owned, strategic companies have frequently turned into the market leaders shortly after the takeover. This has provoked a still unresolved issue on whether the privatised enterprises could have achieved the same results if the ownership structure had not been changed.

Even if current ownership ratios of the states (governments) and the private companies (individuals) in the entirety of enterprises are taken for granted, a lot of controversial issues emerge. They range from the (un)fair ways privatisations have been conducted to their subsequent effects on business development and growth, employment, social responsibility, etc. The exploitation of domestic resources by foreign companies has recently provoked the pull-back of some Latin American countries towards asset nationalisation and protectionism.

The ownership transformation processes that have been, depending on the given country, going on for almost 20 years, resulted in liberalisation of once closed economies. They have left some citizens in prosperity and some in poverty. However, a lot of assets remained in state (government or municipal) ownership, which entails a peremptory answer as to how their ownership and use should ultimately be determined. The task of each government is undoubtedly to fight for the interests of its citizens and to ensure them prosperity and welfare. The governments have to take account of democratic will and liberal market foundations, being aware that their achievements are periodically evaluated at democratic elections. The institutional power of the state is a privilege, not a guaranteed right for a pre-determined political elite. It has to be used only for public well-being, not for exclusively private interests and communal rent appropriation.

In places fighting corruption, the power of the political elite should be limited by regulatory framework, discretionary parliamentary decisions, and in case of controversies determined by the plebiscitary will. This is especially the case when big capital projects, whose realisation commits future generations to participation in present public indebtedness, are an issue. No government has the right to hamper future generations' welfare. As Fama and Jensen (1983: 2) stated, the central contracts in any organisation specify the nature of residual claims and the allocation of the steps of the decision process among agents. Governments are nothing else but agents of the citizens, because it would be practically impossible if millions of people of different ideas exercised management rights.

Several organisational theories can be applied to the management of public assets (and liabilities). These are: property rights theory, agency theory and transaction cost theory.

The main concerns of property rights theory, initiated by Coase (1960), are social welfare, inefficiency impact on overall economy, public policy and legal framework. Agency theory concentrates on the economic incentives of individuals, particularly on mitigating interests of agents and principals in order to maximise aggregate economic payoffs. While the agency theory deals with ex-ante design of contracts and providing market incentives, the transaction cost theory assumes an incomplete contract setting. An inefficient initial allocation of property rights, even if decision makers act rationally, may result in fixed bargaining positions that are vastly divergent and hence difficult to reconcile. According to Kim and Mahoney (2005: 234), this leads to persistent suboptimal contracting outcomes.

Back in the 18th century Thomas Paine stated that the purpose of good government was to have general happiness as its only object. "When, instead of this it operates to create and increase wretchedness in any of the parts of society, it is on a wrong system and reformation is of necessity" (cited in Agassi, 1991: 447). In his pamphlet *Agrarian Justice* published in 1797, Paine argued that the income from the progressive inheritance tax should go into a national fund from which allowances that all citizens would be entitled to would be paid. That was based on the well-known claim that originally – in the "natural state" – all land had been common and not private property, and the citizens would only get back that which was theirs by right (Agassi, 1991). The theoretical attitude of Paine is followed in Alaska in practice. In other words, the purpose of good government is to behave as a good manager and to ensure redistribution of national wealth to bring about welfare for all the citizens.

As stated by Heltberg (2001), local resource management research often focuses on the efficiency, sustainability and distributional impact of management institutions. Hereby efficiency is defined as maximising the discounted profits from the resources, while sustainability refers to a rate of harvest that does not exceed long-term resource regeneration. In addition, the failure of governments as common property managers is explained by government agencies' lack of detailed information and the fact that the nature of many resources makes central monitoring difficult and costly. On the other hand, economic and political inequality and rent-seeking sometimes undermine the effectiveness and efficiency of local institutions, which do not always secure equitable and fair outcomes (Heltberg, 2001: 197-198).

As public institutions consist of people of various, sometimes questionable, competencies, the crucial question is to whom the public agencies are responsible for their activities. This leads us to the application of corporate governance or good governance principles in public asset management.

Many OECD countries consider the agency model as an appropriate alternative to traditional budget organisation, which is applied in order to introduce or strengthen mechanisms of control and incentives for public sector managers. Although agencies can operate within the budgetary system, in many cases they are organised as extra-budgetary funds. This, among other things, allows them to retain and use fees and charges to finance their own expenditures, rather than transferring these revenues to the budget (Allen and

Radev, 2007: 9). The agency model is usually found in developed countries, but agencies are set up in developing and transition countries as well. However, in developed countries agencies are set up to circumvent often rigid state administration and enhance efficiency, while in developing countries agencies are formed in addition to existing public institutions, such as ministries that are already in charge of the same or similar tasks. The purpose of public agencies in developing countries is either to attract the educated people in public administration, to mask on increase of the employed in the public sector or to mimic the inadequate results of existing public institutions. Thus, an agency model is not a recommended practice for developing and transition countries that do not have sufficiently strong governance and financial management systems to sustain such an approach (Allen and Radev, 2007: 27). It is especially the case if existing budgetary institutions, whose responsibilities are comparable to the responsibilities of the established agencies, realise questionable outcomes.

If it is opted that extra-budgetary funds should be established as public agencies, accompanied by either administrative mechanisms or market-like incentives, then extra-budgetary funds should promote accountability and efficiency, which can lead to microeconomic efficiency gains by stimulating private market conditions where levels and standards of service are linked directly to fees and charges (Allen and Radev, 2007: 13). In addition, Allen and Radev (2007: 14) define a public agency as a body that:

- operates with some degree of autonomy from political direction;
- is established in a founding law, charter or conduct;
- manages its budget autonomously, but with a framework of rules set by the government;
- is financed through a combination of own source revenues, earmarked contributions and transfers from the state budget;
- has assets that are owned by the public and may not be used for private benefit;
- is accountable to the public, as defined by law and tradition.

Therefore, new agency establishment in transition countries is considered as justifiable when special tasks of public interests cannot be achieved by existing institutions and mechanisms. Moreover, it is irrelevant whether the agencies are publicly or privately owned as long as they serve the interests of citizens and as long as their accountability is clearly defined. The most profound examples are the government sponsored enterprises (GSEs) in the United States of America. Yet, owning the GSEs' shares does not mean owning the funds they manage. There again these GSEs publicly offer only bonds backed by mortgages. There is no word about ownership, but about making the housing policy and ensuring liquidity in the financial system, which both are public goals. It is also in line with the benefit principle, originating from the 17th century, which states that people should pay taxes according to the benefits they receive from government programmes.

There are often misunderstandings about classifying the agencies that manage public assets and funds they manage. These misunderstandings refer not only to a double financial reporting system - one for an agency and the other for a fund managed, but also to the public listing. If government or state-owned agencies are regarded as centres of excellence that conduct the state's policy, their equity shares can partly be listed in the official financial market. The same holds if the agencies are financed by collecting the funds from debt issue (bonds, notes, commercial papers). But if the funds they manage are denoted as the ones that belong to the public, it is a wrong perception to list them in the public market as it was the case with some privatisation funds.

The recommendations for proper extra-budgetary funds' functioning are given by the IMF (1999), Davis et al. (2001) and other authors. Some of these recommendations are as follows:

- the fund should be totally dedicated to its task and not be founded as a means of avoiding budgetary discipline;
- the fund should be constituted as an agency and operate principally as a purchaser, not a provider of services;
- the fund has to have a mission statement, clearly documented goals and objectives, physical and financial output indicators;

- the fund has to have a system of internal and external controls;
- a management board with a significant private sector presence, but genuinely free of producer interest, should be established and should operate with independence, objectivity and impartiality;
- the activities of funds should be coordinated with those of the rest of the public sector;
- the fund has to have a mechanism that insures full transparency and accountability;
- funds should be subject to parliamentary scrutiny and meet acceptable standards of accounting and reporting, internal control, internal and external audit;
- the requirements for establishing and operating extra-budgetary funds need to be supported by a sound regulatory framework to prevent illegal activities;
- revenue collection function of the fund can be organised in two fundamental ways: either integrated within the tax collection system – national or local – with funds earmarked for the special purpose, or run as a parallel system by the fund itself;
- ideally, extra-budgetary funds should be covered by all central public financial management systems used to manage the general budget: cash planning and management, commitment controls, treasury single account, accounting, reporting, internal control, audit and external oversight.

In addition, political intervention in extra-budgetary fund/SWF transactions is treated as a last-resort option. It should be applied only when national security is under threat. Confronting goals of whether to preserve assets for future generations or to use them for achieving current goals should also be subject of parliamentary or even plebiscitary scrutiny for very valuable public assets.

Because most developing countries are characterised by a wealthy elite, a small middle class, and a majority composed of the poor, a cautious approach has to be applied in public asset management. Earlier protectionist policies were designed to protect natural resources from foreign appropriation, whereas nowadays it is a matter of fact that, in the situation of scarce resources, appropriation concerns may stem from domestic as well as from foreign people/companies/ organisations.

Public assets have to be divided into categories of physical assets (long-term and current) and financial assets. Public assets need to be carefully separated into the assets for public purposes, assets for purposes of renting (lease) and assets for purposes of (partial) sale, i.e. into non-productive and productive assets. When deciding on productive assets, close attention should be paid to defining whether the assets are of strategic importance or not. Public assets need to be concentrated in the public asset funds according to the stated criteria. When pooled into these public funds (extra-budgetary funds), asset managing has to be delegated to asset managers. Notwithstanding whether the managers come from public or private sector, the only criteria applied in their choice should be their professionalism and the ultimate accountability (fiduciary duty) to the citizens. As it has been said, natural resources, oil wealth and other public property should be of benefit to their origin countries, and thus to their citizens. The fact that public assets are often not to the benefit of citizens is due to the failure of government, which is connected with failure of democracy and public accountability (Palley, 2003: 4). After all, as Allen and Radev (2007: 9-10) state, "extra-budgetary funds are established to smooth budget system failures, ranging from mismatch of time horizons, interference of special interests with the budgetary process, inadequate mechanisms for allocating resources, failure to recognise the local communities' needs in allocating resources, ineffective control and incentive mechanisms for public sector managers, unsatisfactory governance arrangements for accountability and transparency and ineffective mechanisms for addressing donors' fiduciary requirements."

6 Conclusion

Good management practice in both private and public sector is well described in the existing literature. There is no doubt that many of the recent public sector reform mainstreams have firstly been developed and implemented in the private sector context (accrual accounting, corporate governance) and then translated into the public sector (financial reporting and budgeting, good governance). The concept of transparency is imperative for a professional and accountable approach in public expenditures planning and in measuring public expenditure effectiveness, particularly when performing and controlling public asset management activities.

This paper focuses on the worldwide trend towards the establishment of public asset management based on the concept of good governance and accountability. Public asset management is examined within the broader context of public sector management reforms that are aimed at the transformation of administrative and government functions in a way similar to that employed in the private sector. Governments are accountable for providing the best possible service to their citizens, and they should be guided by that idea when managing public assets as well. The allocation of public money and the quality of public services is strikingly important to taxpayers and citizens as ultimate shareholders of public assets, because the allocation of public assets most often means allocating welfare among the citizens.

The first precondition for employing public assets for generating public revenues is to determine what types of assets constitute the public asset portfolio and clearly to determine what components of property rights can be enforced on public assets. It also means that ultimate ownership rights should be separated from control rights.

To keep control over public spending and influence their own well-being, the citizens require good governance procedures to be applied in public asset usage activities. The good governance concept includes good management and stewardship of public money, and public engagement targeted to achieving good outcomes and citizens' welfare. In other words, public sector management in general government has to balance between public interest and the fulfilment of government roles, while being constantly accountable to the ultimate shareholders of public assets. As Duruigbo (2006: 37) noticed, "contending that the resources belong to the people is one thing, ensuring that governments act as faithful trustees and competent managers of those resources, is an entirely different – and much more difficult – matter".

Some governments in developed countries have solved the dilemma of employing public assets in order to ensure welfare to their taxpayers and the citizenry as a whole (for example, Norway and Alaska). Other countries are guided with the idea of preserving national wealth for future generations although their accountability to the public is sometimes regarded as very questionable, as in the case of most investment companies that manage sovereign wealth funds. Although there are objections concerning the doubtful transparency of the investment companies that manage the SWFs, some developed countries' advances can be regarded as a crucial change in public asset management practices, because the (re)investment of public assets preserves the national wealth for future generations. Regardless of the progress in public assets growth, the ownership structure or the name the investment companies that manage public assets are given, public assets are pooled into funds according to the similarity in nature and revenue generating possibilities. Such sovereign wealth funds are managed by professionals. Public assets are carefully valued and their disposal is estimated according to the functions they have in providing public services. According to the NPM, no single person or political elite has a right to dispose freely of public assets.

Developing countries, especially transition countries, have faced obstacles in public sector functioning. They have not yet achieved a satisfying level of efficiency in public sector management in general and in public asset management in particular. Regardless of whether transition countries have completed privatisation processes or not, a huge set of assets remains publicly owned, and they have to be managed properly. The reform processes in the public sector urge the definition of the use of public assets and measurement of the outcomes. If the experiences of developed countries are to be followed, we support the introduction and improvement of modern public asset management, which should be guided by market efficiency principles, good governance and business-style financial reporting in general governments. The professional public asset management should be independent in day-to-day operational decisions, but for assets of huge value a parliamentary approval would sometimes be necessary. Public asset management should be conducted in line with the development goals and should be used to achieve welfare for all the citizens in a country. Such a scenario may seem improbable for implementation in transition countries. However, in the course of public sector development something needs to be done regarding unresolved issues concerning public assets, in addition to purely concentrating on privatisation, which is often regarded as the only mean of public asset management. The crucial questions posed are:

- Should the public wealth remain in the hands of the public administration in belief that it is fully aware of the requirement for public money to be so allocated as to fulfil public needs?
- Should national wealth be left to market mechanisms?, or
- Should transition countries take steps towards sophisticated public asset management?

We strongly encourage the last option, being certain that the time has come for transition countries practically to implement the postulates of modern welfare-state countries that have been struggling to bring about the well-being of all their citizens. As Landsberg (2004: 1) emphasised "...in a competitive business environment, with shrinking support from both government contracts and private donors, and with society's increasing need for its services, the non-profit must embrace the best practices of the commercial, for-profit world in order to survive".

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