

STATE PROPERTY: ECONOMIC ANALYSIS AND MANAGEMENT

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Abstract. *State property serves as an essential provision for ensuring the improvement of society's quality of life, the growth of economic welfare, social security, political stability and cohesive development in all facets of life. The purpose of the article is to analyze the current variety of property classifications, to perform an analysis of state property values and their management system. When transforming the state property management system towards a higher level of effectiveness, it is necessary to perform a comprehensive state property valuation which would fully reflect the structure of state property in both a quantitative and a value sense.*

Key words: *state property, property classifications, valuation, management system*

Introduction

State property is understood as a particularly important priority in the state's economic policy as it ensures a country's economic prosperity, democracy and the state's obligation to guarantee the wellbeing of its citizens. This is especially relevant in the present stage of Lithuania's economic development when factors of the global financial crisis have had a negative impact on the country's social and economic welfare. The economic crisis has given the government and state management institutions the rather difficult task of finding new and relatively significant sources from which the state's budget may be replenished. In recent years, it has been decided that these state budget replenishment sources should be state-owned property.

State property questions have received minor attention in academic literature. The majority of the reviewed literature sources analyze property or, more precisely, its category as a specific academic or activity field, and do not cover the category of state property. In other words, state property and the questions surrounding its use and management are hard to allocate to a specific field of economics.

The methodological issues of a country's (national) wealth and, later, state property use, disposal, valuation and management systems have been analyzed by foreign researchers

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such as S. G. Bond, P. R. Dent (1996), S. C. Certo, S. T. Certo (2006), D. Cooper, I. T. Robertson, G. Tinline (2003), G. W. Downs, P. D. Larkey (1986), R. Grover (2009), M. A. Korsgaard, H. J. Sapienza, D. M. Schweiger (2002), B. A. Горемыкин (2002), M. A. Федотова, Э. Я. Уткин (2002), Л. Н. Тепман and others. There are also a few publications by Lithuanian scientists about state property role, concepts, classification, management systems and strategies (D. Diskienė, A. Marčinskas, V. Vaškėlis (2008), B. Galinienė (2005), I. Kvedaravičienė (2006), J. Martinavičius (2011), E. Ragauskienė (2011 a, 2011 b), A. V. Rutkauskas (2001), R. Valkauskas (1975)).

Object of research – state-owned property.

Purpose of research – to analyze the current variety of property classifications, to perform an analysis of state property values and their management system.

Research methods. In order to achieve the purpose and meet the objectives, information sources and methods of information collection, grouping, comparison, systemization, detailing and summary of academic literature, legal acts and methodological resources were used.

1. Property: concepts and classifications in the current context of economic development

How is the concept of property defined, what does it include? A review of the descriptions of property concepts in academic literature has shown that “property” in the legal, economic, physical, social and other senses is understood and described differently. Each academic field, in its description of property, accentuates the categories and priorities specific to that field. This explains why we cannot find a description of “property” in the general sense, or it is, if any, very abstract. This raises the question whether it is possible in principle to formulate and present a general concept of “property”: would it be correct? The general concept of “property” would be abstract and would not reflect the particularities of academic or other fields of activity, leaving much room for a free interpretation which is not always suitable or beneficial. Nevertheless, it is very important that the same field of activity or inter-related fields would understand and interpret the same object in the same – correct – way, at least in that one field.

It is understandable that the number of authors and their studies on analyzing property from various aspects correlates with the number of property classifications. Figure 1 shows a complex view of the most important property classifications in terms of their multivarious aspects.

Many authors refer to the unusual division of things, either taken from nature or those of the material world, created by manufacturing, in the Civil Code of the Republic of Lithuania. Specific to civil law and not characteristic of academic or other fields of activity is the division of things into certain types: modifiable, non-modifiable; consumable, non-consumable; divisible, non-divisible; primary, secondary. The Civil Code of the Republic

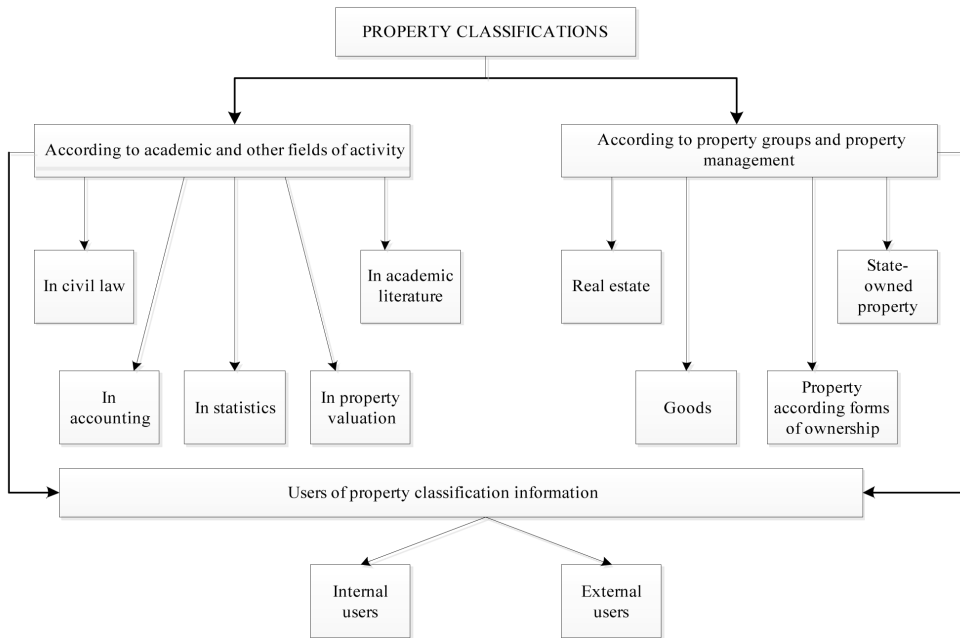


FIG. 1. Multivarious aspects of property classification

Source: compiled by the authors based on Galinienė, Marčinskas (2011), Ivanauskienė (2006), Mackevičius (2009), Терпан (2002), The Law of the Republic of Lithuania on State and municipality property management, use and disposal (1998).

of Lithuania describes property as an object of civil law relations: *objects of civil rights shall be things (grouped according to various attributes), money and securities, other property and property rights, results of intellectual activities, information, actions and results thereof, as well as any other material and non-material values.*

In *accounting*, property is classified in terms of attributes and priorities characteristic of accounting, for example, in terms of the duration of a property use or its material and monetary expression. It is exactly these attributes that are important to financial accounting. Meanwhile, other attributes are more characteristic of management accounting, i.e. the nature of property use and the level of its completion.

In the field of *property classification in national statistics*, a different level of classification is applied than at the enterprise level. The Department of Statistics of the Republic of Lithuania chose a specific means of property classification for the preparation of reports on the country's national property and on state-owned property. Even though this department prepares its reports based on the reports received from state enterprises, offices and organizations, which in turn are based on financial accounting documents, property classification in statistics, and especially its division into two major groups, i.e. non-financial property and financial property, is significantly different from that in accounting.

In the field of *property valuation*, property is classified differently than in law, accounting and statistics. In some legal acts regulating property valuation, property is divided into tangible and intangible assets; in others, property is described as either a material, immaterial or financial value. These laconic concepts are rarely related to categories such as “value” or “owner”. It is believed that in legal acts regulating only one field, i.e. property valuation, the same concepts should be used, even though these concepts in fact supplement one another. In the field of property valuation, property is classified according to other attributes: property mobility – real estate (immovable property), goods (moveable property) and special use property; valuation fields – real estate, goods or business. An object of valuation is any tangible or intangible property, enterprise, or right to property (or part of a property), if that right can be transferred to other individuals within the territory of the Republic of Lithuania. Property whose owner is the state has a specific means of classification, management and accounting (Fig. 2).

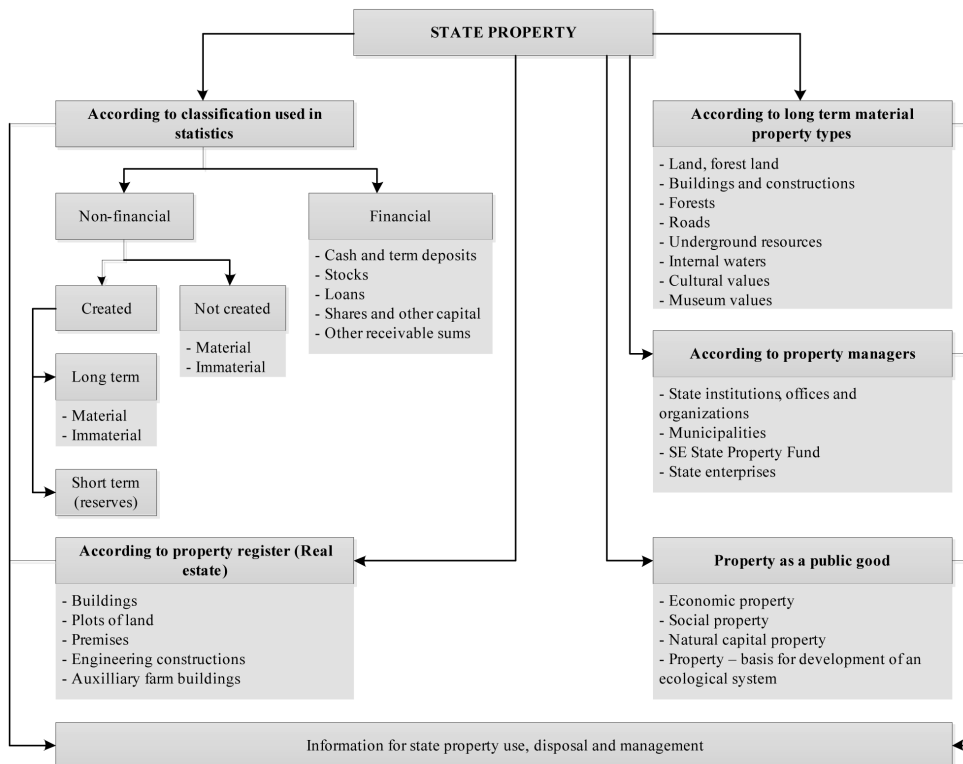


FIG. 2. Recommended state property classification

Source: compiled by the authors based on Bond, Dent (1996), Kvedaravičienė (2000), Galinienė (2005), Martinavičius (2011), Ragauskienė (2011a), Rutkauskas (2001), The Law of the republic of Lithuania on Public administration (1999).

Presented in Fig. 2 is a state property classification systemized according to various attributes (property statistical records, types, its legitimization and management groups).

2. Analysis of state property

While carrying out an analysis of state property it is very important to study the dynamics and structure of non-financial and financial assets. Non-financial assets may be produced or non-produced.

Produced non-financial assets are assets which come into existence as outputs from production processes. They consist of fixed assets used repeatedly in production for more than one year (fixed assets include tangible and intangible assets); current assets or inventories used in production for intermediate consumption and sold or used differently; valuables that are not used for production or consumption, acquired and stored.

Non-produced non-financial assets are assets which come into existence through production. It can be tangible and intangible. Tangible non-produced assets are natural assets with ownership rights established (therefore, e.g., seas, air space are not tangible non-produced assets). Intangible non-produced assets include patents, transferable contacts, purchased goodwill, etc.

Financial assets are economic assets encompassing means of payment, financial claims, and economic assets which are close to financial claims: means of payment are comprised of monetary gold, special drawing rights, currency, and deposits. Financial claims entitle their owners, creditors to receive payment from other institutions, debtors who have incurred financial liabilities. Financial claims are securities, loans, etc.

Constituent parts of state non-financial assets (excluding the state property fund, explored natural resources and other unvalued assets) are *tangible fixed assets, intangible assets and current assets*. The dynamics of state non-financial assets and their changes are presented in Table 1.

The largest share of non-financial property (22.3 billion Lt or 90.4% in 2010 and 17.34 billion Lt or 89.4% in 2006) is composed of tangible fixed assets. Thus, their share in non-financial assets' structure basically does not change. The share of intangible assets is slightly increasing. It is difficult to present a precise valuation of the king-real components of fixed assets. Often it is the value that reflects the acquisition and submission for usage expenses of king-real components, even though this does not reflect the real asset size.

The valuation of king-real components of states' assets is important not only in respect of tangible fixed assets. The greatest share of current assets is composed of inventories and other turnover assets. They include production, other inventories of commercial economic activity, work in process, finished goods, and other inventories and turnover assets. The value of tangible inventories is formed by the market and is often valued based on acquisition, producers or production, other similar prices. The calculations are

TABLE 1. State non-financial assets in 2003–2010 (as of 1 January, billion Lt)
(excluding state stock of land, explored natural resources, and other unvalued assets)

	2003	2004	2005	2006	2007	2008	2009	2010	Change (comparing years 2010–2003)	
									Billion Lt	%
1. Tangible fixed assets	16.00	16.73	16.49	17.34	17.69	20.07	22.39	22.30	6.3	39.4
2. Intangible assets	0.08	0.07	0.07	0.09	0.23	0.32	0.36	0.31	0.23	287.5
3. Current assets (inventories)	1.60	1.64	1.78	1.96	1.97	2.06	2.50	2.04	0.44	27.5
Total non-financial assets	17.68	18.44	18.34	19.39	19.89	22.45	25.25	24.65	6.97	39.4

Source: composed by the authors on the basis of Department of Statistics reports on assets with state's ownership rights (2003–2010).

not complex. The valuation is more complex in case of fixed assets, their inventories and other residents' household assets.

Another important share of state's assets is state's *financial assets*, with the following structural elements: currency and deposits, securities except stocks, loans, shares and other equity, other accounts receivable. The value of financial property, its changes and changes of separate components are reflected in Table 2.

TABLE 2. State's financial assets in 2003–2010 (as of 1 January, billion Lt)

	2003	2004	2005	2006	2007	2008	2009	2010	Change (comparing years 2010–2003)	
									billion Lt	%
1. Securities and deposits	2.8	3.3	3.1	3.3	5.8	5.9	3.2	5.8	3.0	107.1
2. Securities, without stocks	0.3	0.4	0.5	0.6	0.7	0.9	1.1	1.3	1.0	333.3
3. Loans	2.9	2.5	2.0	2.0	1.8	1.7	1.7	1.5	-1.4	-48.3
4. Stocks and other equity	6.4	5.6	6.2	6.5	6.8	7.0	9.6	8.6	2.2	34.4
5. Other accounts receivable	3.8	3.7	3.4	3.4	4.0	5.0	6.2	6.9	3.1	81.6
Total financial assets	16.2	15.5	15.2	15.8	19.1	20.5	21.8	24.1	7.9	48.8

Source: composed by the authors on the basis of Department of Statistics reports on assets with state's ownership rights (2003–2010).

The data presented in Table 2 expose a growing trend of financial assets. Nevertheless, their components, loan and stock values reveal rather diminishing trends. The growth of state's financial assets is at large conditioned by robustly growing state's borrowing. The largest growth is evident for currency and deposits. This might be due to the fact that most funds of the large emission of government securities issued at the end of 2009 were not used. The largest share of financial assets is composed of state-owned stocks and other equity. Nevertheless, the share of this capital in the financial assets' structure is decreasing (41.4% in 2006 and 35.5% in 2010), together with the share of loans which fell by half.

The distribution of assets by **asset managers** who are responsible for an effective asset management and usage, is also important (see Table 3).

TABLE 3. Structure of state's non-financial and financial assets, based on their managers in 2006 and 2010 (as of 1 January, percentage).

Asset managers	Non-financial assets		Financial assets	
	2006	2010	2006	2010
Public enterprises	48.3	40.8	13.9	14.1
Public authorities, institutions and organizations	40.1	51.6	85.0	84.9
PE State property fund	0.3	0.3	1.0	0.9
Municipalities	11.3	7.3	0.1	0.1

Source: composed by the authors on the basis of Department of Statistics reports on assets with state's ownership rights (2006, 2010).

Public authorities, institutions and organizations managed 51.6% of non-financial assets, public enterprises managed 40.8%, municipalities 7.3%, and the PE State property fund 0.3% in 2010. The share of managed assets of public authorities, institutions and organizations grew in 2010 as compared with 2006, whereas the share of managed assets of public enterprises and municipalities has decreased. Such trend might have been conditioned by the privatization processes. Nevertheless, the distribution of financial assets by asset managers during the analyzed five year period under analysis did not change essentially. The largest share of these assets (85%) is managed by public authorities, institutions and organizations.

3. Condition of state property use, disposal and management system

It is believed that management practice does not know a more complex management process than the management of state property. This approach is explained by several reasons. The first is the structure of state property itself where each component needs a different management technology. According to the formation of state property, long-term tangible fixed assets demand one type of management technology, while intangible or financial and current assets demand other types. If we consider land, internal waters,

forests, parks, underground resources, internal waters of state significance, roads, and moveable and immovable cultural values and monuments, buildings or their parts, constructions and equipment as objects only under management as state tangible fixed assets, then we would see a necessity to form independent management systems which, incidentally, are regulated by different laws and implemented by different state institutions. The second reason, which follows from the previous one, is the objectively different level of centralization of separate state property types. For example, state roads are managed in trust by 11 state enterprises, while state forests are managed in trust by 42 state forest enterprises. The third reason is the different goals that the state sets for each type of property management.

The management of state property in the broad sense could be understood as a management system that consists of *a managing system – actions and processes – and a managed system*. According to this system, in the author's view, an organizational scheme of the management system of Lithuania's state property use, disposal and management could be compiled (Fig. 3).

The managing system within the Lithuanian state property management system consists of two parts: the Lithuanian state (as owner and trustor) and its trustees (various state institutions). A hierarchy exists also within the trustees group. The Law of the Republic of Lithuania on state and municipality property management, use and disposal (1998) sets out that the Parliament and the government carry out the functions of the state property owner. In carrying out its owner's functions, the Parliament accepts legal acts, i.e. laws, wherein the principle provisions for state property management, use and disposal are outlined. In one of the laws (the law of the Government of the Republic of Lithuania), the Parliament delegates to the Government the function of disposing of state property and designating the order for property management and use abiding by the laws in place. Thus, by passing resolutions, the Government regulates the transfer of state property to suitable subjects who in trust gain the right to manage, use and dispose of it according to the predetermined order of its management, use, and disposal. State property is transferred to the nominated subjects in the following ways: *in trust, according to lending rights, or the lease of state property*.

The functions of state institutions concerning the management, use and disposal of state property are scattered and not inter-related, and the circle of institutions participating in the regulation of the means of managing the state's real estate, as set out in the law on state and municipality property management, use and disposal, is very wide. The contextual content of this law suggests that the main state property manager should be the State Property Fund – the enterprise created especially for this purpose, i.e. the auditing and management of state property and the representation of state interests during its use, disposal and privatization. However, as shown by statistical data of recent years, a large part of state property is not concentrated in this enterprise.

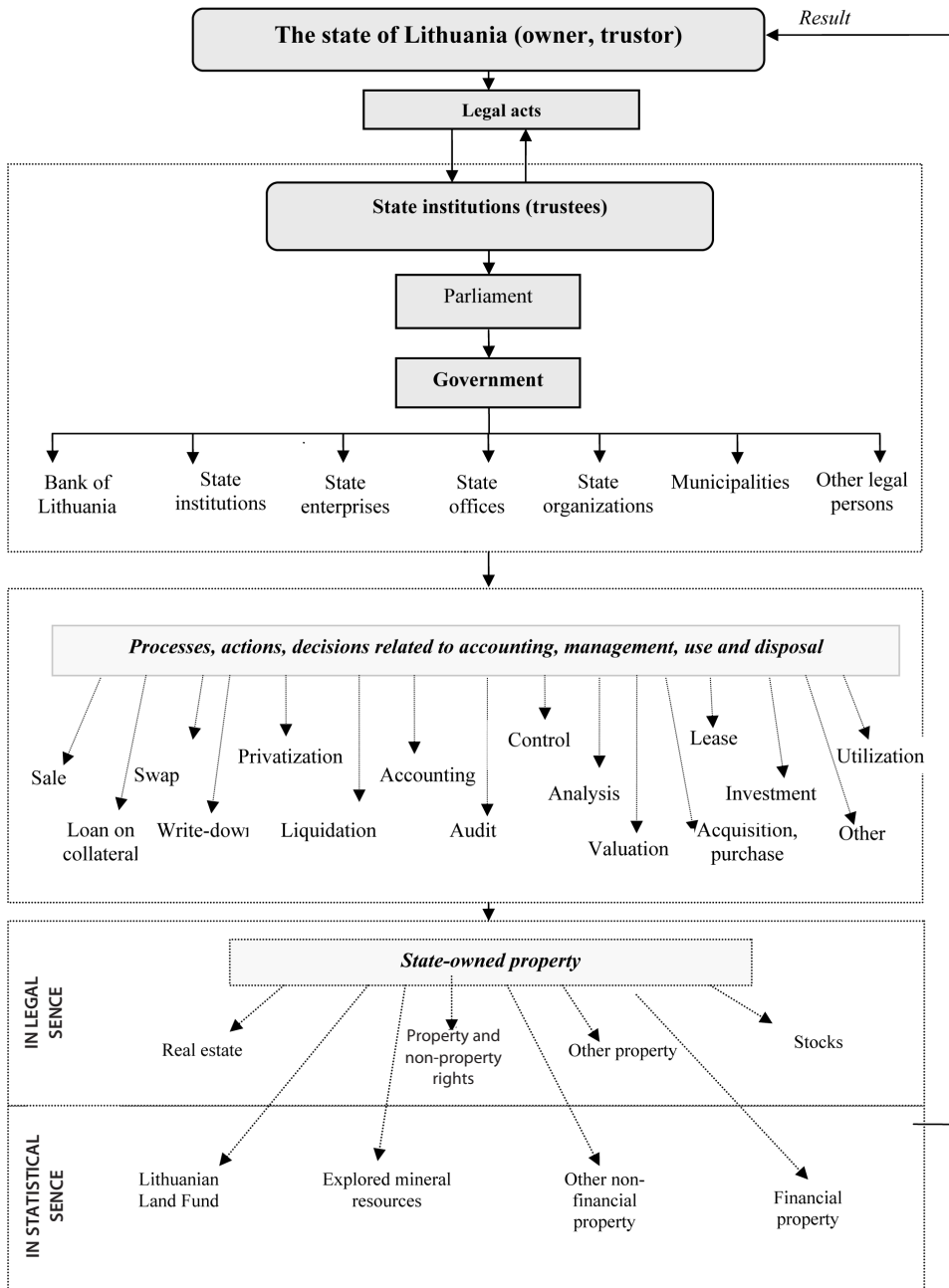


FIG. 3. Organizational scheme of Lithuania's state property management system

Source: compiled by the E. Ragauskienė (2011b).

An obviously decentralized state property management model is in place in Lithuania, something which is entrenched in its structure and the state's management organization in which, according to the Law of the Republic of Lithuania on Public Administration (1999), public administration subjects administering the provision of a certain public service cannot themselves provide that service.

However, although the state (municipality) property management model is applied, it is necessary to comply with certain principles when managing, using and disposing of this property. First of all, when using this type of property, striving for public benefit should predominate, i.e. any use of state property should ensure the satisfaction of public interests. Secondly, any actions related to state property management need to be effective and aim at providing maximum benefit to society. Thirdly, state property needs to be managed rationally – it should not be squandered, it needs to be conserved and disposed of sensibly. Fourthly, when entering into state property trade deals, the public law principle needs to be adhered to: all agreements need to comply with legal acts regulating the disposal of state property. These principles apply to all types of state property management: the in-trust management of state property, the acquisition of state property according to a lending contract, the lease of material state property, the renewal of state property, the transfer of state property ownership to other subjects, and to the investment of state property. The conclusion that follows is that the management of state property, in a broad sense, is a particularly difficult process consisting of both managing and managed systems as well as of numerous actions and processes covering property accounting, audit, control, use, disposal, etc. The complexity of state property management is also determined by its rather difficult legal regulation and the abundance of special laws and post-legislative acts concerning the management of separate types of state property.

Conclusions

1. To make an academically sound assessment of the current potential of state property use, disposal and management, the legal and economic nature of property was analyzed, and the similarities and differences of property concepts typical of separate academic fields were clarified. In various literature sources and even legal acts, the concepts of property are ambiguous, mostly related to a specific academic field (law, economics, science, etc.) and accentuate categories typical of that field. Analysis of literature sources and legal acts has shown that there is no universal of definition property; depending on specific interests and goals, it is defined in various ways.
2. The existing variety in property classification has been analyzed in relation to property accounting, property management functions, separate property groups, and property functioning at macro and micro levels. The study presents an integrated classification system of state property according to its meaningful attributes (statistical records,

types, legitimization, managers), based on which an analysis of the present condition of state property has been performed.

3. The analysis of state property value, its structure and change has shown that even today the value of state property does not reflect its true market value. The true value is the sum for which property may be sold, exchanged for other property or services, or for which an agreement between unrelated parties intending to sell or buy property may be concluded. It should be noted that some state property has still not been inventorized or included in to state registers or accounting calculations; this is why it does not appear in the financial reports of state institutions, offices or organizations. Depreciation is not calculated for all property, and some of the financial property appearing in accounting is irredeemable property (sums outstanding from insolvent debtors, bankrupt enterprise shares, etc.).
4. In Lithuania, after declaring its independence, a management system for all the state and its property was formally elaborated, and the following two decades were neither intensive nor productive in terms of improving this system. The main drawback of this system was that there was no comprehensive analysis or control in this field, which is why there was no possibility to assess whether the system was justified, or what its reserves or potentials were.
5. A scheme of the organizational structure of state property management was prepared. It encompasses a system of essential functions of state institutions related to property use, disposal, and management. The three levels of this system are the managing, the managed and the actions and processes related to property use, disposal and management. The institutions that form and implement the state's policy of managing tangible fixed assets have been highlighted. The resulting scheme shows that in Lithuania there functions a clearly decentralized state property (especially as regards tangible fixed assets) management model.

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