Asset Management

Introduction

From the conflict-prone results of the "resource curse" to the world's existential struggle against climate change, the sustainable management of assets is central to the core functioning of the state. However, international bodies like the International Monetary Fund (IMF) have traditionally defined assets only as items with economic value - restricting them to include financial capital and gold reserves, inventories, machinery, buildings and other infrastructure.[1] This narrow definition contributes to the prevailing and negative focus on what a country does not have, ignoring the vast reserves of capital that underpin the state's macroeconomic health, the delivery of public services and citizen well-being.

For ISE, assets are the shared wealth of a country and its citizens. This wealth is not just made up of money, but also a significant array of assets ranging from fixed capital - land, equipment, buildings, cultural heritage - to natural capital - forests, rivers, seas, minerals - to intangible capital like licenses to operate services and manage data infrastructure or to import and export goods. Beyond the financial aspect of stocks, assets include soft infrastructure, enabling factors and general resources. The role and responsibility of governments in the management of assets on behalf of their citizens is to maximize their utilization and to exercise stewardship so that resources can be a foundation for the delivery of public value and well-being. The way that assets are put to work for the collective good is a marker of the state's effectiveness.

The state's role in the management of assets has evolved over time, and the boundaries between private, public and collective ownership have been blurred by the modern challenges of climate change and rising global inequality. In the face of these challenges, the stewardship and maximization of national and global assets - to increase states' borrowing ability, protect natural and cultural environments and improve the citizen-state compact - is more valuable than ever. When technological advancements like blockchain and digital twinning are leading to more accountability and open governance, governments around the world - notably in Singapore, Kerala State (India) and Peru - are using citizen-facing techniques to strategically manage assets, build resilience against crisis and deliver public value to their citizens.

Sourcebook Objectives and Asset Typology

The objectives of this sourcebook are to expand the definition and classification of a country's assets and provide frameworks through which to enable, plan, implement and measure the management of those assets. Gleaning from the experiences of countries like Singapore, Norway and Peru, the sourcebook provides a set of operational recommendations, tools and techniques that governments can use when planning to effectively manage public assets. It does not feature a robust discussion on elements of financial asset accountability - though this discussion can be found in the National Accountability sourcebook.

The sourcebook outlines an expansive typology of a country's assets, pulling from traditional conceptions of financial and fixed capital while acknowledging the state's expanding role in the management of non-financial capital. ISE's typology of assets includes:

- **Financial capital**, such as currency and deposits, debt securities, loans and investment funds
- **Fixed capital**, such as produced capital, property and infrastructure
- **Natural capital** and the environment, which includes natural resources, land, water, minerals and other extractives, and (most importantly) the larger ecosystem and environment
- **Intangible capital** like knowledge, licensing and intellectual property
- **Human and social capital**, which includes knowledge, skills, personal traits and characteristics of a nation's citizens and act as central drivers for other forms of capital
- **Cultural and heritage capital** that can be man-made and tangible (e.g., monuments and works of art); man-made and intangible (e.g., languages and rituals); and natural (e.g., important mountains and bodies of water)

1. *Government Finance Statistics Manual 2014*, International Monetary Fund, 2014, P. 177-205, https://www.imf.org/external/Pubs/FT/GFS/Manual/2014/gfsfinal.pdf.

In addition to these tangible and intangible assets, the institutions and enabling environment for asset management - including other core state functions like security, accountability and governance - are assets in and of themselves. The definition and classification of this expanded view of a country's existing capital is a crucial step in the effective management of assets.

Frameworks and Measurements of Asset Management

In practice, asset management is the strategic creation, operation, preservation and disposal of a country's expansive array of assets within the scope of larger public value, environmental and cultural frameworks. Among other responsibilities, the state allocates rights to land and water, promotes the sustainable use of natural capital, enacts measures to protect the environment, licenses management roles to private actors and promotes the country's "brand" as a form of reputational capital - all with the intention of maximizing the value of these assets in the short- and long-term.

The sourcebook provides a typology of asset management frameworks, which act as a kaleidoscope lens through which to view the state's stewardship and public utility roles. When used collectively, the three productive frameworks - public value, environmental and cultural - form a holistic picture of effective asset management and support the state's development beyond destructive and dysfunctional operational frameworks.

- **Public value and leadership asset management frameworks.** These types of frameworks focus on optimizing public value, utilizing assets to improve citizen well-being and societal outcomes. The pursuit of value-driven asset management requires strong, strategic leadership and political commitment that act within accountable institutions and a proper enabling environment for asset management.
- **Environmental asset management frameworks.** In addition to considering citizen well-being in the short-term, environmental frameworks outline the state's role in balancing the current generation's utilization of resources with the stewardship of those resources for future generations.
- **Cultural asset management frameworks.** Often overlooked when developing asset management strategies, cultural frameworks consider the preservation and maximization of a country's citizens and their heritage. These frameworks are driven by and empower the vitality and dynamism of a country's population.
- **Destructive asset management frameworks.** Without the use of effective strategies and frameworks for asset management, a country's resources can be squandered through waste, degradation and destruction. Though often associated with corruption and the capture of state capital, this framework is found in any country that does not consider the long-term consequences of the management of assets.

Aided by this holistic approach to the development of the function, the sourcebook also explores mechanisms that states can use to measure the performance of their asset management. Among these mechanisms are life cycle measurements that measure the performance of assets themselves; performance measurement techniques that measure asset management capabilities; and diagnostics from the Natural Resource Governance Institute and the Sovereign Wealth Fund Institute that assess institutional outcomes central to asset management.

Asset Management in Practice

Within the various management frameworks, assets are not static over time. An effective state strategically approaches assets throughout their life cycle - from asset creation to asset use and preservation and, as necessary, asset disposal sale or replacement. The sourcebook outlines a number of operational elements crucial throughout the asset life cycle, which require from the onset the assets of security, rule of law and legal frameworks necessary for effective management.

With this enabling environment in place, governments can go about setting a strategy for the management of assets along their product life cycles, tying into the state's larger development strategies with the purpose of optimizing asset value for citizens. At the same time, the state should continually define and identify its asset base accountably through public registries, asset valuation forecasting and asset investment feasibility studies. The sourcebook - and ISE more generally - has demonstrated how effectively integrating defined assets into national reporting standards via its balance sheet and using integrated financial management information systems (IFMIS) with geographical visualization capabilities to track assets over time are crucial to evaluating the performance of these strategies.

In a well-functioning state, asset management strategies and an understanding of its asset base drive the implementation of the acquisition/creation, operations and maintenance and effective disposal or sale of assets. Capital management planning informs the acquisition and sale of assets properly valued through feasibility and forecasting studies. Effective operations and maintenance takes into account the management of multi-stakeholder partnerships with the citizenry and the domestic and international private sectors for licensing, as well as the accountable and sustainable management of asset revenues. **From strategy to measurement, ISE's typology of frameworks and operational know-how offers the prospect for dealing with asset management holistically, rather than stumbling through fragmented strategies to separately address resource governance, economic forecasting, and environmental and social protection.**

Conclusion

Assets are the shared wealth of a country and its citizens - and understanding the full extent of that wealth prepares the state to effectively make decisions about its management for current and future generations. Burdened by increasing debt from the 2009 global financial crisis and recovery from the COVID-19 pandemic, states must command the effective management of a widened asset to deliver value to their citizens. Increasingly connected in a world combatting inequality and the existential threat of climate change, states must work together with regional and global partners in the public and private sectors in order to adapt and steward assets for future generations. This sourcebook is a contribution to shaping this discussion by grounding analytical insights into detailed frameworks, procedures and systems for the development of robust asset management.