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## THE EUROPEAN DIMENSION OF PUBLIC-PRIVATE PARTNERSHIP AND EXPERIENCES IN TOURISM OF THE REPUBLIC OF CROATIA\*

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**Abstract:** Public-private partnership (PPP) is a method for developing sustainable development that has been proven worldwide and endorsed in practice, and its ultimate aim is to increase the overall well-being of society. In a variety of ways, it brings together the interests of the public, private and civil sector in meeting specific needs for augmenting the quality and/or availability of services and products. The European Union (EU) has not always supported the co-financing of projects devised as PPP. Recently, however, it has begun to encourage a wider application of this form of financing that demonstrates a huge potential in accomplishing public services, that is, projects intended for the public. Marketing and promotion, product development, education, financing and investment, and environmental protection are but some of the areas of public-private collaboration in tourism in a global setting. The purpose of this paper is to provide an outline of world experience and practice in PPP with emphasis on the EU, so that Croatia, by taking under consideration these experiences, advantages and disadvantages, may define an appropriate legal and business framework and identify the criteria for the successful implementation of PPP in its economy, and in particular, in tourism, one of its highest-growth industries.

*Key words:* public-private partnership, EU, partnership models, tourism, criteria.

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## INTRODUCTION

Although the beginnings of public-private sector cooperation can be traced back to the distant past, and partnership has an almost century-old tradition in developing infrastructure projects, only in recent times, in particular, in the 1980s, has the collaboration of these two sectors evolved into a specific, widely applicable form and method for optimising social development.

Acting on synergy based on consensus regarding a shared vision, the public and private sectors are capable of bringing about what is proclaimed from political podiums as a knowledge society. Whether society is seen as a local, regional or broader community, a tourism destination, as the economy at large, culture, science or any other sector, what it needs is continuity in learning and in development, with the availability and timeliness of information being of crucial importance.

Where a destination is concerned, its attractiveness and the way visitors perceive its attraction attributes result from a set of values, those related to the range of services, from experiences, value for money and efforts invested, to a sense of comfort and/or safety, or the lack thereof. A destination's attractiveness has a deciding influence on visitor/guest/tourist loyalty.

Public utilities and infrastructure facilities also provide a platform for building the quality of a destination as a whole. This quality is an inseparable part of the lives of residents, the economy at large, as well as, the tourist industry.

The Destination Management Network (DMN), a model of quality management in Croatian tourism, assumes public-private sector cooperation and partnership and represents a so-called learning organisation.<sup>2</sup> Its internal functions include: defining a destination's vision and reaching a consensus; devising a destination's development strategies; continuous benchmarking, learning and the application of new knowledge; ongoing communication, information exchange and discussion (forum) among stakeholders; market research and marketing; communicating with the public (Internet portals); accurate and updated information on all that is happening in a destination; and other joint activities. External DMN functions relate to various forms of collaboration and partnership – in particular, those within the European Union and with EU regions, various institutions and projects – as well as to horizontal (with other networks) and vertical (tour operators, transport providers, and others) integrations.

## 1. PUBLIC AND PRIVATE SECTOR SYNERGY

Synergy means a situation where two different activities (processes or subjects) stand one to other in such a complementary way that their combined result is bigger or more significant than a simple sum of their single results. Accordingly, the

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<sup>2</sup> Cetinski, V., Sugar, V., Peric, M., "Strategies of Development Considering Croatian Tourist Destinations and Public-Private Partnership", *Ekonomski pregled* (2008/09 – in procedure of publishing).

synergy between the public and private sector needs to achieve such a result that could not have been achieved without it. Public private partnerships are one type of such a synergy.<sup>3</sup>

Public-private partnership (PPP) can be defined as collaboration between people or organisations in the public and private sector for the purpose of gaining specific benefits.<sup>4</sup> In this sense, public-private sector synergy means that each partner is enabled to fulfil its own natural motivations and position in the long range. This includes:

- the interest of the public sector in achieving goals that it would not be able to accomplish independently and in filling the 'void' in goods or services for which there is a social demand, but for which it lacks the resources (financial, organisation, managerial...) needed to respond to in an economically rational way,
- the interest of the private sector in achieving goals that are immanent to the nature of private ownership in economy, that is, making an appropriate profit on money invested, at least in the order of alternative investment opportunities or the ROI rate of the branch in which they otherwise operate,
- the effect of collectiveness (collaboration, cooperation) that provides a positive contribution to meeting various needs at a local, regional or national level. At a national level, this is mostly about large (major) projects that are demanding and costly, such as infrastructure projects, while at a local level, partnership can be seen as a network of companies, representing the synergy of different organisations and local authorities in maximising the efficient allocation of resources.

Following on the above, a set of basic principles and goals for economic cooperation, in general, and PPP, in particular, can be identified and should be adhered to:

- the well-being of a community (society) is the highest ranking factor according to a holistic approach;
- the original interests of each partner are a precondition to integration (general interests – private interests – particular interests);
- economic rationality and efficiency;
- long-term economic and social justification;
- (relative) autonomy of partners and their relative independence upon heterogeneous influences;
- reciprocity, in terms of mutual support between partners;
- controlling corruption, especially where contracting and awarding concessions is concerned;
- controlling service quality and price, especially in cases when a producer/provider of goods of services holds a monopolistic position.

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<sup>3</sup> Cetinski, V., Peric, M., "Public and Private Sector Synergy in Tourism and Partnership Models", 19. *Biennial International Conference: Tourism & Hospitality Industry: New Trends in Tourism and Hospitality Management*, section: Management of the product life cycle and competitiveness on the tourist market, May 07-09, 2008. Opatija, p. 362.

<sup>4</sup> After: McQuaid, R.W., "The Role of Partnerships in Urban Economic Regeneration", *International Journal of Public Private Partnership*, Sheffield Hallam University Press, Vol.2, No. 1, (1999), pp. 5-6.

It can be concluded that partnership is a method for devising sustainable development that has been proven worldwide and endorsed in practice, and its ultimate aim is to increase the overall well-being of society. In a variety of ways, it brings together the interests of the public, private and civil sector in meeting specific needs for augmenting the quality and/ or availability of services and products.

However, partnership can also be seen as a way of solving those problems in society for which the public sector, on its own, does not have the resources (financial, first and foremost), and the private sector has no interest to invest on its own (insufficient returns).

Also, partnership can be understood as a method for increasing total social efficiency in cases where the management role of the state, being, as a rule, less efficient (in terms of finance, organising, marketing), is by consensus (in common agreement) transferred to the private sector that is, as a rule, more efficient.

## 2. EU EXPERIENCE AND PRACTICE – THE EUROPEAN DIMENSION OF PARTNERSHIP

The European Union (EU) encourages and promotes PPPs as a form of collaboration between public administration and the economy, primarily through projects for the construction of massive infrastructure and the provision of public services.<sup>5</sup> There are several European Commission documents that serve as guidelines for PPP application. In 2003, the European Commission, through the Directorate General for Regional Policy, published the *Guidelines for Successful Public-Private-Partnerships*.<sup>6</sup>

The *Guidelines* focus on four key topics:<sup>7</sup>

- ensuring open market access securing and fair competition,
- protecting the public interests and maximising value added,
- defining the optimal level of grant financing both to realize viable and sustainable project but also to avoid any opportunity to windfall profits from the grants, and
- selecting the most effective type of partnership for a given project.

The *Guidelines* are structured in five thematic parts:

- PPP structures, suitability and success factors,
- legal and regulatory structures,
- financial and economic implications of PPPs,
- integrating grant financing and PPP objectives,
- conception, planning and implementation of PPPs.

For a better understanding of the issues and activities involved in delivering (financing) large projects, in particular, infrastructure projects in the EU, there is the

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<sup>5</sup> After: <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/05/431&format=HTML&aged=0&language=EN&guiLanguage=en> (29.11.07.).

<sup>6</sup> European Commission, *Guidelines for Successful Public-Private-Partnerships*, Directorate General for Regional Policy, Bruxelles, 2003.

<sup>7</sup> Ibid

EU *Green Book* on PPP.<sup>8</sup> In the context of this paper, recounting the contents of the *Green Book* seems needless. However, it should be pointed out that this document deals with PPP as a form of cooperation between public bodies and the business world with the purpose of securing the funding, construction, reconstruction, management or maintenance of infrastructure or the provision of services.

In addition, the *Green Book* distinguishes between PPP forms of a contractual nature, in which partnership between the public and private sector is based solely on contractual links (such as concession, BOT or PFI) and PPP forms of an institutional nature, including public-private collaboration within the framework of a special body and/or new legal entity (a joint venture, for example). Also, the *Green Book* makes recommendations regarding procurement procedures and how to negotiate PPPs. Generally, the aim of the *Green Book* is to open a debate as to whether interventions at the EU level are needed to ensure that the economic entities of its Member States have better accessibility to various PPP forms in a situation of legal security and market competition.

Despite possible inconsistencies, the EU is seeking to harness the private sector in accomplishing international policy and economic goals. The original interest of the EU for promoting PPPs comes from its endeavours to achieve its specific goal – European integration. For example, not one of the noted EU integration policies – such as the Single European Market Program and the Economic and Monetary Union (EMU) – could be attainable without the implicit and explicit collaboration of the public and private sector. Moreover, PPP is increasingly being cited as a major means of realising EU goals in the trans-European traffic network, employment, industrial development (revitalisation), and research and development of regional association. Since recently, the EU is actively engaged in spreading this idea to the field of education and training.

There are several reasons why the EU sees PPPs as a useful tool in promoting its development goals. First, there is growing gap between the EU's ambitious goals of development and its available resources. The EU's sources of financing are too limited to cover large development projects. Second, disagreements regarding the size and composition of the EU budget are a matter of constant debate among Member States. Third, national governments (inside and outside of the EU), too, see PPP as a means of attaining economic and social goals, and because the budgets of these countries are also spread thin, a trend is evident in encouraging the involvement of the private sector in ventures that are considered typical public-sector projects.

Hence, it is clear that the EU has the role of PPP **promoter**, that is, the role of promoting projects that represent a form of formal partnership between public and private organisations. The EU's other roles can be summarised as follows:

- a “catalyst” for PPP projects that involve Member States, by generating ideas and promoting feasibility studies, for example

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<sup>8</sup> Commission of European Communities, *Green Paper on Public – Private Partnerships and Community Law on Public Contracts and Concessions*, (IP/04/593), Bruxelles, 2004. Available at: [http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52004DC0327:EN: NOT \(29.11.07\).](http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52004DC0327:EN: NOT (29.11.07).)

- a “broker” that mobilises and brings together institutional and national actors, thus enabling international and intersectoral collaboration
- a “target setter” that defines guidelines, goals and project priorities
- a “provider” of additional financing, by providing additional funding and support to the financial costs of Member States and the private sector
- an “educator”, by disseminating good-practice information across the EU
- a “reinforcer”, by supporting and strengthening the role of national governments in promoting projects
- a “troubleshooter” when projects come upon an obstacle
- a “monitor” of EU projects.

These roles are seen as complementary to, instead of, different from the roles of national governments. Despite certain drawbacks (differing national interests, state priorities and the obligation level of Member States, and legal, technical and administrative difficulties), it looks that the EU will continue to promote PPPs as tools for achieving its development goals.

### **2.1. PPP advantages and disadvantages**

Every form of financing has its advantages and disadvantages with regard to the interest-based relationships of stakeholders (creditors, investors, private and/or public sector), the way a business system operates and the special features it has relative to other business systems, the composition of the source of funding, the ROI rate, etc.

The advantages that PPP provides include:<sup>9</sup>

- Cost savings – including faster project delivery (construction) and lower operational costs – Because the private sector is responsible for design and construction and because payment by the public sector is linked to the availability of services, the private sector has an incentive to carry out works as fast as possible in order for usage to begin as soon as possible. It is in the interest of the private sector to reduce costs over the entire period of project operationalisation.
- Risk Mitigation or Risk Sharing – A basic PPP principle is the allocation of a specific risk to the partner that can carry the risk at the least cost. Notably, the aim is to optimise, rather than maximise, the transfer of risks to ensure that the highest value is created. As a rule, the private sector carries the greater risk and for this it receives a corresponding premium, which is a minimal amount for the public sector considering how much it would cost the state to finance projects in a conventional way and carry all the risks of project delivery.
- Improved service levels or maintaining existing levels of services – risk allocation should encourage the private sector to improve the quality of services provided. For example, in most projects of this category, payment is linked to meeting predetermined service standards.

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<sup>9</sup> Kim, D., Kim, C. and Lee, T., *Public and Private Partnership for Facilitating Tourism Investment in the APEC Region*, 2005. Publication in the Internet; [http://www.apecsec.org.sg/content/apec/publications/all\\_publications/tourism\\_working\\_group.html](http://www.apecsec.org.sg/content/apec/publications/all_publications/tourism_working_group.html). (12.05.2005.).

- Enhancement of revenues – The private sector must be able to generate additional revenue from third persons, thus scaling down the funds (subsidies) allocated by the public sector.
- More efficient implementation – By transferring responsibility for the provision of services, the states takes on the role of a regulator and focuses on planning and control instead of on managing the daily provision of services. Also, by introducing competition to the public sector, the provision of public services can be compared with market standards to ensure the best value is obtained for funds invested.
- Other economic benefits (increased employment and economic growth, “export” of expertise, innovativeness, etc.).

Importantly, despite all its advantages, PPP should not be seen as an easy and simple solution, because public sector financing by private capital also has its disadvantages. Likely disadvantages for PPP are reflected in the following:

- a high fixed price (“turnkey”) of the entire project as a result of:
  - costly preparation of bids and protracted negotiations, as well as the time required for the formation of a PPP model,
  - additional knowledge and financial resource required for forming partnerships that may limit the number of potential bidders,
  - the long period needed for loan servicing and generating revenue,
  - large individual and costly risks to which lenders and sponsors are exposed,
  - complex financial structures and costly loans,
- potential price increase for service users,
- loss of the public sector’s control over the provision of services and the possible decline in the reliability, quality and efficiency of service provision,
- lack of competition,
- possible misuse of PPPs (bidding procedures, corruptions, etc.).

## **2.2. Possible public-private partnership models**

International experience and history demonstrate that a certain period of time is needed for the development of specific PPP forms. This development should be understood to be a process of gradual application, specialisation, and building relationships and interests, rather than a process in which specific forms are created. This means that, today, it is possible and justified to consider, on the one hand, simpler partnership forms such as a long-term management contracts, and on the other, more complex form such as privatisation (Figure 1). In between these two extremes are many PPP models, each of which is defined, in its own way, by specific social and other preconditions.

In worldwide practice, the following models of public and private integration are frequently adopted and recognised:<sup>10</sup>

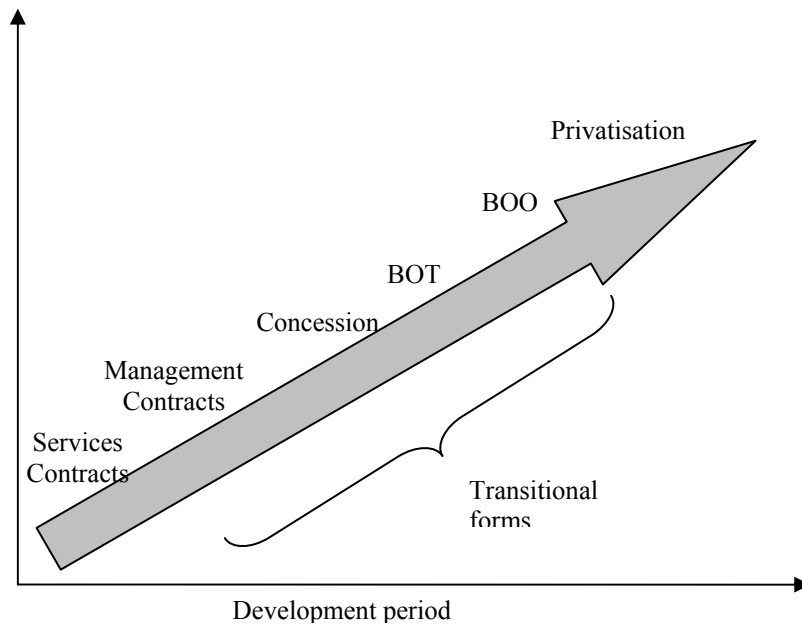
- **Operations & Maintenance Contract (O&M)** – The private sector renders a specific service or procures assets, which it has the obligation of maintaining. The public sector retains the ownership of assets.
- **Lease** – Under this arrangement, the private partner does not invest its own capital, but instead manages and maintains the assets that remain in the ownership of the public sector, and it collects, for its services, a fee from end consumers.
- **Private Finance Initiative (PFI)** – The private partner is invited to design, finance, build, maintain and manage, during its usage stage, a facility for a public sector unit. Emphasis is placed on the private sector providing full services to the public sector, and not just on construction. Instead of receiving compensation in the form of fees paid by end consumers, the private partner receives regular payments from the public partner
- **Concession** – The public partner grants the private partner a concession, that is, land building rights for which the private partner pays a fee. Characteristic of this model is the direct relationship between the private partner and end consumers, by which the private partner, “instead” of the public partner but under its control, directly provides a service to end consumers. Another feature of this model is the concession fee that consists of charges imposed on the end consumers of services and, if required, additionally supported by subsidies from state bodies.
- **Build – Operate – Transfer (BOT)** – This a concession-based model in which a private company takes over the organisation of and responsibility for financing, building, maintaining and operating a facility for a specific period (usually from 10 to 30 years) based on a concession contract. Once the concession term has expired, the private company transfers management and maintenance rights to the public sector, and the facility is returned to the public sector for usage and in full ownership.

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<sup>10</sup> In addition to these, there are also other PPP models, such as: OM&M, Operations, Maintainance & Management Contract; ROT, Rehabilitate – Operate – Transfer; BOOT, Build – Own – Operate – Transfer; BTO, Build – Transfer – Operate; BBO, Buy – Build – Operate; DB, Design – Build; DBM, Design – Build – Maintain; DBO, Design – Build – Operate; DBOT, Design – Build – Operate – Transfer; DBFO, Design – Build – Finance – Operate; BLT, Build – Lease – Transfer; BLO, Build – Lease – Operate; Lease – Purchase; BTL, Build – Transfer – Lease; LDO, Lease – Develop – Operate or BDO, Build – Develop – Operate; LROT, Lease – Renovate – Operate – Transfer; Sale – Leaseback; Ongoing Franchise Model, Divestiture or Asset Sale). After: Cf. Walker, C, Smith, A.J., *Privatized infrastructure - the BOOT approach*, Thomas Telford Ltd., 1995; Smith, A.J., *Privatized infrastructure: the role of government*, Thomas Telford Ltd., 1999; United States Government Accounting Office - GAO, *Public-Private Partnerships: Terms Related to Building and Facility Partnerships*, Washington D.C., 1999; Silvia, G, Tynana, N, Yilmaz, Y., *Private Participation in the Water and Sewerage Sector – Recent Trends*, The World Bank Group, Finance, Private Sector and Infrastructures, 2000; Juricic, D., Veljkovic, D., *Financiranje kapitalnih projekata lokalnog javnog sektora*, Ekonomski fakultet Rijeka, Vitagraf, Rijeka, 2001, p. 118; Yescombe, E.R., *Principles of Project finance*, Academic Press, San Diego, 2002; Kim, Kim and Lee, *Public and Private Partnership for Facilitating Tourism Investment in the APEC Region*, op.cit. (12.05.2005).



**Figure 1:** Timeline of partnership development



Source: Adapted after: *Public – Private Partnerships (PPP) in Highways*, Seminar on Public-Private Partnerships in Transport Sector in Russia, available at:  
[http://wbln0018.worldbank.org/ECA/Transport.nsf/3355693bf49ed34985256c4d004873dd/06abc07b6ad3c52a85256fe300580277/\\$FILE/Highways\\_eng.ppt#12](http://wbln0018.worldbank.org/ECA/Transport.nsf/3355693bf49ed34985256c4d004873dd/06abc07b6ad3c52a85256fe300580277/$FILE/Highways_eng.ppt#12) (19.08.07)

- **Build – Own – Operate (BOO)** – Similar to BOT, except that the private partner retains ownership and control over the project, that is, the assets are not transferred to the public partner.
- **Temporary Privatisation** – The private partner takes over assets from the public sector, and improves upon and manages these assets for the period of time that it takes to settle investments costs increased by an acceptable ROI rate.

The above forms are of a contractual nature, that is, they are based on a contract between a public and a private partner. However, private capital can also take part in projects of public importance through so-called institutional partnership forms, that is, by founding a new company in which a public sector unit and a private partner together have stocks or shares, with risks and responsibilities being divided according to the division (ratio) of ownership (Joint Ventures, for example).

It can be concluded that the development and application of specific models are conditioned by social conditions and, above all, by a state's legal regulations. Hence, today, it is not necessarily the complex models of partnership that should be exclusively pursued; instead, depending upon the case at hand, it may be justified to apply the simpler partnership forms such as the long-term management contract.

### 2.3. Areas of public and private sector collaboration in tourism

According to the research of the World Tourism Organisation WTO and partners<sup>11</sup>, the role of the State in tourism has changed substantial in the past 40 years. At the onset of the second half of the last century, the State played a pioneering role in tourism that was considered exceptionally important, in particular with regard to major infrastructure projects. At that time, the private sector was unable to undertake such huge investments. As tourism developed and its commercial value grew, so did the interest of the private sector in the business opportunities that this provided. All this resulted in a virtual explosion of activity in constructing hotels and establishing travel agencies and tour operators. That was when the state took on the vital role of being a moderator of growing supply and in preventing and checking unscrupulous business. In many countries, legislation began to develop rapidly, even to the extent of making the tourist trade “over-regulated” – ultimately resulting in a boomerang effect.

Today, the tourism sector of advanced countries is organised in a far more liberal way; there is even talk of *laissez-faire*. With the aid of fiscal and other incentives, states are increasingly taking on the role of stimulators of private sector investments, instead of being major investors.

Collaboration through PPP in tourism today is mostly being developed in the fields of marketing and promotion. This collaboration is about defining and building a destination’s image and undertaking joint action in promoting the destination on the global tourism market. Many case studies indicate that opportunities for collaboration have emerged in other fields as well, such as in infrastructure projects, product development projects, education, financing of and investment in sustainable tourism development, environmental protection and protection of cultural and historical heritage. The importance of partnership is growing in the field of the safety and security of tourists and residents, in which the public services (police, fire brigade, health service, etc.) must also play a role. Equally important and necessary (and inevitable) is collaboration in strategic planning, standardisation and quality management.<sup>12</sup>

However, because of its complexity, multidisciplinary nature and efficiency, the tourism industry demands, expects and requires collaboration not only within a destination, but beyond the destination, as well. In this sense, a practical role of the State is evident through major investment in public transportation, municipal infrastructure, traffic routes (highways) or through tourist taxes that are an integral part of tourism.

To this can be added partnerships (networked) of all interested and creative individuals (in the public and private sector) and their association with specific projects, in which a well-organised information system is the binding agent that ensures that the development of any system, a tourism system included, will be managed successfully.

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<sup>11</sup> WTOBC, *Public-private Sector Cooperation: Enhancing Tourism Competitiveness*, WTO Business Council, Madrid, 2000. and CTO, WTO, WTOBC, *Co-operation and Partnerships in Tourism: A Global Perspective*, WTO, Madrid, 2004.

<sup>12</sup> WTOBC, *Public-private Sector Cooperation: Enhancing Tourism Competitiveness*, WTO Business Council, Madrid, 2000 and CTO, WTO, WTOBC, *Co-operation and Partnerships in Tourism: A Global Perspective*, WTO, Madrid, 2004.

In brief, the above considerations lead to the conclusion that the public and private sectors have four major areas offering opportunities for collaboration:<sup>13</sup>

- improving the attractiveness of a destination,
- improving marketing efficiency,
- improving destination productivity,
- improving destination management.

### 3. PPP EXPERIENCES IN CROATIAN TOURISM

In July 2006, the Government of the Republic of Croatia adopted the *Guidelines for the Application of Contractual Public-Private Partnership (PPP) Models*. This document interprets what a PPP is, who represents the public partner and how the public partner participates in the partnership. It specifies the procedure for selecting a private partner and takes control over the process.<sup>14</sup>

It is essential to point out that these *Guidelines* refer only to “purely contractual PPP models (PFI and concession models) and do not consider the following types of long-term contracts between public sector units and private partners as being a “purely contractual PPP model”, or even as being a PPP:

- long-term service contract,
- contract for the design and construction of structures for the public sector,
- establishment of a new company,
- establishment of a new contractual joint venture,
- State Guarantees,
- lease agreements,
- partial or complete privatisation of assets.

In the Croatian economy, several examples can be singled out of projects for the construction of public buildings and infrastructure that have been delivered through a model of “purely contractual PPP forms”, such as the construction of the Istrian Ypsilon motorway, elementary schools and sports halls in the Varazdin County, secondary schools and sports halls in Koprivnica, etc.<sup>15</sup>

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<sup>13</sup> WTOBC, *Public-private Sector Cooperation: Enhancing Tourism Competitiveness*, op. cit., 2000, p. 58 and Faculty of Tourism and Hospitality Management, research within the framework of the scientific project “Quality Models and Public Private Partnership in Croatian Tourism” (project no. 116/1162459-2456), conducted with the support of the Ministry of Science, Education and Sport of the Republic of Croatia.

<sup>14</sup> Government of the Republic of Croatia, *Smjernice za primjenu ugovornih oblika javno-privatnog partnerstva (JPP)*, Zagreb, NN 98/06.

<sup>15</sup> One of the first PPP-based projects delivered in Croatia was the construction of the Istrian Ypsilon Motorway. On 21 September 1995, the Republic of Croatia and Bina-Istra signed a concession contract with the purpose of developing Croatia’s traffic infrastructure. The Istrian Ypsilon Project involves the financing, designing, construction and management of a 145-kilometre long road network. The contract also involves taking over the existing 54-kilometre leg of the motorway and the Ucka Tunnel that had to be renovated. The concession contract was signed for a 32-year term, upon which the motorway will be transferred to the state of Croatia without compensation. After: <http://www.bina-istra.com/Default.aspx?sid=38> (29.11.07.). Also, elementary schools and sports halls in the Varazdin County and secondary schools and sports halls in Koprivnica were built through Private Finance Initiatives (PFI) based on 25-year contracts. The concession model has been used in delivering infrastructure projects for the construction of water treatment plants in Zagreb (25-year concession term) and for the construction of the Zagreb-Macelj motorway (part of the Trans-European network, 10A) with a 25-year concession term. In addition to Varazdin and Koprivnica, other towns in Croatia have begun to think about PPP (Cakovec – marketplace; Rijeka – Zamet Sports Hall, new City Library building, business and commercial complex in the area of the former factory “Rikard Bencic”, new bus terminal).

Where tourism and tourism-related projects are concerned, PPPs are considered capable of ensuring faster construction and better management of hospitality and tourism facilities that would have a number of positive effects on tourism and on the economy in general. Some of the effects are:

- an impact on raising the general level of quality of hospitality and tourism services,
- an impact on enhancing a destination's quality,
- the possibility of year-round hospitality and tourism activities in a specific region,
- the arrival of growing numbers of satisfied guests,
- the creation of new jobs in tourism and in related industries and enabling a greater number of unemployed people to find jobs
- the revival and launching of secondary economic activities directly or indirectly linked to hospitality and tourism,
- an increase in the income and standard of living of the inhabitants of a specific destination.

However, despite these considerations in which tourism is recognised as a very powerful engine of economic development, practical experience in implementing the PPP model in tourism is very limited. Although some experience does exist on a national level such as the collaboration of the Croatian National Tourist Board with the tourism industry<sup>16</sup>, in Croatia, various types of PPPs in tourism are considered as being more appropriate for lower levels of managements, such as the regional, local or city level. A distinction is made between partnership in planning tourism development – the Master Plan of Tourism Development in Istria<sup>17</sup> and the Master Plan of Tourism Development of the Primorsko-Goranska County<sup>18</sup> – and the PPP-based delivery of individual projects in tourism (such as in the Town of Sibenik and the Zagorsko-Krapinska County<sup>19</sup>).

In a way, the case of the hotel company *Suncani Hvar* has triggered distrust in the implementation of PPP “the Croatian way”. Namely, analysts and journalists have reported this partnership model as representing “ordinary” privatisation, with the PPP being but a front for the privatisation of *Suncani Hvar*.<sup>20</sup>

With regard to Croatia's lack of experience and potential problems, it is considered justified to take a critical look at the experiences of countries around the world and then clearly define a legal and business framework, as well as the criteria for implementing partnerships.

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<sup>16</sup> Peric, M. and Dragicevic, D., “PPP and Master Plan for Tourist Destination Kvarner – Croatia“, paper presented at 11<sup>th</sup> International PPP Conference “Public and Private Sector Partnerships: Enhancing Sustainable Development“, 25-28 May 2005, FEAA-University “A.I. Cuza“ Iasi, Rumunjska.

<sup>17</sup> THR and Horwath Consulting Zagreb, *Master Plan razvoja turizma (2004-2012) - Istra*, Final Document, 2003.

<sup>18</sup> Peric, J., et. al., *Glavni plan razvoja turizma Primorsko-goranske zupanije*, Rijeka: Fintrade & Tours d.o.o., University of Rijeka, 2005.

<sup>19</sup> The example of tourism project of the Town of Sibenik delivered through the BOT model and the health-tourism projects of Stubicke Toplice through collaboration with the private partner selected

<sup>20</sup> The non-transparency (secrecy) of the contract between the Croatian Privatisation Fund and the company Orco of Luxemburg lends to the misgivings that this contract favours the Orco Group to a greater extent than allow by law and business practice.

### 3.1. Legal and business framework of partnership

In a country that wishes to introduce and embrace the PPP method of development and funding, a clearly defined legal, business and entrepreneurial framework inspires great trust in private companies and investors to decide to finance and deliver a project. The private sector wants to see the basic elements of these two frameworks unambiguously defined, which will give them an unfailing and legal state guarantee for their investment and expected profit.

Clearly, the private sector does not wish to invest its financial resources in projects that do not offer clearly stated and favourable business conditions. An analysis of market conditions and prices is inevitable, because private investors make decisions based on the security of investment and the potential for gaining profits. In its forecasts and project evaluations, the private sector wants as much information and data possible to get the most accurate idea of costs, revenue, risks, etc. Regulations that define the business framework and operations should comply with the principle of market liberties and fair conduct, as well as with the goal of State business policies regarding PPPs.<sup>21</sup> The development strategies of a target sector and the economy are important as they enable potential private investors to evaluate the overall situation, plans, measures, individual economic categories such as the price policy, interest rates, inflation rates, other major projects, etc.

The business framework is closely and inseparably linked to the legal framework. Potential investors also want clearly defined legal measures and regulations that can provide them with a sufficient level of security. This refers to a broad range of measures and regulations (Property Rights Protection Act, Act on Protection against the Expropriation and Nationalisation of Equipment and other Property, banking and financial regulations, regulations relating to security, Labour and Worker Rights Act, Environmental Protection Act, etc).<sup>22</sup>

It is vital to understand that partnership goals should be carefully considered, parallel with the business and legal framework, as this will make it possible to detect any potential financial obstacles to delivering a project. In the case of Croatia, these goals may include the following:<sup>23</sup>

- contracting and executing a greater number of projects;
- a natural market distribution of risk between private entrepreneurs and public authorities to ensure the efficient and effective use of tax payers' money;
- taking advantage of the greater efficacy of private entrepreneurs, that enable them to build efficiently and effectively and to manage the delivered projects more efficiently and effectively than the bodies of public authorities;

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<sup>21</sup> After: Peric, M., *Projektni menadžment i javno privatno partnerstvo u turizmu*, research as part of a doctoral dissertation (in progress), Faculty of Tourism and Hospitality Management Opatija..

<sup>22</sup> Peric, J., Dragicevic, D., "Public and private partnership in tourism - world experience", *18<sup>th</sup> Biennial International Conference of Tourism and the Hotel Industry 2006.: New Trends in Tourism and Hospitality Management*, Faculty of Tourism and Hospitality Management, Opatija, 3-5 May 2006.

<sup>23</sup> Government of the Republic of Croatia, *Smjernice za primjenu ugovornih oblika javno privatnog partnerstva (JPP)*, Zagreb, NN 98/06.

- creating value added by bringing together the resources, efforts and knowledge of the private and public sector;
- enhancing productivity, market competition, the rational use of the economic capacities of private and public entities;
- ensuring transparency in selecting and negotiating projects,
- finding new solutions for constructing and maintaining public infrastructure;
- stimulating economic activities in the short to long range;
- rationally using public funds for the well-being of all public-service consumers.

### 3.2. PPP implementation criteria

In traditional financing systems, decisions are made based on policy assessments and the criterion of indirect benefits and, as a rule, they are focused on the development of a specific area or region, giving projects a broader social significance. However, when private capital is engaged, its interests must be taken into account as well. This means that, on the one hand, we have the interests of the public sector and, on the other, the interests of the private sector.

According to a holistic approach, the first and basic (elimination) criterion that the *public sector* needs to adhere to in executing PPP-based projects in tourism is the *well-being of the community (society)*. However, when deciding upon public private partnership in a specific area, it is necessary to take into account the multiple development effects of such partnership that will mobilise other components of life, a fact that is particularly important for strategically vulnerable tourism regions. In this respect, the criterion of community well-being can be viewed from a number of perspectives, the most important being the environmental, economic, socio-cultural and political perspectives.<sup>24</sup>

The *private sector*, that is, the owner, is directly concerned with the financial assessment of a tourism project and its *potential for yielding profits*. So, a project's profitability, cost-efficiency and financial sustainability are the common criteria based on which the private sector selects investments and projects. The value of a project is largely evaluated using the internal rate of return (IRR), a project's net present value (NPV), a liquidity assessment and other specific static indicators.

It can be concluded that the criteria of the public sector (economic, legal and political, socio-cultural and environmental) must always be taken into account. Partnerships, which are not in compliance with the country's laws and regulations, fail to contribute to accomplishing the strategies and policies of tourism development, have an adverse impact on the environment or health of people, or cause society considerable financial costs, should be brought to a stop in the initial stages of planning and under no circumstance should they be allowed to form.<sup>25</sup>

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<sup>24</sup> After: Peric, M., *Projektni menadžment i javno privatno partnerstvo u turizmu*, research as part of a doctoral dissertation (in progress), Faculty of Tourism and Hospitality Management Opatija.

<sup>25</sup> Ibid

In tourism, however, the interests of the end users – the tourists without whom the long-term survival of a partnership simply is not possible – must also be taken into account alongside the interests of both sectors. Ultimately, public-private partner collaboration must result in improvements to the overall quality of a destination, as well as to the quality of the tourism product and tourist experience, because without satisfied tourists who will repeatedly visit a destination, neither will the system be sustainable in the long run nor will the well-being of the community be long-lasting.<sup>26</sup>

## CONCLUSION

Public-private partnership represents collaboration between the public and private sector, with each partner achieving its long-term interests. From a historical point of view, since the 1980s, PPP has evolved into a specific, widely applicable form and method of optimising social development.

To achieve its specific political and economic goal – European integration, the European Union is seeking to capitalise on the advantages the private sector, through collaboration with the public sector, has to offer. Primarily because of the growing gap between ambitious development goals and available resources, the EU is encouraging and promoting PPP as a form of collaboration between public administration and the economy, foremost with regard to major infrastructure projects and to the provision of public services.

The advantages that PPP provides relate foremost to cost savings (faster execution and lower operational costs), an optimum allocation of risks, product and service promotion, etc. However, these projects also have disadvantages that are reflected in the high fixed price of the entire project (mostly as a result of protracted and costly preparation of bids and negotiations, the need for additional knowledge and financial resources, a long period needed for loan servicing and generating revenue, large individual and costly risks, and a project's complex financial structure), the loss of the public sector's control over the provision of services, the lack of competition, the possible decline in the reliability and quality of services, and a price increase for end consumers.

Drawing from experience not just in Europe, but from around the world, an entire array of various PPP models can be distinguished, ranging from the simplest such as a long-term management contract to the more complex such as privatisation. Also, public-private collaboration in tourism today is mostly being developed in the fields of marketing and promotion, but also in many other fields such as in infrastructure, product development, education, financing and investment, environmental protection, and the cultural and historical heritage.

The Destination Management Network (DMN), a model of quality management in Croatian tourism, assumes public-private sector cooperation and partnership and represents a so-called learning organisation.

Because of the insufficiency of knowledge and practice, it is considered that Croatia should re-examine its needs and development goals, take a critical look at world

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<sup>26</sup> Ibid

experiences, and parallel to this, define a comprehensive legal and business framework, and identify criteria for implementing various PPP forms.

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