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## **PUBLIC AND PRIVATE SECTOR SYNERGY IN TOURISM AND PARTNERSHIP MODELS\***

Tourist industry is characterised by highly competitive environment in which private sector is able to achieve many, above all financial effects. However, contemporary understanding of development includes active policy of the government, its departments and institutions. In terms of tourism development, the role of government is even more highlighted because of the total effects that tourism has on national economy and environment. In such a context, all tourism stakeholders have to act together in order to achieve economically efficient and sustainable tourism development at the same time. The responsibility for the tourism development lies on close synergy of public and private sectors' interests.

The aim of this paper is to examine the importance of public-private partnerships in tourism in Croatia. The paper consists of two chapters. The first chapter *Public and Private Sector Synergy in Tourism* elaborates contemporary theory and trends of public-private partnerships in tourism. It also suggests main reasons of both sectors for partnering and examines the four main areas of possible public-private sector cooperation in tourism: improving the attractiveness of a destination, improving marketing efficiency, improving productivity and improving overall management of the tourism system.

The second chapter *Contractual Forms of Public-Private Partnerships* examines the legal framework and models of public-private partnerships in Croatia. It also offers some examples of public-private partnerships in tourism with the review of the activities associated with the realization of those projects.

Key words: public and private sector, synergy, tourism, public-private partnership

### **INTRODUCTION**

Concerning tourism, in the early years of tourism development, governments have traditionally played a pioneering role in providing general preconditions for the tourism development such as basic infrastructure and facilities necessary to open up

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areas of the country to tourism and to attract growth. Also, the governments have traditionally played a key role in the promotion of their countries as tourist destinations on the global tourist market.

However, the growth of tourism enhanced its potential commercial value and private sector became more and more interested in the business opportunities it offered. What is more, there were increasing signs of states' disengagement from tourism over the last fifteen years in favour of the private sector.<sup>1</sup>

Such a scenario led to an opposite extreme – tourist industry is characterised by highly competitive environment in which private sector is able to achieve many, above all, financial effects. For that reason, until recently, the travel and tourism industry has been resistant in establishing the public-private partnerships.

However, contemporary understanding of development includes active policy of the government, its departments and institutions. Nowadays governments, provincial/state and local authorities see their role more as that of facilitators, or stimulators of private sector investment through fiscal and other incentives. Traditional government role is still important in developing and transition countries, especially in terms of primary tourism development due to overall and particular effects (economical, environmental, social ...) that tourism has on national economy development and environment. Simultaneously, most private tourism companies accept the fact that their long-term investment goals could only be achieved if they support range of activities which, while not their core business, are essential to the success of their overall business.

In such a context, the responsibility for tourism development lies on close synergy of public and private sectors' interests.

## **1. PUBLIC AND PRIVATE SECTORS' SYNERGY IN TOURISM**

Synergy means 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 synergy between public and private sector needs to achieve such a result that could not have been achieved without it. The public-private partnership is one model of such a synergy.

### **1.1. Public-private partnership – definition and motives**

Public-private partnerships (PPPs) are essentially partnerships between public sector organizations and private sector investors and business for the purpose of designing, planning, financing, constructing, providing and/or operating infrastructure, facilities or related services.<sup>2</sup> Private financing of public projects is not considered a public-private partnership.

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<sup>1</sup> WTOBC, *Public-private Sector Cooperation: Enhancing Tourism Competitiveness*, WTO Business Council, Madrid, 2000., p. 10.

<sup>2</sup> Kim, D.K., Kim C. and Lee T.H., *Public and Private Partnership for Facilitating Tourism Investment in the APEC Region*, APEC Tourism Working Group (TWG) & Ministry of culture and Tourism, Republic of Korea, 2005., p. 9.

Public-private partnership represents commercial cooperation between public institution and private partner where private partner:

1. gets public assets for commercial use, and/or
2. takes over some significant financial, technical and operative risks in relation with providing some public functions and/or the use of public sector assets, and
3. benefits from providing some public functions and/or the use of public sector assets, with the condition to maximize economical, financial and other benefits for public sector.

The key motivator to partner is that all partners, whether from the private or the public sector will benefit from the partnership. The main motives of the public sector for being partners with the private sector are:<sup>3</sup>

- insufficient financial sources for new investment projects – private sector offers access to new sources of capital;
- accelerated development and modernization of infrastructure assets – with new partner (capital) it is possible to plan and realize new investments faster than depending only on the public budget;
- more efficient realization of projects – private capital is expensive and private partner wants to realize the project as soon as possible while minimizing the costs of development;
- access to skills – private sector is market oriented and accordingly more innovative than the public sector;
- risks and responsibilities sharing – private sector is managing risks better than the public sector (especially market risks);
- better asset utilization, continuity in providing the services, maintenance or improvement of service levels and better value for money for the customers.
- The main motives for the private sector to partner with the public sector are:<sup>4</sup>
- more business opportunities – public-private partnership offers more business opportunities to the private sector which means that private partner could employ new employees, new assets and equipment;
- certain profit during the partnership – profit for private partner could be slightly smaller than it would be on an open market but is regular over a long period of time.

In order to establish any successful partnership, it is necessary to recognize the partnership as a business relation wherein partners share the risks, rewards and responsibility for the success or failure of the initiative. The basis of the partnership lies in the partners sharing both risk and return.<sup>5</sup>

In the last fifteen years, public-private partnership became a world trend resulting in numerous projects. In Great Britain, the Government introduced the partnership model in 1992 for the purpose of private financing of public projects,

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<sup>3</sup>Bajrambašić, I. M., *Achievements in finance of infrastructure: Public and Private Partnership, Private Finance Initiative*, Sarajevo, 2004., p. 67.

<sup>4</sup>Ibid., p. 68-69.

<sup>5</sup>CTO, WTO, WTOBC, *Co-operation and Partnerships in Tourism: A Global Perspective*, WTO, Madrid, 2004., p. 2.

enhancement of overall value of already built public assets and more rationale use of financial sources collected from tax payers.<sup>6</sup> Public-private sector entered the fields of power-supply, transportation, telecommunications, public utilities, sport facilities, education facilities including student accommodation facilities, hospitals, government office buildings and tourism too.

### 1.2. Public-private partnership in tourism – world experiences

Sustainable development of tourism and its economical, social, ecological and development aspects, reducing of poverty, cultural development and social equity are highly based on dialogue and partnership between public and private sector.

WTO highlights the importance of partnership in tourism in the study "Towards New Forms of Public Private Partnership" where analyses the changes of role, structure and activities of public and private sector.<sup>7</sup> In the study "Tourism and Local Agenda 21: The Role of Local Authorities in Sustainable Tourism" UN highlights the importance of stimulation, creation and maintaining of partnerships between public and private sector as the base of sustainable tourist destination development.<sup>8</sup>

World experiences emphasize several areas of the most intensive public and private cooperation. Marketing is the most common area in which public-private partnership in tourism has developed until now. Also, the partnership often takes the form of joint promotions on global tourism market. Product development, human resources - education and training, technology and operations, advocacy, financing and investments are some other areas in which partnerships could have significant contribution to tourism growth and an increasingly competitive industry.<sup>9</sup> There is also a growing importance of partnership in dealing with safety and security concerns and managing various public-owned operations such as national heritage buildings, airports or public utilities.

Selected case studies and findings of the Study, undertaken by the WTOBC shows that public-private partnership in tourism is fairly widespread around the world and reached not only developed countries but even countries in the early stages of tourism development.<sup>10</sup>

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<sup>6</sup> Construction Industry Council, *Constructors' Key Guide to PFI*, Construction Industry Council, London, 1998.

<sup>7</sup> WTO, *Towards New Forms of Public Private Partnership*, World Tourism Organisation, 1997.

<sup>8</sup> UNEP/ICLEI, *Tourism and Local Agenda 21: The Role of Local Authorities in Sustainable Tourism*, United Nation Publication, 2003.

<sup>9</sup> WTOBC, *Public-private Sector Cooperation: Enhancing Tourism Competitiveness*, WTO Business Council, Madrid, 2000., p. 30.; Kim, D.K., Kim C. and Lee T.H., *Public and Private Partnership for Facilitating Tourism Investment in the APEC Region*, APEC Tourism Working Group (TWG) & Ministry of culture and Tourism, Republic of Korea, 2005., p. 52.

<sup>10</sup> WTOBC, *Public-private Sector Cooperation: Enhancing Tourism Competitiveness*, WTO Business Council, Madrid, 2000. The study was undertaken between April and September 2000, with a view to assessing the level of public-private co-operation around the world and its impact on tourism competitiveness. A total of 140 case studies were received in response to search for good examples of public-private co-operation in all areas of tourism.

Partnerships in fact form for a variety of reasons. Some typical partnership objectives include:<sup>11</sup>

**Products**

- Enhance and preserve resources
- Set quality standards
- Develop attractions, theme parks & accommodation
- Provide technical support for innovative product development programs
- Contribute to the economic wealth of the community
- Create sustainable development of tourism sector
- Overcome trade and investment barriers
- Protect consumers
- Deal with competition

**Research and Technology**

- Provide research and measurement methodologies
- Implement Tourism Satellite Accounts
- Enhance technological innovation and application

**Human Resources**

- Set service and quality standards
- Provide training and education programs
- Improve productivity and innovation

**Marketing and Sales**

- Improve destination image
- Improve marketing efficiency
- Improve market coverage and reach
- Provide support for electronic marketing and distribution, including Internet
- Provide support for participation at trade shows
- Harness power of co-op marketing programs
- Access new markets

**Infrastructure**

- Improve roads, transport infrastructure & basic services
- Provide impetus for intermodal transport
- Improve public health and sanitation
- Improve safety and security
- Enhance telecommunications system

**Financing**

- Obtain investment and funding
- Leverage public investment
- Obtain start-up financing
- Improve yield

The same Study identifies four main areas of possible public-private sector cooperation in tourism:<sup>12</sup>

- improving the attractiveness of a destination,
- improving marketing efficiency,
- improving productivity and
- improving overall management of the tourism system.

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<sup>11</sup> CTO, WTO, WTOBC, *Co-operation and Partnerships in Tourism: A Global Perspective*, WTO, Madrid, 2004., p. 1.

<sup>12</sup> WTOBC, *Public-private Sector Cooperation: Enhancing Tourism Competitiveness*, WTO Business Council, Madrid, 2000., p. 58.

### 1.2.1. Partnership for improving the attractiveness of a destination

The attractiveness of a destination is the result of comparison between the perceived value of a destination and the efforts tourists have to make in order to visit it. Perceived value of the destination is the sum of positive perceptions regarding the amount and quality of all services and experiences that the tourists will feel while staying at the destination. Perceived efforts are the sum of negative perceptions (trade-offs, inconveniences, discomforts or insecurities) associated with the destination.<sup>13</sup>

The attractiveness of a destination is therefore deciding factor for tourists' loyalty to some tourist destinations. It assumes close cooperation of public sector with the purpose of reducing physical discomforts and insecurities in the destination.

Figure 1. **Value for effort of tourist experience**

<b>WHAT WE GIVE TO TOURIST = VALUE</b>			
<b>Value</b>	Products Services	Diversity of services Quality of services	Experiences Ambience/ Atmosphere
<b>Effort</b>	Price of services Efforts connected with payment	Discomfort Displeasure	Insecurities Inconveniences Other efforts

### **WHAT WE ASK FROM TOURIST = EFFORT**

Source: Huete, L.M., adapted by THR, WTOBC, *Public-private Sector Cooperation: Enhancing Tourism Competitiveness*, WTO Business Council, Madrid, 2000., p. 75.

Improving of the attractiveness and enhancing the value of a destination could be done by some serious work on:

- creation of new attractions and better valorisation of existing attractions,
- services – quality of accommodation services, food & beverage etc.
- better and more various experiences offered to tourist:
  - organization of special manifestations and events with the highlights on autochthonous local identity,
  - cleaner and more arranged tourist destination.

Improving of the attractiveness of a destination and reducing the efforts for tourists could be done by some serious work on:

- necessity of making available accurate and precise information about destination;
- reducing of non-safety related with all kinds of traffic (terrestrial, air ...)
- reducing the risks of thefts, various diseases, unpleasant smells etc.;

<sup>13</sup> Ibid., p. 74.

- reducing the commercial insecurity related with many services that are performed without official pricelists,
- reducing the corruption in administrative services and other spheres of the society;
- enhancing the communication considering different cultural, religious and other attitudes.

#### 1.2.2. Partnership for improving marketing efficiency

Capability of all subjects in the destination to adapt to new potential demand and to select new sources of competitive advantages can be induced by adequate marketing strategy. Improving marketing efficiency of tourist destinations could be achieved by:

- adequate planning that enables that some specific objectives will be accepted by both the public and private sector;
- implementation of adequate strategies on the basis of true and reliable information;
- building the system capable to identify new market possibilities and new competitive advantages with the purpose to provide sustainable destination development;
- joint market presentation;
- establishing the efficient sales department that includes system of information, negotiation, reservation and sale with on-line updated data base;
- implementation of an e-business model (Internet, e-marketing) that offers enormous possibilities to public and private sector to cooperate on a destination level and offers significant possibilities for enhancing the operative efficiency of the destination;
- communication strategy and usage of adequate communication techniques (advertising, presentations, e-marketing etc.) in purpose to create a destination brand;
- permanent improvement of the quality of products and services, new and genuine designs (*made in Croatia* etc.).

#### 1.2.3. Partnership for improving productivity

Public-private partnership for improving a destination productivity is oriented to several activities:

- increasing the capital value of all tourist resources and attractions;
- promoting the profitability of investments;
- establishing such conditions that can attract the best human resources – policy of salaries, motivation and stimulation of the employees' creativeness, life long education, permanent adjustment to new technologies etc.;
- reorganization of overall work and introducing of global work standards.

Tourist destination will remain really competitive only if investments are profitable, salaries are reasonable and the capital value of its resources and attractions

increases over time. Capital value of the destination is directly linked to the way destination is managed.<sup>14</sup> That means it is linked with protection, maintaining and improving of destination resources and tourism attractions but also with increasing the overall tourism capacity that has to be planned and agreed in cooperation with all stakeholders. Productivity of human resources is closely connected to the efficiency of new technologies used in business process.

It could be concluded that close cooperation between public and private sector is highly important for improving the productivity of the destination, management of tourist resources, investments that rise competitive level of the destination and availability of human resources capable to implement new and more productive technologies.

#### 1.2.4. Partnership for improving overall management of the tourism system

Tourism and hospitality sector in Croatia can be considered as a system and therefore it consists of many interconnected subsystems and elements, the primary subsystems being those of supply, organization and management. The system or management matrix of tourism sector consists of three main levels:<sup>15</sup>

- national level – macro,
- regional and destination level – mezzo,
- tourist subjects (enterprises) – micro.

The aim of this sector's development is the economic optimisation on all management levels (macro, mezzo and micro level), improving the efficiency of all economic subjects and enabling the perspective future development. Efficient management of the system will determinate the rhythm and potential growth of the system as a whole and each destination that makes that system. Moreover, efficient management of the system as a whole will enable destinations' capability to attract new investments (greenfield investments) and capability to create the feeling of welfare among local residents and its guests, which will provide sustainable development of the system as well.

In strategic context, it is necessary to establish the well organized information system and adequate system of monitoring which will enable, on the basis of many collected qualitative and quantitative indicators related to growth, productivity, welfare and tourist satisfaction, permanent tracking and controlling of system competitiveness. In other words, it is necessary to manage the tourism system and to balance the interests of all stakeholders while the information system represents the basis for the successful management of tourism system development as any other system development.

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<sup>14</sup> Ibid., p. 78.

<sup>15</sup> Cetinski, V., *Strateško upravljanje razvojem turizma i organizacijska dinamika*, Fakultet za turistički i hotelski menadžment Opatija, Opatija, 2005., p. 50.

## 2. CONTRACTUAL FORMS OF PUBLIC-PRIVATE PARTNERSHIPS

Many European countries have introduced some special regulations and guidelines that give legal framework for the realization of public-private partnership projects. European Commission (EC) highlights that public-private partnership is not a universal solution and that every project, including public-private, needs the objective valuation of its results – whether it will bring some additional benefits compared to other ‘traditional’ forms of contracts.

The basic attitudes of the European Commission regarding public-private partnerships are contained in its Green Paper.<sup>16</sup> It makes a distinction between contractual and institutional forms of public-private partnerships. In contractual forms, partnerships between public and private partners are based on strictly contractual relations, while institutional forms include the cooperation between public and private partners in forms of specially formed institutional bodies.

There are several strictly contractual forms of public-private partnerships in European Union (EU) that differ in four basic elements of partnership – building, managing, financing and ownership:

1. Private finance initiative (PFI) – private partner projects, finances, builds, maintains and manages the property for the public partner. The public partner, not the final users of the project or property, is paying the fee to private partner. That fee could be fixed or calculated on the basis of the availability of the property and included services.
2. Concession – public partner assigns the exploitation right of some property or service to private partner which invests its own finances. That model is characterised with a direct relationship between private partner and final users. Private partners instead of public ones (but under its control) supply the final users with services and final users pay the fee to private partner. Sometimes, public partner or other public authorities makes some additional subsidy to private partner.
3. Lease/Purchase – a Lease/Purchase is an instalment-purchase contract. Under this model, the private sector finances and builds a new facility, which it then leases to a public agency. The public agency makes scheduled lease payments to the private party. The public agency accrues equity in the facility with each payment. At the end of the lease term, the public agency owns the facility or purchases it at the cost of any remaining unpaid balance in the lease.
4. BOT (Build-Operate-Transfer) – private partner builds a facility according to the specifications agreed by the public agency, operates a facility and then transfers the facility to an agency at the end of the specified period of time.
5. BOOT (Build-Own-Operate-Transfer) – private partner gets the franchise to finance, design, build and operate the public property and to collect the fees, but after that transfers the ownership to a public partner.
6. BBO (Buy-Build-Operate) – form of asset sale that includes a rehabilitation or expansion of an existing facility. The government sells

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<sup>16</sup> *Green Paper*, European Commission, COM (2004) 327.

the asset to the private sector entity, which then makes the improvements necessary to operate the facility in a profitable manner.

7. BOO schema (Build Own Operate) – the contractor constructs and operates a facility without transferring the ownership to the public sector. Legal title to the facility remains in the private sector, and there is no obligation for the public sector to purchase the facility or take title. A BOO transaction may qualify for tax-exempt status as a service contract if all Internal Revenue Code requirements are satisfied.

Other common forms of public-private partnership include Operations & Maintenance (O&M), Design-Build (DB), Turnkey Operation, Wrap Around Addition, Temporary Privatization, Lease-Develop-Operate (LDO) or Buy-Develop-Operate (BDO), Built-Transfer-Operate (BTO) etc.<sup>17</sup>

One of the most used public-private partnership models is BOT model.

### **2.1. BOT (Build-Operate-Transfer) model**

There are some general characteristics of that model. Private partner builds a facility according to the specifications agreed by the public agency, operates a facility for a specified time period under a contract or a franchise agreement with the agency, and then transfers the facility to the agency at the end of the specified period of time. In the end of the franchise period, the public partner can assume operating responsibility for the facility, contract the operations to the original franchise holder, or award a new contract or franchise to a new private partner.

Realization of BOT model includes many stakeholders having different objectives and interests that could be divided in four basic groups:<sup>18</sup>

- public partners (governments, local authorities) – ensure the continuity of supplying the services, transfer of risks to private partner, infrastructure development, environment protection, better services, price control etc.<sup>19</sup>
- private partners – engagement of its own equipment and employees (know-how) over the long period of time, ensuring the long-term business with the reliable partner (public partner), making significant profit over extended period of time etc.<sup>20</sup>
- creditors (banks and investors) – interests, publicity;
- final users – added value for money.

In most cases, the private partner will also provide some, or all, of the financing for the facility. Sometimes the external creditors (banks) will be part of the model but infrastructure facilities couldn't be a guarantee for the return of the credit. So the length of the contract or franchise and the net cash flow of the project have to be

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<sup>17</sup> Grimsey, D. and Lewis, M.K., *The Economics of Public Private Partnerships*, International Library of Critical Writings in Economics 183, 2005., p. xix-xx, GAO, *Public-Private Partnerships: Terms Related to Building and Facility Partnerships*, United States Government Accounting Office, Washington D.C., Kim, Kim and Lee, *Public and Private Partnership for Facilitating Tourism Investment in the APEC Region*, APEC Tourism Working Group (TWG) & Ministry of culture and Tourism, Republic of Korea, 2005., p. 9., Pogarčić, Z., "Javno-privatno ortaštvo-partnerstvo", *Računovodstvo, revizija i financije*, No. 10/2006. and Juričić, D. and Veljković, D., *Financiranje kapitalnih projekata lokalnoga javnog sektora*, Faculty of Economics Rijeka and Vitagraf, Rijeka, 2001.

<sup>18</sup> Bajrambašić, I. M., *Dostignuća u finansiranju infrastrukture*, Grafika Šaran, Sarajevo, 2003, p. 60.

<sup>19</sup> Perić, J., *Partnerstvo javnog i privatnog sektora*, Fintrade&tours d.o.o., Rijeka, 2006, p. 9.

<sup>20</sup> Ibid., p. 92.

sufficient to please the creditors and to enable the private partner to realize a reasonable return on its investment through user charges. The project is evaluated strictly on its commercial value and is financed only if net revenues are sufficient to justify the total investment. Sometimes, when the net revenues are not sufficient, public partner or other public authorities could make the project more attractive to private partners by subsidizing the project.

## 2.2. Croatian experiences with public-private partnerships

With the purpose to make the implementation of public and private sector cooperation easier, the Croatian government proclaimed *Guidelines for the implementation of contractual forms of Public-private partnership*<sup>21</sup> in 2006. Introducing the Guidelines, Croatian Premier Ivo Sanader told public-private partnerships could be the Croatian “new deal” that could enable finishing the infrastructure facilities in four- time-shorter period of time and move overall Croatian economy.<sup>22</sup>

In accordance with the Guidelines, the public partners in public-private partnerships could be Republic of Croatia (authorized Ministries of the Government), local and/or regional authorities, public institutions and business subjects in major ownership of the Republic of Croatia and local and/or regional authorities. Participation of the public partners could be in forms of material and nonmaterial equity (donation, lease, concession, right of enjoyment/build, ownership transfer of some facility or project documentation that private partner accept) and what is more often in the form of regular fee paid to private partner in favour for its services.

Moreover, in the spirit of Guidelines, traditional service provision contracts, outsourcing, new joint-stock company, Joint Venture, financial lease contracts (when public sector pays the fee for the use of the privately owned facility), partial or complete privatization of public assets are not considered as contractual forms of public-private partnerships.

Croatian Government encourages implementation of public-private partnerships in Croatia through raising the level of knowledge (seminars, workshops etc.) and dealing with the legal framework that covers the public and private sectors' partnerships and coordinating it with the EU legislation (The Law of the Ownership and Other Rights<sup>23</sup>, Concessions Law<sup>24</sup>, Public Procurement Law<sup>25</sup>). Currently there are no legal obstructions in Croatia for the implementation of public-private partnerships. First public-private partnership projects (PFI model) in Croatia were realized in the construction of public facilities: Elementary school and Sports hall in Varaždinska County and High school and Sports hall in Koprivnica. The both contracts were made for the period of 25 years. The examples of Concession model were realized for the infrastructure projects: Water Purifying Unit in Zagreb (25 years) and Zagreb–Macelj Motorway as a part of Trans-European road network (25 years). BOT model in Croatia

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<sup>21</sup> That Guidelines relate only to contractual forms of public-private partnerships. Smjernice za primjenu ugovornih oblika javno-privatnog partnerstva (JPP), NN 98/06

<sup>22</sup> “Projekt javno- privatnog partnerstva kao hrvatski «new deal»”, *Vjesnik On – Line*, 8<sup>th</sup> June 2006.

<sup>23</sup> Zakon o vlasništvu i drugim stvarnim pravima, NN91/96, NN 73/2000, NN 114/2001, NN 79/2006, NN 141/2006

<sup>24</sup> Zakon o koncesijama, NN 89/92.

<sup>25</sup> Zakon o javnoj nabavi, NN 117/2001, NN 197/2003, NN 92/2005

is more known as “construction agreement through concession”. In such a context, the Guidelines also highlight the role of concessions where private partner according to received permission (concession) builds and operates the facility of public interest on public property.<sup>26</sup>

In tourism, there are some considerations that public-private partnerships could enable faster development and management of tourist facilities. Those facilities could have great influence on raising the quality of the tourism services and the destination as a whole, increasing the number of satisfied tourists, extension of the tourist activities through whole year, opening of new jobs and raising the employment rate. Moreover, private financing, innovations and know-how in management of the tourism public-private partnership projects could revive attractive but neglected and insufficiently exploited destinations. All together could contribute to the increase of the income and standard of living of the local residents and revival and initiating of other economic activities directly or indirectly related to tourism.

### **2.3. Case Study – Realization of tourist public-private partnership projects in the City of Šibenik according to BOT model**

With the purpose to develop a high quality tourist facilities, tourist attractions and other activities (sports, cultural ...), the City of Šibenik plans to choose private partners which will realize seven tourist projects according the BOT principles:

1. greenfield project Obonjan Riviera on the Obonjan island – integrated tourist destination of approx. 550.000 m<sup>2</sup>: hotels (4\*), tourist village with villas (4\*) and marina (maximum 200 berths) – all together maximum 3.000 beds, and other sports and recreational activities;
2. greenfield project Hotel Šibenik on the Mandalina peninsula – total area of 56.000 m<sup>2</sup>: luxury hotel with 400 beds (4\*), marina with 400 berths, commercial, sports and other activities;
3. Sports complex Šibenik – total area of approx. 240.000 m<sup>2</sup>: complex with outdoor and indoor sports and recreational activities, accommodation, commercial and entertainment programs;
4. four City fortresses (St. Nikola, St. Mihovil, St. Ivan and Šubićevac) – total area of approx. 28.000 m<sup>2</sup>: small exclusive hotel, cultural attractions and belvedere.

In that context, the City of Šibenik prepared Tender documents and announced the Call for realization of tourist projects in the City of Šibenik according to BOT model. Potential partners/investors were invited to tender for one or more projects till the 17<sup>th</sup> of November 2006. According to the Tender, private partners for each project will be selected through qualification and competition process. Qualification process is optional and depends on the expressed interest of private partners.<sup>27</sup> Competitive process is obligatory part of the tender but depends on the execution of the qualification procedure. Both processes will be executed only if the potential private partners express a satisfactory interest for the projects.

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<sup>26</sup> The concession agreement determines rights and responsibilities of contract parties and project status and it is the basis for all other agreements between public and private partners in BOT model. Smjernice za primjenu ugovornih oblika javno-privatnog partnerstva (JPP), NN 98/06

<sup>27</sup> Participation in the procedure of expressing the interest was not a necessary condition for participation in qualification and/or competitive procedures.

Total of 24 private domestic and foreign companies expressed their interest for the realization of those public-private partnership tourist projects and the City of Šibenik decided to start a parallel tender process for two projects: Obonjan Riviera and Hotel Šibenik according to the following schedule:<sup>28</sup>

- qualification process (selection of possible competitors) should be finished till the 23<sup>rd</sup> of February 2007.
- competitive process (collection of submitted offers) should be finished till the end of April 2007.
- evaluation and selection of the most favourable tenderer should be finished till the end of May 2007.
- negotiation and contracting procedures with the most favourable tenderer should be finished till the end of July 2007.
- after the contract is signed private partners could start with realization of proposed tourist projects.

The contract will regulate rights and responsibilities of public and private partners as following:

- public sector will give the concession (or construction right) to private partner that will enable private partner for the commercial exploit of the public land (property);
- private partner will be responsible for projecting, designing, financing, constructing and operating the facilities and activities within the project;
- private partner will use its own funds and guarantee for the realization of the project without public partner participation;
- private partner will collect the fees from final users in exchange for supplied services;
- private partner will pay the monthly or annual fee for assigned concession (or construction right) to public partner;
- construction right is transferable and it could be burdened with mortgage;
- concession (or construction right) will be made effective on the date when the contract is signed, and the duration of the contract is limited to 50 years;
- public partner will remain the owner of the land (property) for the whole period of the contract's validity. On the contrary, private partner will remain the owner of the facility but will have rights and responsibilities of the beneficiary of the land (property);
- private partner will return the land (property) in possession and facilities in possession and ownership to public partner upon termination of the contract.

Private partner could be a company or pool which will take the responsibility for the realization of particular project according to the above-mentioned principles. Evaluation and selection of the most favourable private partner (tenderer) is carried out on following criteria:

- complete correspondence with the Tender documents,

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<sup>28</sup> Additionally, during the 2007 it is expected to start with the process of selection of private partner for Sports complex Šibenik and one City fortress at least.

- financial capability of the private partner,
- technical and technological capability: the experience in the development of various demanding projects, the experience of managing the tourist projects, the experience in the realization of BOT projects, suggested concept for particular project realization and other commercial conditions.

The main advantages for both partners from the aspect of financing and potential risks are:

- there are no initial investments for purchasing the land (property) because private partner pays to public partner only a periodical fee for the assigned concession (construction right),
- public partner has to deal with proprietary and legal risks,
- public and private partner share the risks of issuing the building permit – private partner is responsible for designing and making all the needed building permit documentation while public partner has the responsibility to do everything within its power to get the necessary permissions as soon as possible.

Regarding the geostrategic and traffic position of the City of Šibenik and its exceptionally attractive cultural and historical heritage, the realization of the above-mentioned projects will surely have a significant contribution to the overall destination development.

## CONCLUSION

The responsibility for sustainable tourism development from its economical, social, cultural and ecological aspects lies on the close synergy and dialogue between public and private sector. Only if all tourism stakeholders are joined together it is possible to achieve economically efficient and sustainable tourism development at the same time.

World experiences emphasize marketing and promotions as the most common areas in which public-private partnerships in tourism have developed until now. Product development, human resources including education and training, technology and operations, advocacy, safety and security, financing and investments are some other partnership areas in tourism that could stimulate qualitative and quantitative aspects of growth. There are four main areas that could be identified of possible public-private sector cooperation in tourism:

- improving the attractiveness of a destination,
- improving marketing efficiency,
- improving productivity and
- improving overall management of the tourism system.

In relation to Croatian efforts to become full member of the European Union, public-private partnerships can contribute to further market stabilization and privatisation of public properties and have direct impact on the increase of foreign direct investments. Croatian Government encourages implementation of public-private partnerships in Croatia through raising the level of knowledge and dealing with the legal framework that covers public and private sector partnerships in coordination with the EU legislation.

Public-private partnerships could enhance the quality and efficiency of services, enable transparent costs of ownership (including operations and maintenance) and long-term savings for final users. In addition, there are some considerations that public-private partnerships in tourism could enable faster development and management of the destinations, open new jobs, increase the income and standard of living of the local residents and stimulate other economic activities directly or indirectly related to tourism.

Finally, all tourist stakeholders have to take into consideration that public-private partnership projects are not universal solution and that those could be implemented only if bring some additional benefits compared to other "traditional" forms of contracts.

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