Public- Private Partnerships in Southeastern Europe: The case of Croatia

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Abstract

This paper aims to define Public Private Partnerships (PPPs) that are considered as a major approach in delivering public infrastructure projects in recent years. The paper analyses PPPs in Southeastern Europe, particularly in Croatia, describing the projects that have been achieved and the efforts of governments to promote the PPPs as alternative means of funding and bearing into consideration the formulation of the theoretical framework of PPP. The paper concludes that although the need for infrastructural projects in Croatia is huge, however the number of projects proposed are confined, according the Agency for PPPs for the approved PPP projects

Keywords: Public – private partnership, EU, Croatia, Law, projects

Jel Codes: R50, R58, 052

1. Introduction

A crucial role in the growth and competitiveness of the European cities is played by the public-private partnerships (PPPs) that often cooperate in order to materialize various urban development projects, taking into account that the management of urban space includes the aspects of economic and social development, effective re-planning, sustainability and environmental protection (Kalogeropoulou, 2003; Kyvelou and Karaiskou, 2006).

Public Private Partnerships (PPPs) are considered as a major approach in delivering public infrastructure projects and public services in recent years. Mainly the projects that require large up-front investments, such as highways, water and sewer services, bridges, seaports and airports, hospitals, jails and schools are being provided via PPPs (Engel, Galetovic, and Rand 2007). Additional, in local level more frequently PPPs are formed, in context of modern forms of urban governance (Stoker 1998) and the decentralization, a key characteristic of PPPs, according (Mohr 2004). PPPs adopted especially in urban regeneration (Boxmeer and Bechoven 2005), in which context in 1950 private sector developers and local government were involved in joint ventures for downtown redevelopment, while the1980s development corporations have worked with individual property developers on specific projects such as Battery Park City, the redevelopment of Times Square, Boston Housing Partnership, Cleveland Tomorrow, Rebuild LA, Dev Co New Jersey (Grimsey and Lewis 2004).

In the last fifteen years different levels of government (local, national, international) across the globe have been used different models of PPPs such as PFI, BOT, BOO, BOOT, BLO, DBM etc. in most important infrastructure projects such as toll roads, airports, schools, hospitals, water supply systems and waste water treatment plants (Mohr 2004; Grimsey and Lewis 2004; Engel, Galetovic, and Rand 2007, Peric 2009). PPPs have been criticized such as that are a tentative first step towards full privatisation agreements (Mohr 2004), are particularly malleable as a form of privatization (Savas 2005) or as stated in Broadbent and Laughlin (2003), PPPs are one form of the liberalisation's policy in the way public services are produced and delivered to the public not only by public sector but from both public and private sectors in partnership. Despite these criticisms PPPs have also gain global popularity as a key procurement route in the economic development, in delivering public infrastructure projects and also as a key in their anti-crisis program (Codecasa and Ponzini 2011; EC 2009).

Following the global practice and proved benefits on ongoing PPP projects, countries of the Southeastern Europe have adopted various types of PPPs for the implementation of public infrastructures and services, especially since most of those countries have changed their regime as a result of war or independence. Among the countries in the area, Croatia is a typical example, where in the last decade; we have seen a number of PPP projects, from the transport sector, the social infrastructure sector, to ones in the utilities sector and the tourism and leisure sector. Croatia adopted the Act on Private Public Partnership in October 2008 (the "PPP Act") and in January 2009, a Public Private Partnership Agency (the "PPP Agency") was established with a significant role in the PPP process.

This paper aims to define the meaning PPPs, which are considered as a major approach in delivering public infrastructure projects and public services in recent years, both national and local level, around the world. Furthermore the paper analyses how PPPs applies in Croatia, a country of Southeastern Europe, which only recently became the 28th member of the European Union, but which since 1995 used first PPPs (especially BOT form).

The first section presents the theoretical framework of PPP: the definitions, the reasons for increased use of PPPs by governments in recent decades, and the different views which concerning the efficiency and the viability of PPPs, as presented in the literature. The European Commission's actions to promote PPPs, as a means for the implementation infrastructure and services but also as a part of the anti-crisis program described in second section, which additional presents the evolution of PPPs in Europe, especially in South East Europe. The third section presents the implementation of PPPs in Croatia: particular refers the institutional framework in the country and describes indicative projects, which have been implemented through of one form of PPPs. The last section gives the conclusions of this paper.

2. Display of Public – Private Partnerships

Public infrastructure development (roads, railways, airports, ports, telecommunications etc.) and public services (health - welfare, education, security, electricity networks etc) are a key component of any effort for development and a major measure of a country or a region to be appealing but one of government's main activities (IFM 2004; Grimsey and Lewis 2004; Akitoby, Hemming and Schwartz 2007; Vining and Boardman 2008; Metaxas 2010). Therefore the combined development as a necessary means of operating and evolving a society should be the top priority for governments, since their absence can create huge costs for the society and because of the lower productivity and competitiveness that come as a result (Posner, Ryu and Tkachenko 2009).

According to a study published in 2007 by Deloitte, titled «Closing the Infrastructure Gap: The Role of Public-Private Partnerships»[1], the shortage of public infrastructure (roads and bridges to schools and hospitals) emerges very strongly around the world. On the other hand the government not able to respond to ever increasing needs for new infrastructure and maintenance of existing through traditional (only public) financing methods. The same study also highlights the need to shift to the private sector in order to cover the shortfall in infrastructure combine with other advantages offered by the functioning of the private sector (efficiency, expertise, etc). While private firms have perennially been engaged in specific phases of traditional capital construction and servicing, public private partnerships constitute a different tool to finance and deliver infrastructure and other forms of public capital ((Posner, Ryu and Tkachenko 2009).

Throughout recent years, PPPs has become widely accepted way of procuring public buildings and other public facilities both in industrialized countries such as United Sates , the United Kingdom, as in its Private Finance Initiative launched in 1992 and in emerging economies such as Latin America, Eastern Europe, and China during the 1990s, mainly for large-scale projects in transportation (rail systems, highways, subways), medical care, telecommunications, energy, water systems, and even orphan drugs (Maskin and Tirole 2007). Except from the major infrastructure, since the 1950 various forms of PPP have been used at local level for urban regeneration relevant. Battery Park City, the redevelopment of Times Square, Boston Housing Partnership, Cleveland Tomorrow, Rebuild LA, Dev Co New Jersey are some examples of such collaborations (Grimsey and Lewis 2004).

The PPP are shown in the literature as a result of the 'New Public Management (NPM)' or 'Managerialism approach' (Mohr 2004). Privatisation, and PPP, fall within this NPM framework as alternative service delivery arrangements to traditional public procurement (OECD 1993). PPP is a common idea and is similar to other new ideas such as governance, subsidiary, institutional design, upgrade, etc, which represent element of modern public administration and good governance (Sedjari 2004; Broadbent and Laughlin 2003), *'where the state is an actor collaborating with other actors (private, non-profit organisations) in society'*(Getimis and Marava 2002). The '*PPPs have enjoyed a global resurgence and have become icons of modern public administration'* as emphasizes Hodge and Greve (2009) who consider the PPP as a phenomenon with a set of governance tools rather than a single technique, a managerial tool of public administration order to increase its efficiency (Getimis and Marava 2002).

Furthermore PPPs are one form of policy of liberalization that require less of a role for government and more for the private sector on the grounds that government is inefficient (Miraftab 2004; Broadbent and Laughlin 2003), the State had reached its financial limits as far as the provision of public services (Mohr 2004). Consequently the public sector should not be the sole provider of public services but that private sector firms and communities in partnerships, should take over many responsibilities from the state (Savas 2000; Miraftab 2004; Broadbent and Laughlin 2003).

3. Defining PPPs

PPPs, as an institutional approach, have a long history in local economic development policy (Ward, 1990; Xie and Stough, 2002), with first established in USA in 1970s and later on other countries (Carrol and Steane 2000:38). In addition, European Commission (EC) published two reports dealing with PPPs (*Guidelines on public-private partnerships* and *Resource Book on PPP case studies*, respectively in 2003 and 2004) and a Green Paper in 2004 by which a public consultation was opened (Marra, 2006).

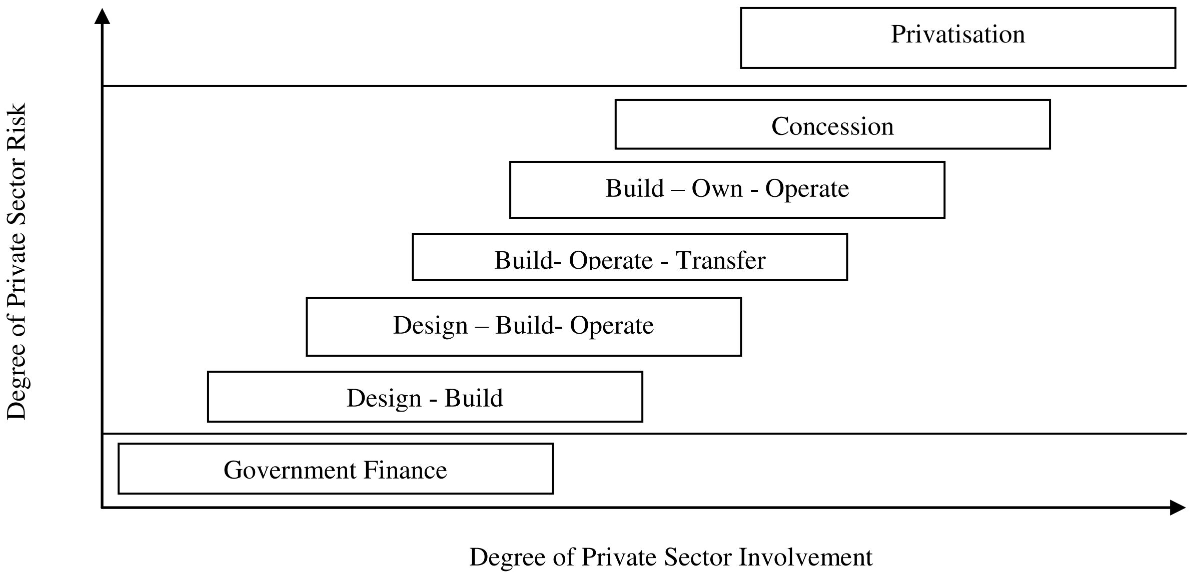
Observing the international literature there isn't a generally accepted definition for the PPPs both by international organizations and academics. For instance the Canadian Council for Public-Private Partnerships definite the PPPs as '*A cooperative venture between the public and private sectors, built on the expertise of each partner, that best meets clearly defined public needs through the appropriate allocation of resources, risks and rewards'* . As '*an arrangement between two or more entities that enables them to public service work cooperatively towards shared or compatible objectives and in which there is some degree of shared authority and responsibility, joint investment of resources, shared risk taking and mutual benefit*', characterized the PPPs by HM Treasury (United Kingdom HM Treasury 1998) while a recent OECD report defined PPPs as '*an agreement between government and one or more private partners according to which the private partners deliver the service in* *such a manner that the service delivery objectives are aligned with the profit objectives of the private partners and where the effectiveness of the alignment depends on a sufficient transfer of risk to the private partner*' (OECD 2009).

As there is currently no overarching European definition of PPP, the term is a sort of "umbrella notion" covering a broad range of agreements between public institutions and the private sector aimed at operating public infrastructures or delivering public services (Renda and Schrefler 2006). The European Community first official text of the PPP Green Paper in 2004[2] emphasizes in Article 1 paragraph 1 for the PPP "*is the term generally refers to forms of cooperation between public authorities and the business community aimed at securing funding, construction, renovation, management or maintenance of an infrastructure or a service".* The cooperation are supported either through a clearly contractual relationship or by the creation of a special mixed capital legal entity –usually referred to as Special Purpose Vehicle (SPV)-, mutually controlled by all actors (European Commission 2004a).

Savas (2005) considers the term as a form of privatization and a useful phrase, a language game, because it avoids the inflammatory effect of "privatization" on those ideologically opposed and defined the PPPs *′′as an arrangement in which a government and a private entity, for-profit or nonprofit, jointly perform or undertake a traditionally public activity''*. In the broadest sense, PPP can be defined as a joint initiative of the public sector and private profit and non-profit sector in which each entity enters with its own resources and participate in planning and decision-making (Perić, Dragičević 2011).

Despite these criticisms in the last fifteen years governments across the globe have been used different models of PPPs such as PFI, BOT, BOO, BOOT, BLO, DBM etc. in most important infrastructure projects such as toll roads, airports, schools, hospitals, water supply systems and waste water treatment plants, in national and local level involved between the Government's finance and privatisation such as illustrates in Figure 1. The choice of form depends on factors such as the government's objectives, the nature of the project, the availability of finance, the expertise that the private sector can bring the ownership, control of the project and the degree of risk transfer (Novak and Koški 2007)**.**

Figure 1: *Scale of Public-private partnerships: Risk Transfer & Private Sector Involvement*



Source: The Canadian Council for PPP
Mirna Novak, Ivo Koški 2007

4. Reasons for Using Public-Private Partnerships

There are various reasons as to why governments might undertake PPPs. PPPs can help governments build capacity, and acquire and maintain assets in environments of shrinking or diminished budgets that make public sector investments difficult, if not impossible, without immediately adding to government borrowing and debt, and can be a source of government revenue, in the sense that '*partnerships may serve as vehicles to introduce tolls or other user-charge systems, while still permitting government to distance itself from these developments'* (Allan 1999). At the same time, better management in the private sector, and its capacity to innovate, can lead to increased efficiency, this in turn should translate into a combination of better quality and lower cost services. They also, allow private companies to gain new business opportunities, share risks with their public partners, and enhance the social and economic environment in which they operate (Marenjak, Čengija and Vucelić 2006).

According to Jamali (2005) reasons for the spread of PPPs are the desire to improve the efficiency of government without full privatization, reduce and stabilize the cost of providing services, and increasing levels of service quality. The budgetary stringencies, the pressure to expand and improve public facilities and services (Lewis and Grimsey 2004), increasing the effectiveness of public sector (McQuaid and Scherrer 2008), the legitimacy but further the desire to ensure life-cycle maintenance and repair of facilities (Little 2011; Vining and Boardman 2008), prompt the governments to turned to the private sector, in order to harness private finance and achieve better value for money.

The Value for money (VfM), which according Allan (1999) *''is established by looking at alternative ways of providing the same services, including, most importantly, a comparison of Net Present Value ("NPV") over the life of the project with the NPV of the traditional procurement process''* and the risk sharing, which should be allocated appropriately between the public and private partners, according to which party can manage the risk better, are the two basic principles of PPP and the mainly reasons of why PPPs used as alternative ways of financing public infrastructure and services, as described in the literature.

The principle of VfM as evaluation of PPP, had been subjected to a wide criticism and in the international literature different views entered, and ultimately it is unclear if the PPP create value for money and if the procedure of risk-sharing laid down in implementing of a project actually based on the capacity of each of the partners in a PPP to manage risks better. Hodge and Grave (2007) present a review of contradictory results regarding PPPs' effectiveness and value-for-money as a way of providing public infrastructure and services worldwide. Among those who evaluate the PPP positively and show that they create Better VfM, mainly through case studies, separate the work of Arthur Andersen & LSE Enterprise which demonstrates that the cost savings are 17%. A review of construction projects by the UK National Audit Office (2000) has shown that on average PPP arrangements were responsible for only 22 percent of cost overruns for the public sector, as opposed to 73 percent under traditional procurement arrangements. The same opinion formulate Savas, Macdonald, Pollit, Grimsey and Lewis, arguing that projects through PPPs delivered faster and also create value for money. On the other hand, are deposited views that claim that PPPs don't obtained value for money and is an expensive way of financing and delivering public services compared to the traditional methods of financing (Bloomfield *et al*, Pollock *et al.,* Audit Commission, Greve, Edwards *et al.* Boardman*et al,* Leviakangas, such highlighted in the paper (Hodge and Grave (2007)

Finally, the different budget treatment of PPPs compared with traditional public financing (Posner, Ryu and Tkachenko 2009) and the accounting standards of each country, which give the possibility in certain cases the PPP costs to be off the budget, ''off the books''; as characteristics indicated explain PPPs growth.

But recording them on the government's balance sheet may have important consequences for government statistics, both for government deficits and for government debt (European PPP Expertise Centre 2011b). Particular, the European Union are guided by a decision of Eurostat (2004) which governs the statistical data on government expenditures that member states must report for purposes of compliance with EU fiscal rules. This guidance recommends that PPP projects be classified as nongovernmental if the private partner bears the construction risk and either the availability or the demand risk (Eurostat 2004). In practice, PPPs have also been used to circumvent government accounting rules by moving borrowing off the public sector balance sheets and instrument for evading fiscal rules and reduced accountability are some of the critics, which received this practice (Hall 2008, 2010; Posner, Ryu and Tkachenko 2009; IFM 2004), although by new international accounting standards, and greater skepticism by some statistical authorities, many PPPs are now recorded ´´on the books´´ (Hall 2010).

As emphasized Akitoby, Hemming and Schwartz (2007) although PPPs offer an increasingly popular vehicle for providing infrastructure, they are no panacea. It is important to ensure that PPPs are carried out for the right reasons (increasing efficiency) rather than being driven by a desire to move expenditure off budget and debt off balance sheet because PPPs restrict the choices of future decision makers (McQuaid and Scherrer 2008).

5. EU promotion and funding of PPPs

The European Commission since 2003 argued that PPPs should be used to develop trans-European networks, and proposed: "to launch a major public consultation regarding the rapid development of various forms of PPP" (EC 2003). In 2004 it issued a green paper on PPPs which aimed: "to facilitate the development of PPPs under conditions of effective competition and legal clarity" (EC 2004a). 'Green Book' recognized considers two types of PPP projects: the contractual and the Institutionalized PPPs, but the term is still not legally defined in community law and continues to be interpreted in the light of community law on public procurement and concessions (Hodge and Grave 2007), however the rules, laws and policies of the EU have a significant effect on the use of PPPs (Hall 2008) and has played a vital role as it places considerable emphasis on the use of PPPs to implement Trans European Networks (TENs) across the transport, energy and telecommunications sectors (Mohr 2004).

The same time adopted the "Guidelines for Successful Public-Private Partnerships", in which the key points that may affect the development of PPPs are highlighted. In February 2008 the European Commission adopted an interpretative communication on institutional PPPs[3]. 'Commission Interpretative Communication on the application of Community law on Public Procurement and Concessions to Institutionalized Public-Private Partnerships (IPPP)', while to tackle the financial and economic crisis the European Commission, published a

Communication "Developing Public Private Partnerships" on November 2009, in which stresses that *"Public Private Partnerships (PPPs) can provide effective ways to deliver infrastructure projects, to provide public services and to innovate more widely in the context of these recovery efforts."* The Communication also covers options for improving the functioning of those Joint Technology Initiatives that are a part-financed by the EU PPP in key research areas [EC COM2009, 615][4].

For the period 2007-2013 the Structural Funds include Initiatives and additional financial resources trying to create leverage private resources through PPPs. Initiatives such as: JESSICA[5], in its context contributions from the European Regional Development Fund (ERDF) invested in public-private partnerships which included in an integrated plan for sustainable urban development and help recycle financial resources to accelerate investment in Europe's urban areas, and JASPERS[6] an institution, the key priority of which is the preparation of PPPs to help ensure that they are compliant and compatible with necessary regulations.

The forthcoming EU2020 strategy again seeks to promote PPPs. According the Communication for ''*Europe 2020''*[7] *strategy, the Europe must do all it can to leverage its financial means, pursue new avenues in using a combination of private and public finance, and in creating innovative instruments to finance the needed investments, including PPPs*. EC 2020, adopts nowadays a horizontal approach including all relevant policies together with a view to a consistent and coordinated response (EC 2011).

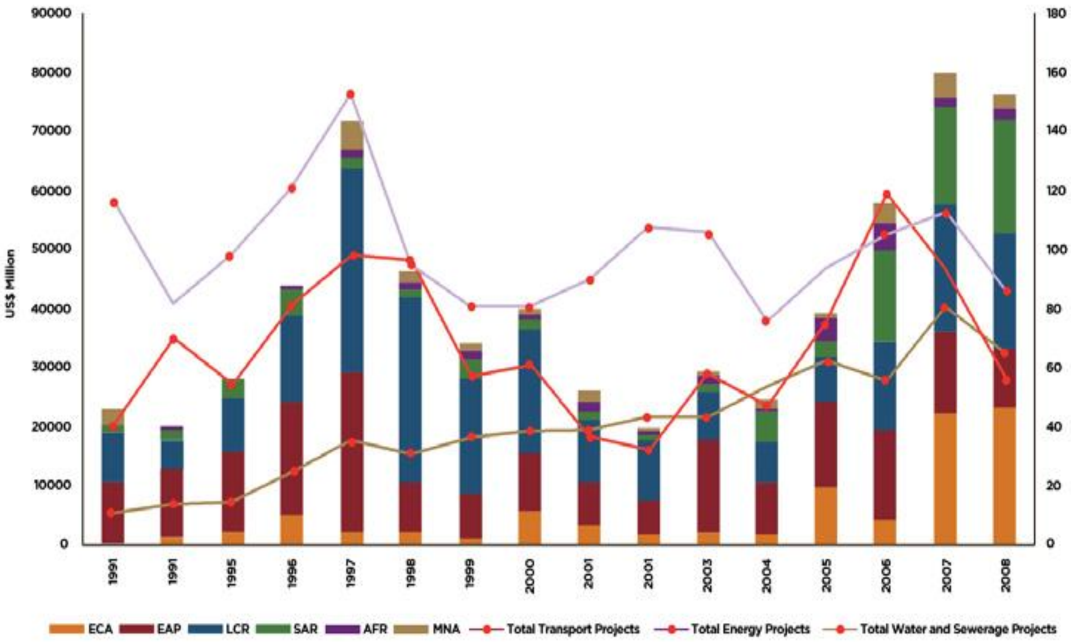
6. Evolution of PPPs

Despite the opposing views and criticisms which have risen for the PPP as a way of financing public infrastructure and services, the interest and the frequency of use has increased all around the world. So, today cited a number of successful and sometimes unsuccessful examples of PPP in various sectors, both in industrialized countries and in emerging economies, depending on their perception for this new form of cooperation and the conditions which prevailing inside of each country.

The UK, which has had the longest experience, with PPPs currently comprising from 10% to 15% of the capital budget in recent years, developed the use of PPPs under the heading of the private finance initiative (PFI) from the 1990s. Other EU countries also began using PPPs, following the Maastricht treaty which limited public borrowing, - in France PPPs comprising 20% and 15% of country' capital budget respectively, Portugal reported the highest payments for PPPs, representing nearly 28% of the national budget (Posner, Ryu and Tkachenko 2009), while countries such as New Zealand, Australia, Latin America, Asia, Africa (and more recently Canada and the USA all began using PPPs in the strict sense as an element of privatisation policy which included concessions in water, IPPs in electricity, and toll roads (Hall 2008).

Cuttaree and Mandri-Perrot (2011), in the report 'Public –Private Partnerships in Europe and Central Asia', among others, presents data for the global PPP investment as reflected in the Figure 2. The most number of PPP projects, according the reports, refer to the sectors such as Transport, Energy, Water and Sewerage. During 2004-08, PPP investment to developing countries increased by 308 percent, compared to an increase of 361 percent from 1994-97, during the Asian crisis. In Latin America and East Asia, during 1997-08, PPP activity became less concentrated, presenting an investment growth between in 2006-2008, includes more projects in water and sanitation. During the 1990s, PPP investment in ECA was limited, but in 2004, investment soared, primarily in highways, and more recently, airports.

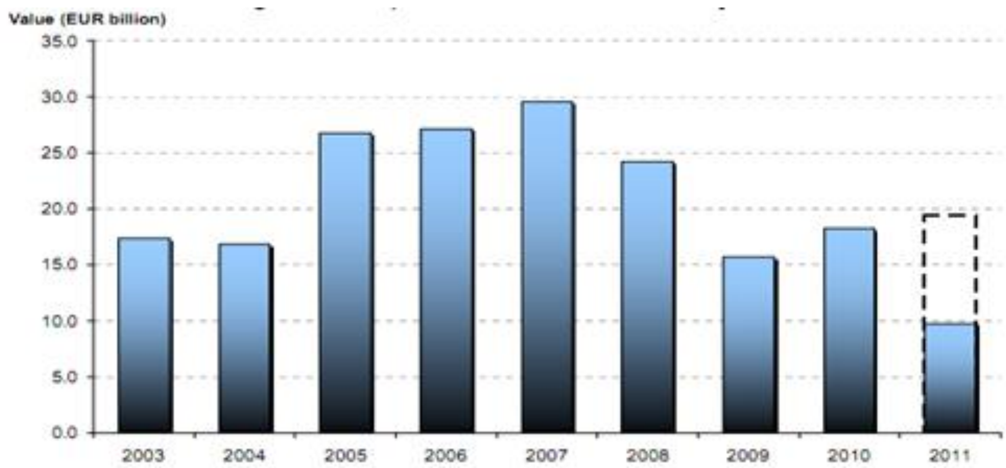
Figure 2:.Global PPP Investment



Source: World Bank (2011)

As far as the status of PPPs in Europe, during the 9th European Week of Regions and Cities in October 2011 in the context of 'OPEN DAYS' in which presented a series of events focusing on PPP, occurred statistics at EU level on PPP , above the value of EUR 5 million and confirm that: over the last 20 years, more than 1,300 PPP contracts were signed in the EU, representing a capital value of more than EUR 250 billion but due to the financial crisis (OPEN DAYS 2011), the value of annual PPP transactions fell between 2007 and 2009 by 50%, as reflected in figure 3 European PPP Expertise Centre. 2011a).

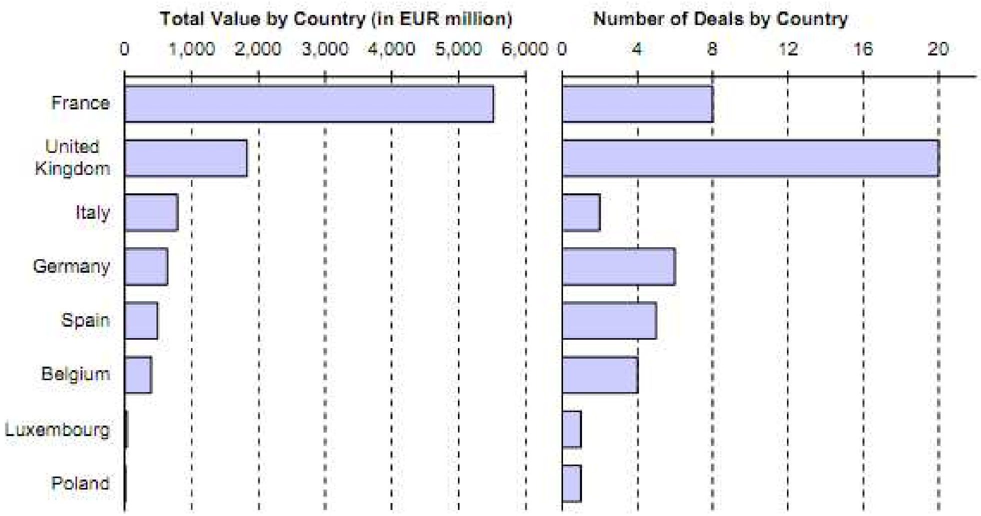
Figure 3: Global PPP Investment



Source: EPEC 2011

The PPP market in EU is dominated by projects implemented in the UK but continues to slowly diversify across countries. Between 1990 and 2009, the UK accounted for some two thirds of all European PPP projects followed by France, which was by far the largest PPP market in value terms, and then Germany, Spain, and Belgium, (OPEN DAYS 2011; European PPP Expertise Centre 2011a) , as shown the figure 4.

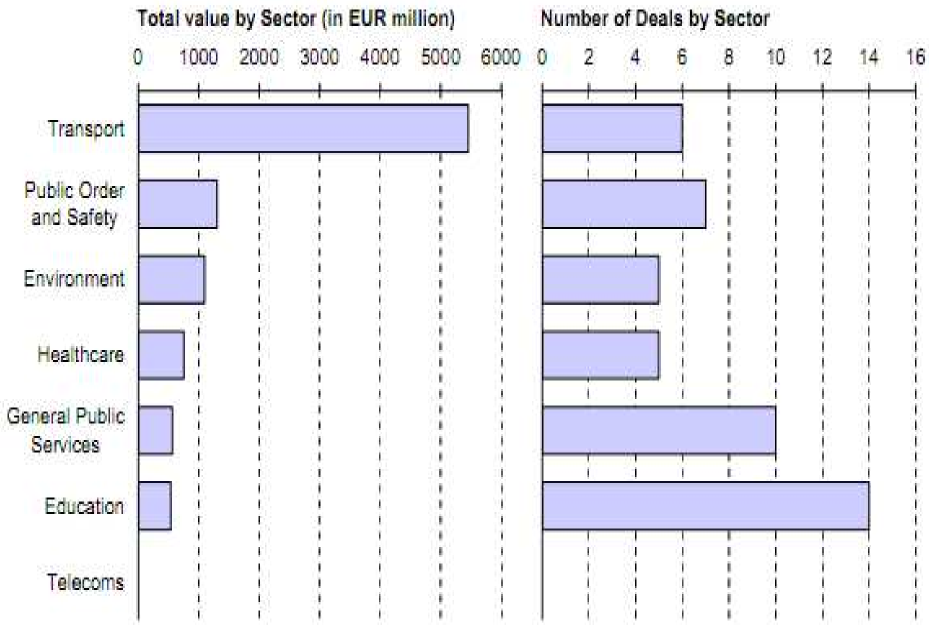
Figure 4: Country breakdown by value and number of transactions (2003-2011)



Source: EPEC 2011

Last years' data indicate that the number of new PPPs has developed from the traditional transport sector to investments in education, health and environment while the value remains dominated by transport projects as shown the figure 5. Diversification trends can be observed across countries including a significant development of PPP markets and regulation in France, Germany, and Spain. Many member states, in particular the ones that accessed the EU after 2004, have only limited experience with PPPs (OPEN DAYS 2011).

Figure 5: Sector breakdown by value and number of transactions (2003-2011)



Source: EPEC 2011

7. PPPs in South East Europe

The countries of Southeastern Europe following the example of other countries in Europe and being under pressure from the deficit of basic infrastructure and budgetary limitations, their governments firstly entered into concession agreements as BOT (Build, Operate, Transfer) type mostly for the construction of highways, projects of power-supply and public utilities Also, they adopted like UK the type PFI (Private Finance Initiative) for the projects implementation mainly in Urban infrastructure. Characteristic examples of project that they have been implemented in Southeastern Europe, through a form of PPP are in Greece , Croatia (Zagreb-Macelj, and Istrian Y motorway, waste water processing plant in Zagreb, sport halls in Zagreb, Split and Varazdin etc), Albania (The Ashta Hydropower Plant), Boulgaria (Electric power plants, airport in Varna and Burgas etc), Bosnia & Herzegovina (Corridor Vc/Corridor 5c in accordance with the PPP model), Greece (Rio – Antirrio Bridge, Attiki Odos Motorway, Athens International Airport/ concesions, 7 Fire Stations), Servia (Horgos to Pozega highway /concession). (CMS 2010; Wolf Theiss 2010; DLA Piper 2010; Vladkov, Markov 2011).

On September 2009 in Sarajevo, an one-day regional ministerial conference 'Public Private Partnerships (PPP) in Strategic Infrastructure Networks: Developing the PPP Enabling Environment in Southeast Europe', was organized by The Regional Cooperation Council (RCC), in collaboration with the United Nations Development Programme (UNDP) of Bosnia and Herzegovina. In Ministerial Statement[8] of this conference, Ministers recognized the important role that the private sector can play in the context of infrastructure development and the provision of public services, accepted the need to develop an institutional and legislative environment that would enable private sector participation in the provision of infrastructure facilities and services through the model of PPPs, confirmed that infrastructure development shall be given high priority not only in their national development agendas. So, they established a Southeast European Public Private Partnership Network (SEE PPP Network), in order to ensure regional cooperation in their pursuit of these objectives, and so as to maximize the use of their existing PPP expertise. (Regional Cooperation Council 2009).

To enable the execution of PPP projects, many European countries enacted special regulations or guidelines, by which they provide legislative frameworks or by which they direct and encourage the execution of such projects. From countries in Southeastern Europe

Creece (2005), Croatia (2008), Romania (2010), and Slovenia (2006) have established Institutional Framework on PPP and they have created a Central Unit for PPPs. In the other countries PPPs have been implemented in the form of concessions. Greece and Croatia are the most active countries in Southeastern Europe.

8. The case of Croatia

The Republic of Croatia, with the area of 56 594 km2, is situated in the South-eastern part of Europe, surrounded by Alps in the West, Sava and Drava rivers in the North and East and the Adriatic Sea in the South. According to the 2010 mid-year population estimate, this area was populated by 4.4 millions inhabitants with the average density of 78.1 inhabitants per km2 (CBS 2011). Over the last 15 years, Croatia achieved impressive economic and social progress. Prior to the onset of the global crisis, the Croatian economy grew at a healthy 4-5 percent annually, incomes doubled and economic and social opportunities dramatically improved. Croatia's per capita income reached about 63 percent of the European Union (EU) average (Word bank 2011). But the Croatia's economy has suffered from the global economic downturn: After the economic growth of 4.5% in 2008, Croatia's GDP fell in 2009 by 5.8%., by 1.2 % in 2010 and by 0.9 percent in first quarter of 2011 (IFM 2012).

Croatia finished accession negotiations on 30 June 2011 and on 9 December 2011 signed the treaty to become the EU's 28th member. The ratification process, by the Parliaments of all 27 EU member states, is expected to be concluded by the end of June 2013. Therefore, entry into force and accession of Croatia to the EU is expected to take place on 1 July 2013.

8.1 The Croatian PPP market

According to Marenjak (2006), Croatian government and other public sector institutions have become highly interested and supportive in implementing PPP projects in Croatia because the need for public facilities and infrastructural projects in Croatia is huge but the abilities to finance those projects are highly limited. PPP model seems to be the answer to some of the problems, giving the possibility of realisation of projects that would surely be on hold waiting for better times in financial situation of the country.

The Strategic Development Framework 2006-2013[9] of the Government of the Republic of Croatia mentions that PPPs have the potential to play a key role in the achievement of the abovementioned goals of the Strategic Framework, especially in terms of the accelerated construction of strategic national and urban infrastructure. In the same text is indicated that it is necessary to differentiate between PPPs as a form of co-operation in which the private partner supplies and uses public property, infrastructure and/or rights for a specific period of time, and during such time provides public services to end users, or performs certain services for the public sector, such as the management and maintenance of a building and/or infrastructure, and sale (privatisation), i.e. permanent transfer of public property into the ownership of the private sector.

The first steps in the development of public private partnerships (PPP) in Croatia were made in the mid-1990s, mainly in the form of concessions (roads) and institutional partnerships. The private finance initiative (PFI) model was introduced several years ago in sectors such as education, healthcare, public administration, environment, culture, and sports. (Turina, Car-Pusic 2006).

Both Mazal Obradovic Tamara (2009), Ministry of Economy, Labour and Entrepreneurship, in his speech in the Sarajevo Ministerial conference on September 25th 2009 and Kamilo Vrana (2011), Managing Director of the Agency for PPP, in Zagreb "Capacity building conference on Public Private Partnerships (PPPs)" in February 2011 presented the projects which have been implemented in Croatia through the PPPs. Sectors with contracted PPP projects are Highways (Zagreb-Macelj motorway, Istrian Y motorway), Buildings and institutions of public interest (e.g schools, public administration: renovation or construction of more than 30 schools and sport halls in Varaždin county, Secondary school in Koprivnica through PFI), Sports halls in Split, Zagreb and Varaždin, Urban infrastructure (garages, bus/railway stations), the tourism and leisure sector (Complex of hotels "Sunčani Hvar") and Environmental projects (urban wastewater treatment facilities- waste water processing plant in Zagreb), while new projects announced in following sectors: Buildings and institutions of public interest, Urban infrastructure, Environmental projects (landfills, wastewater treatment), Transport infrastructure (seaports, airports) (Peric 2009, (Turina, Car-Pusic 2006).

Croatia adopted the Act on Private Public Partnership in October 2008 (the "PPP Act"). In January 2009, a Public Private Partnership Agency (the "PPP Agency") was established. Especially, after enactment of the Law, Croatia has developed significant action in support of PPPs. an agreement for the project 'Strengthening of the Administrative Capacity of the Agency for Public Private Partnership in the Republic of Croatia in Relation to the Implementation of the New Public Private Partnership Legislation" has signed within the Hellenic Ministry of Economy, Competitiveness and Shipping. In 2009 the Agency for public-private partnership issue the Guide for Public-Private Partnership (PPP) «Step by step» [10] and in 2010 issued the "PPP Guide for Central and Local Public Sector Bodies in Relation to the Procedures in the Agency for Public Private Partnership" (Agency for Public Private Partnership 2009;2010). Furthermore, Croatia is a member of organizations, which are activated in this area and assist in direction of implementation PPPs. Indeed, the temporary secretariat of the SEE PPP Network is located at the PPP Agency of the Republic of Croatia.

8.2 PPP legislation in Croatia

An important step in promoting Public Private Partnerships in Croatia was the Act of Public Private Partnership (the "**PPP Act**")[11] and Concessions Act. The new legislation-primarily, the Public-private Partnerships Act (Act on Public Private Partnerships – Zakon o javno-privatnom partnerstvu) (*Official Gazette 129/08*), was proclaimed by Croatian Parliament at the end of October 2008. The Policy Framework for Public Private Partnership was adopted by the Government on 8 January 2009 and a Public Private Partnership Agency - Agency for PPP (APPP)[12] - was established which has an important role in PPP projects in Croatia. Among other tasks, its role is to promote PPPs, to provide relevant information thereon and to propose legislative improvements (Agency For PPP, EBRD 2010, Sajiko 2009).

The new PPP Act defines PPPs as being a long term partnership between public sector an private partners where the private partner undertakes: (a) to design, construct and/or reconstruct public infrastructure and to finance, maintain and manage such infrastructure; or (b) to provide a public service to final users and the public partner grants to the private partner certain real estate rights and/or a concession and / or pays certain consideration.

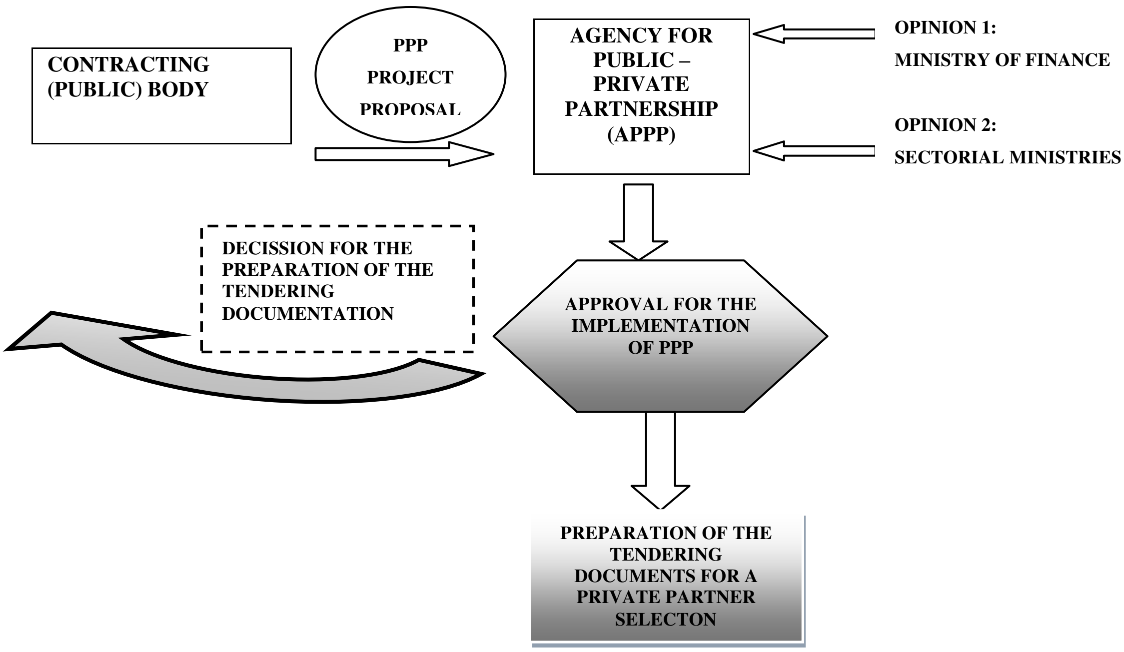
The PPP Act recognizes two types of PPP projects which is in accordance with the practice of the European Union (CEC 2004): *contractual PPP projects*, in which the contracting authority enters into a contract with a private partner or an SPV for a specified period of time (not shorter than 5 years or longer than 40 years) and *institutionalized PPP projects*, in which a contracting authority and a private partner jointly form and have shares in an SPV[13].

By law, public bodies are the only ones authorized to propose the implementation of a PPP project. Before a proposal is adopted by the Agency for Public-private Partnership within the government, *the Regulation on the Criteria of Assessment and Approval of PPP Projects* will establish the professional criteria for the assessment and approval of PPP projects and a list of the documents to be submitted with the project proposals.

The public partner has to submit to the Agency a project proposal and the accompanying documentation, and then which the Agency has to seek the consent of the Ministry of Finance for the intended project and from the regional and local governments as to the compliance of the project proposal with the development policy plans of these local, i.e., regional self-government units, thus applying a mainly bottom – up approach.

Upon receipt of the feedback from the public authorities, the Agency makes a decision on the proposed project and the public partner has 2 years to initiate the public procurement procedure for engaging a private partner for the PPP project (Figure 6).

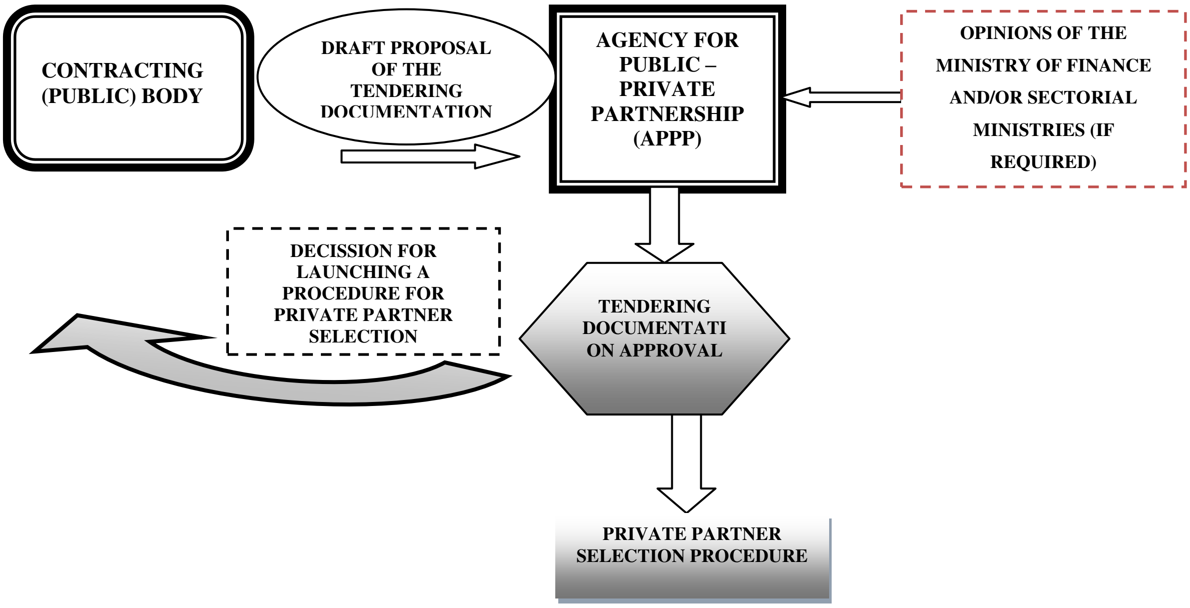
Figure 6: *STEP 1: PPP Project Proposal*



Source: Author adopted by Kamilo Vrana (2011)

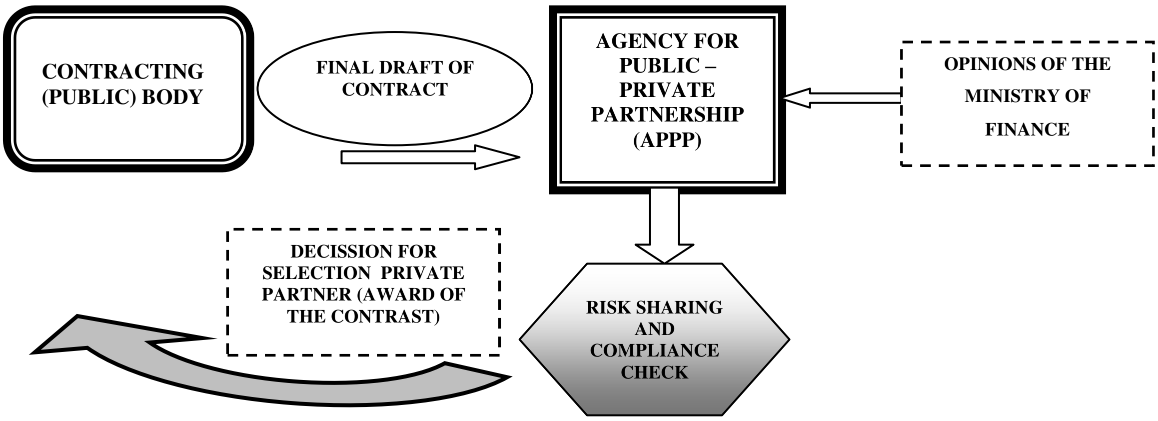
Prior to initiating the procedure for the selection and prior to reaching a decision on the selection of the private partner, the public body shall submit copies of tender documents and the final draft of the PPP contract to the Agency for Public-private Partnership for assessment and approval, as shown in the following figures (7 and 8)

Figure 7: *STEP 2: Tendering Documentation*



Source: Author adopted by Kamilo Vrana (2011)

Figure 8: *STEP 3: Contract Final Draft*



Source: Author adopted by Kamilo Vrana (2011)

9. PPP Projects in Croatia

In the next section are presented characteristics examples of PPPs projects in Croatia in National and local level. The relevant data are obtained mainly from presentations at various conferences, articles or collection of case studies that have been published and they refer to the implementation of PPPs in Croatia, the most of these papers emphasize in the important role of PPPs in Croatia's development and the Croatian's Government efforts to promote PPPs, although the global crisis which has limited the implementation of PPPs projects in Croatia.

9.1 National Level

Istrian Motorway (“Istrian Y”.)

The first PPP project launched in Croatia was the “Istrian Y” Motorway. This project was originally planned to be publicly procured, but there was limited interest from prospective bidders, and it was decided that the deal would be negotiated directly with French contractor Bouygues (Hirschhausen 2005; Brenck *et.al.* 2005). In 21 September 1995, the Republic of Croatia and Bina-Istra d.d. (Bouygues Travaux Publics with 51% and Hrvatske autoceste - Croatian Motorway Authority- with 44%) signed a BROT concession agreement for financing, developing, building and operating of a 141 km road network. The agreement was concluded for a period of 32 years, after which the motorway is to be handed over to the Croatian State without any further ccompensation. Financing of the project was assured through a combination of equity and commercial bank debt, toll revenues, and a significant element of government support. Project revenues are exclusively generated by tolls for the usage of the Ucka Tunnel, but the government has guaranteed a minimum level of revenues if traffic is below forecast (Jurišić 2007).

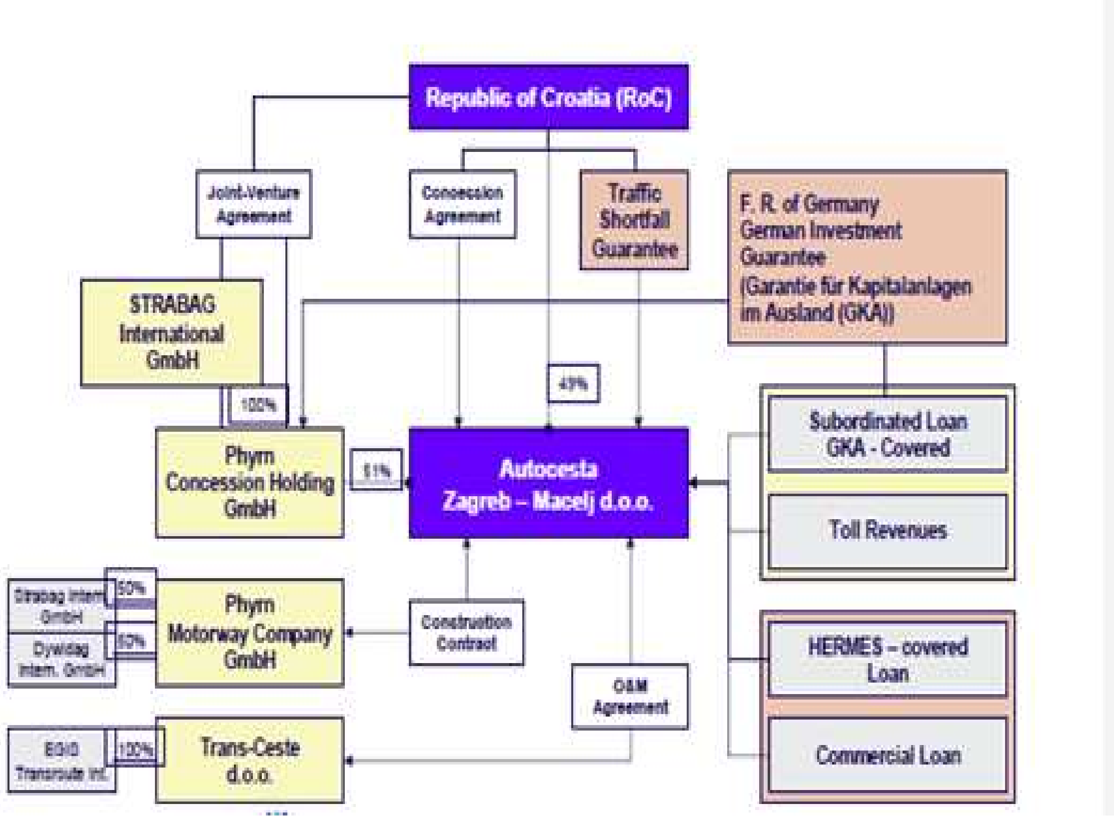
Autocesta Zagreb- Macelj

The second project which was identified to go ahead as a concession is autocesta Zagreb-Macelj Motorway (A2). The Zagreb – Macelj is part of the 10/a Corridor (Pyhrm Corridor) considered by the EU as one of the priority projects for developing the Trans European Networks. The Highway runs for about 60 kilometeres, linking the nation's capital with the Slovenian border (Hirschhausen 2005).

In July 2003 the Croatian government decided to upgrade and extend this route on a PPP basis. The DBFMO (develop-build-finance-maintain-operate) toll concession has been granted to the concession company Autocesta Zagreb-Macelj (49% Republic of Croatia, 51% Walter BauAG (merged with Dywidag) together with Strabag International [66,6% Walter Bau/Dywidag, 33,33% Strabag International]) as it is shown in the figure 9.

The project includes rehabilitation and widening of an existing stretch of road, and the construction of 20 Km of new road (section Krapina- Macelj).

Figure 9: Project Structure



Source: Jurišić (2007)

Zagreb Wastewater Treatment Plant (CUPOVZ)

The Zagreb Wastewater Treatment Plant, which opened in phases between 2004 and 2007, was intended to improve water quality in the River Sava. According EBRD (2001), the Croatian capital Zagreb currently has no wastewater treatment facilities for its 900,000 inhabitants, which poses a serious threat to the local environment and the Sava River. The project, which is the first waste-water treatment plant for the city of Zagreb, was realized through concession model (BOT). Also included an access road, collecting pipeline, cover for a drainage canal, and a bridge across the river Sava. The agreement for construction and operation of the plant was signed in December 2000 by the city of Zagreb and Zagrebačke Otpadne Vode (ZOV) (ownership of consortium WTE Wassertechnik GmbH, RWE Aqua GmbH and Vodoprivreda Zagreb stock company), which built and will operate the treatment plant for 28 years.

According to CEE Bankwatch Network (2008), the project's cost amounts to 270 million € but the total cost of the project has risen several times and is still shrouded in mystery: *There is a huge variation between the costs published by the EBRD and those quoted by the City Council, raising suspicions that the City Councils still not revealing the full costs. The contract has never been released''*

Zagreb Airport

Recognizing that Zagreb Airport is of strategic importance to Croatia's economy and as the country's main international airport it serves as the Republic's primary gateway to the rest of the world the Republic of Croatia in February 2011 issued an invitation ''Public – private partnership for Zagreb Airport'' (Republic of Croatia 2011)**.**

Croatian government and the French consortium Zagreb Airport International Company (ZAIC) on Wednesday 11 April 2012 in Zagreb, signed a concession agreement for the construction of a new passenger terminal at Zagreb Airport and the management of the existing and new terminals. The concession revenue over 30 years will amount to EUR 1.94 billion, while investments in the first construction stage will amount to EUR 236 million. Construction is expected to be completed in three years (Ministry of Maritime Affairs, Transport and Infrastructure 2012).

LOCAL LEVEL

The City of Varaždin and Varaždin County

The City of Varaždin and Varaždin County were the first public – private partnerships projects in Croatia, in PFI model, for financing the construction of schools and sports facilities was established.

The need for improving the formal education system was shown in the regional operational program for the period between 2006 through 2013, which the City of Varaždin has already adopted from the end of 2001. The strategy emphasized the importance of improving the formal system of education (Alibegović 2011) and involved the constructing of new schools and the enlarging of existing ones, as well as building school gyms through PFI model. All together 33 projects (53,000 m2), have been finalized to 2009, with financing from the budget of Varaždin County, the budgets of local self-government units in Varaždin County, and the state budget. The new Varaždin sports hall, constructed for the necessities of the World Handball Championship in 2009. Private partner Max Bogl Tehnobeton has invested approximately 26.8 million euros, while the city of Varazdin and the Croatian government will attain approximately 97.2 million euros in the next 25 years through leasing the object. (Croatian Times 2008).

The district palace in Varazdin, County Palace, was excellent occasion for the first implementation of PPP model in Croatia (Novak, Koški I 2007**).** Varazdinska county signed an agreement with Meteor (private sector) through which private partner is obligated to finace, reconstruct and to maintain district palace for the period of 25 years. (Peric 2011). The entire project was completed in less than three months, during which the whole palace was completely renovated. (Alibegović, 2011).

Arena Zagreb- Spaladioum Centre

Except Varaždin sport hall, PFI model was used for building sport halls for World Men's Handball Championship in 2009 – projects: Arena Zagreb, Spaladium Centre (Split)

The Arena Zagreb was built with PPP. Partners in this project were: Croatian Government, City of Zagreb and private consortium (INGRA stock company and TriGranit Development Corporation). The construction of the sports hall finally started on July 20, 2007, and was completed as planned on December 15, 2008. The building includes a building complex, the Arena Center, the largest shopping – entertainment center in the city.The value of this project is 87 milion € (Zagrebaena)[14].

Contract on the realisation of Spaladium Center in Split signed on 4 September 2007 betwen the City of Split and Sportski grad TPN Ltd. Project includes developing and building ofa sport hall and business centre. The value of project is 150 m €.The private partner assumes the finance, design, obtain permits, construct, manage according to set standards for a period of 30 years. (SpaladiumCentar)[15]

Also, recreation and culture projects (Croatian Olympic Center (COC) Bjelolasica), tourism projects (Hotel Šibenik, Complex of hotels "Sunčani Hvar", Obonjan Riviera) and general public services (Public garage Slatina, “Elderly home Gerovo”, Construction of “Kompleks Zapadna Žabica”) have constructed through BOT-PFI model and there are in pre-tender phase (Perić 2009; 2011).

The analysis of these projects shows that a number of projects for the construction of public buildings and infrastructure were successfully delivered through contractual PPP models mainly PFI and BOT. The BOT model, which in Croatia is more known as “construction agreement through concession” (Perić, 2009), was applied delivering infrastructure projects, which the largest sector by value. PFI model is chosen for projects of other sectors that are implemented in local level in Croatia. For Croatian local governments, PPPs represent a relatively new opportunity for securing the necessary funds to construct important urban facilities, taking in to consideration the lack of public budgetary funds and limits on borrowing and debt. Availability and operational risks are transferred from the public (the city of Varaždin and Varaždin County, as well as the city of Koprivnica and Koprivnica-Križevci County) to the private sector, so PPPs contracts are able to effectively reduce risks and local governments risk exposure, thereby creating value for money and reduced fiscal risk (Alibegović 2011).

Regarding the time of projects integration, these are finished on time without exceeding the initial cost, except Zagreb Wastewater Treatment Plant.

Conclusions

The increasing need for renovation, replacement, or construction of new infrastructure projects and provision of more and better public services, combined with the fact of international economic crisis and therefore the lack of the necessary resources to finance social policy mechanisms, but in additional to awareness that can extend the collaboration between public -which gradually moved from the role of direct operator in the role of organizer, regulator and controller -and private sector to perform public interest objectives have led to the adoption of PPPs as an effective tool for the exercise of public policy.

Despite the conflicting opinions for the effectiveness or otherwise of PPPs as a way of financing public infrastructure and services the PPPs gains more and more attention in countries around the World and have contributed substantially to improving public services, and continue to provide government with much needed resources to close the infrastructure gap. There are a lot of examples in various sectors (transport, energy, water sewerage, schools urban facilities et), both in industrialized countries and in emerging economies. PPPs

The global crisis has effects on PPPs (Burger et al. 2009) and the global PPP market has now collapsed (Raisbeck 2009). Few PPP deals will close and existing PPPs are being affected by inability to refinance their original debt, and lower revenues because of falling demand (Hall 2009). Adverse opinion supports that PPPs can be the solution of the crisis because infrastructure investments, traditionally considered as an antidote for economic downturn (Estache, Juan, Trujillo 2007, Raisbeck 2009).

In case of Croatia PPPs are a key element in the Government's strategy for delivering public services in conditions of restricted budget. From the mid-1990 Croatia, mainly through concessions for most important infrastructure projects (toll roads), Croatia has made the first steps in the development of public private partnerships (PPP). Several years ago, the private finance initiative (PFI) model was introduced from local governments, which have shown a big interest for PPPs as a relatively new way of financing capital projects- and in sectors such as education, healthcare, public administration, environment, culture, and sports.

In October 2008 Croatia adopted the Act on Private Public Partnership (the "PPP Act") and in January 2009, a Public Private Partnership Agency (the "PPP Agency") was established with a significant role in the PPP process. These elements contributed to promote PPPs as a relatively new way of financing capital projects in the Croatia's Country, so Croatia displayed as the most active from the countries of Southeastern Europe. Furthermore, Various organisations are created and activated in this area and help in the direction of implementation's PPPs such as European PPP Expertise Centre (EPEC), Support for Improvement in Governance and Management - SIGMA, South East European Public Private Partnership Network (SEE PPP Network) the Regional Cooperation Council (RCC). Croatia is a member of those organisations and participate actively.

The need for public facilities and infrastructural projects in Croatia is huge, but the abilities to finance those projects are high limited. Although the PPP model seems to be the answer to this causation, however the number of projects which proposed are confined in relation to needs, according the Agency for PPPs and the table for the approved PPP projects.

Notes

[1] http://www.deloitte.com/assets/Dcom-UnitedStates/Local%20Assets/Documents/us_ps_PPPUS_final(1).pdf

[2] http://eur-lex.europa.eu/LexUriServ/site/el/com/2004/com2004_0327el01.pdf

[3] http://ec.europa.eu/internal_market/publicprocurement/docs/ppp/comm_2007_6661_en.pdf

[4] http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52009DC0615:EN:NOT

[5] Joint European Support for Sustainable Investment in City Areas http://ec.europa.eu/regional_policy/thefunds/instruments/jessica_en.cfm#3

[6] Joint Assistance to Support Projects in European Regions http://www.jaspers-europa-info.org/

[7] http://ec.europa.eu/eu2020/pdf/COMPLET%20EN%20BARROSO%20%20%20007%20-%20Europe%202020%20-%20EN%20version.pdf

[8] http://www.rcc.int/pages/0/22/ministerial-conference-public-private-partnerships-in-strategic-infrastructure-networks-developing-the-ppp-enabling-environment-in-southeast-europe-25-september-2009-sarajevo-bih

[9] The basic principles and goals of PPPs are set out in the Strategy for the Development of the Public Procurement System in the Republic of Croatia (hereinafter: Public Procurement Strategy), which the Government of the Republic of Croatia adopted in June 2008http://www.ajpp.hr/media/5108/stratframe.pdf

[10] http://www.ajpp.hr/media/12448/guide%20step%20by%20step.pdf

[11] http://www.ajpp.hr/media/5088/actppp.pdf

[12] http://www.ajpp.hr/home-page.aspx

[13] The SPV may participate solely in the implementation of such PPP project for the purpose for which it was established.

[14] http://www.zagrebarena.hr/default.aspx?id=295

[15] http://www.spaladiumcentar.com/CMS/0169/Default.aspx?EID=12406&LNG=en

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