

# **PUBLIC-PRIVATE PARTNERSHIP FOR THE DEVELOPMENT OF TOURISM IN RURAL AREAS**

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## **1. INTRODUCTION**

Collaboration between the public and the private sector has only recently grown into a specific and widely applicable form and method of optimizing social development. Lately, turmoil in the economy has led to many mergers, acquisitions and new forms of cooperation, indicating that the future of sustainable development lies in the collaboration of all market actors, or, in other words, in bringing together the public and the private sector.

By studying the available literature and practices throughout the world and in Croatia, and drawing on personal experience gained working as public officials in Istria, the authors of this paper have come to the conclusion that the current Croatian legislation does not favour the development of tourism in rural areas, nor does it support public-private partnerships for this purpose. Therefore, the entire field should be regulated. In Croatia, at present, there are no specific laws or guidelines defining public-private partnership as a special category when it comes to building tourism facilities. A study of European practices in establishing public-private partnerships with the objective of building tourism facilities (e.g. the Earth Centre Project in south Yorkshire, UK, and the building of a business complex in Cork, Ireland) (12), the results of a research conducted among local government units in Istria and the example of the locality of Mon Perin in the Municipality of Bale, have enabled the authors to obtain much useful information on the model of public-private partnership that should be applied to foster tourism in rural areas of Istria. This paper, therefore,

suggests an optimal model of public-private partnership for the development of tourism in rural Istria. The proposed model should confirm the hypothesis whereby an institutional public-private partnership, with the involvement of the local population in the role of investors and shareholders in tourism projects, can have a long-term impact on the development of tourism in rural areas.

## **2. THE CONCEPT OF PUBLIC-PRIVATE PARTNERSHIP**

Public-private partnership is a term indicating a range of various arrangements reached between the state and other entities in the public sector with natural and legal persons from the private sector. (13) This is a model of delivering public works and implementing social projects with the support and cooperation of the private sector, which has been developing for the last twenty years. To facilitate implementation of projects, many European countries have adopted specific provisions or guidelines providing a legal framework for and directing the execution of these projects.

Public-private partnership should be viewed as a method of bringing together, in different ways, the interests of the public (common good) and the private sectors (profit), with the objective of increasing quality and availability of products and services. As a specific model of funding, constructing, renovating, managing or maintaining infrastructure or providing services, public-private partnership has several characteristic features, the most important of which are:

- The private-sector partner elaborates the project documentation or receives it from the public-sector if it already exists. The private-sector partner then builds, funds, maintains and operates the asset in exchange for a recompense;
- The relatively long duration of the contractual relationship, often as long as 30 years;
- The project is partly funded by the private sector, so enabling savings by the public sector;
- The private-sector partner has an important role, in that it participates in the various stages of the project (design, construction, reconstruction, upgrading, implementation, funding);
- The sharing of risk between the public and the private sector; in other forms of contractual relationships, the risk is borne by the public sector.

In addition to specific characteristics, the PPP model has goals which are common to both the private and public sectors. These are: contracting and executing a large number of projects; natural, market-governed, allocation of risk between private entities and public authorities aimed at efficient and effective public expenditure; tapping the greater efficiency of private entities by enabling them to carry out works in an effective and efficient manner, and to manage the assets in a more effective and efficient way than government units; creating added value by pooling resources, efforts and knowledge of the public and private sectors; increasing the productivity of competition; the rational use of public and private economic capabilities; transparency in selection and contracting; finding new solutions for the construction and maintenance of public infrastructure; medium to long-term stimulation of economic activities, rational use of public funds to the benefit of all users of public services. (13)

Considering all of the above, the term public-private partnership can be defined **as a form of collaboration between public sector bodies and private entities, the objective of which is to ensure funding, construction, reconstruction, management or maintenance of assets, or the provision of services.**

The Green Paper (4) makes a distinction between two basic forms of PPP set-ups: the first are PPPs of a purely contractual nature, whereas the second are PPPs of an institutional nature. PPPs of a purely contractual nature, as indicated by the term itself, are those in which the partnership is based solely on contractual links, whereas PPPs of an institutional nature envisage cooperation within a distinct entity. There are two models of purely contractual PPPs: the concessive and the PFI (Private Finance Initiative) model.(13).

Specially interesting for the purpose of this paper is the concept of **institutional linking**: the public and the private partner establish a special entity (legal person, company, institution, etc.) which they manage jointly. This entity finances and builds assets, provides services to the public or sells its services (e.g. tourism-related services) on the market. In this set-up, the public partner retains a high degree of control and supervision over the project, since it participates in the management of the entity providing the given services. This model includes also joint ventures and even concessions the management of which is entrusted to such a dedicated entity of which the public partner is a member and can therefore participate in the decision-making process. Such an entity can be jointly established by the public and the private partner or the private partner can take control over a public company.

Any form of public-private partnership is specific with regard to the manner of association and allocation of risk. Public-private partnership has been developing since the 1980s and is constantly taking on new forms of association having their own specific characteristics (13).

### 3. PUBLIC-PRIVATE PARTNERSHIP IN TOURISM

Achieving progress in tourism is hard (well-nigh impossible) without collaboration and strong forms of partnership. Jeffries (2001) believes in the "need of a .... comprehensive, managerial approach to tourism development and of commitment, collaboration between the public and the private sectors in improving, planning and coordinating (on a national level), where tourism currently shows the greatest weakness." Jeffries also considers that the majority of investments are made in destination marketing, whereas "tourism really needs investment in a deeper understanding (*underlined by the authors*) of its complex needs and impact." (3)

Jeffries also wonders about the way in which the public sector should operate in tourism, whether the role of the public sector is active or passive and states that answers to these questions should be given by a tourism development plan and by a destination management strategy. He also distinguishes between the direct and indirect role of the public sector in tourism development.

Cetinski writes: "...efficient tourism is based on cooperation, ... the complex and multidisciplinary nature of tourism requires the establishment of inter-organizational relations, collaboration and a hierarchical order. However, misunderstandings can arise from the seasonal, geographic or spatial redistribution within, respectively, the private and public sector, and between the two."

The collaboration, indeed the partnership between the public and the private sector in tourism has been advancing most rapidly in the fields of marketing and promotion. However, many case studies show that other fields are also open to this type of cooperation: infrastructure and product development projects, education and training, funding and investment in tourism development,

especially since tourism is a strongly growing industry. WTO research results, published in the book *Public-Private Sector Cooperation*, indicate 4 main areas of collaboration between the public and the private sector:

- improving destination attractiveness,
- improving marketing efficiency,
- improving destination productivity,
- improving destination management.

According to the researchers, tourism destinations should make a considerable effort to collaborate in two complementary directions:

- improving the operational efficiency of the tourism destination by means of collaboration,
- achieving lasting success by means of a partnership.

What is needed is "a model of efficient system management which will set the pace for and determine the 'potential growth' of a destination, its ability to attract investment and to create a sense of well-being among the local population and the visitors, which also means achieving long-term system sustainability. "(3)

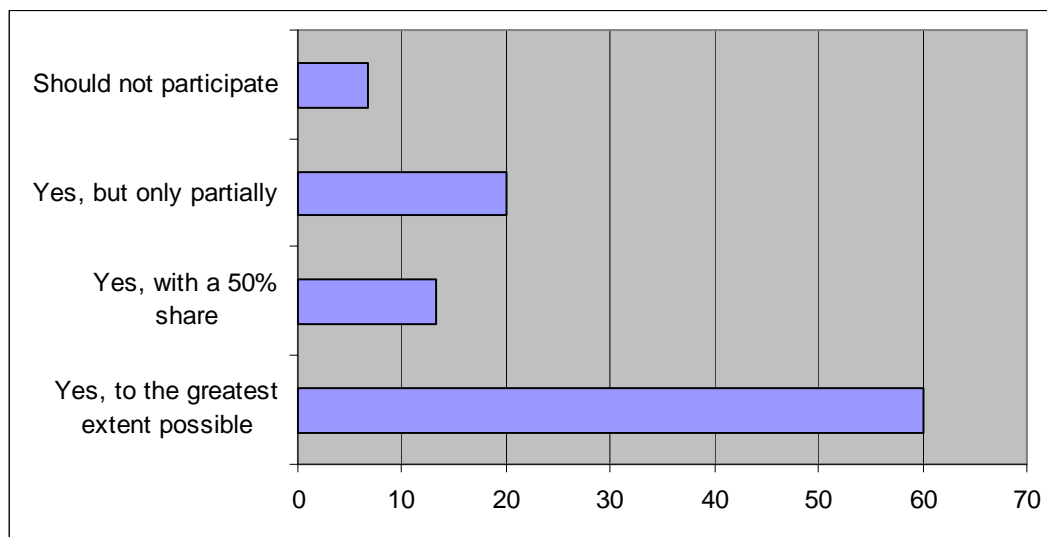
#### **4. PUBLIC-PRIVATE PARTNERSHIP IN ISTRIA COUNTY – RESEARCH RESULTS**

In order to sound the opinion and attitude of the public towards public-private partnership, a survey has been carried out among civil servants in Istrian local government units, examining the attitudes and opinions they hold of this relatively new type of contractual relation. The survey provided much useful information on public-private partnership in Istria and suggestions for its more efficient exploitation. 31 municipalities and 10 cities were invited to take part in the survey and responses were received from 22 municipalities and 6 cities, which is a representative sample from which valid conclusions can be drawn, the most important being: (13)

- The question as to whether public-private partnership was necessary for the development of public infrastructure in their local government unit was answered in the affirmative by 60% of the responders, whereas 40% thought that PPPs are not the necessary prerequisite for successful development and infrastructure building. Over 90% of responders agreed with the statement that public-private partnership can speed up the implementation of a project, whereas only 54% thought that PPPs are a more cost-effective model than the usual mode of public works execution. Most respondents (69%) were of the opinion that the PPP model is more acceptable in rural than in urban areas.
- The largest percentage of local government units – 65% - has 1 to 5 ha of land set aside for development, for which public-private partnership projects can be established. Roughly half local government units have more than 100 ha of agricultural (state-owned) land for the same purpose. This land could be used to implement a PPP project. Almost 80% of the respondents agreed that public-private partnership projects should be financed from other sources (the state and EU funds), whereas 67% thought that a public-private partnership should be managed by a dedicated company.

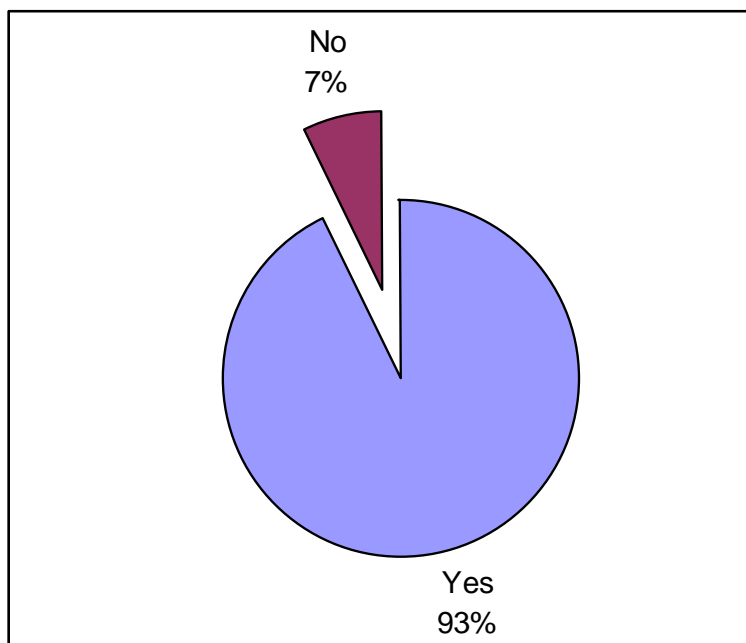
Graphs 1 and 2 show the answers to the questions whether natural and legal persons should participate in financing PPP project implementation by making investments and obtaining shares in the project and whether the single investments should be limited in order to prevent monopolization.

Graph 1: Should citizens and entrepreneurs (natural and legal persons) take part in financing development projects based on the PPP model (expressed in %)?



Source: Authors' research

Graph 2: Should there be a limit to the amount each citizen or entrepreneur could invest in a project through a public-private partnership model (expressed in %)?



Source: Authors' research

These results show that the majority of local government units covered by the research consider that citizens and private-sector natural and legal persons should be able to invest in project development – especially in tourism – through a PPP model by giving them a share in the asset. However, most of them also thought that each investment should be limited, to prevent any natural or legal person from becoming the majority shareholder.

## 5. CASE STUDY: MON PERIN

The Municipality of Bale in Istria, with the agreement of all political parties, is carrying out the "experiment" of transforming the local community into a working entrepreneurial entity, the activity of which should be guided by the principles of sustainable development and rational use of natural resources. For this reason, at the end of 2005, the Municipality of Bale, its citizens and their "friends" – individuals willing to take part in the project – established the company Mon Perin Ltd. Over three years, the initial equity of the company grew from 12 million kunas (approx. 1.6 million euros) provided by 740 founders to 30 million kunas (approx. 4.1 million euros) with 900 shareholders, most of whom are still local inhabitants, without whose approval, under company statute, no major decision can be passed. The deed of establishment lays down that the Municipality of Bale and investors from its territory have 50 plus one votes in the shareholders' assembly. The Municipality of Bale has invested only 50.000 kunas (approx. 7.000 euros) in company equity, so it owns a small number of shares and expects no significant profit from dividends, but revenue will be generated by leasing land and granting construction permits. Bale has acquired over 200 hectares of land in the coastal area, which generates increasing profit (7).

This innovative project in Mon Perin in the Municipality of Bale has not only anticipated the success of a similar arrangement between the state and the county, called "Brijuni rivijera" – which partly covered the territory of the Municipality – but has also enabled the Municipality to have decisive influence on tourism development on its territory. This was achieved by means of a social contract containing a number of clauses securing for the local government decisive influence in managing tourism development.

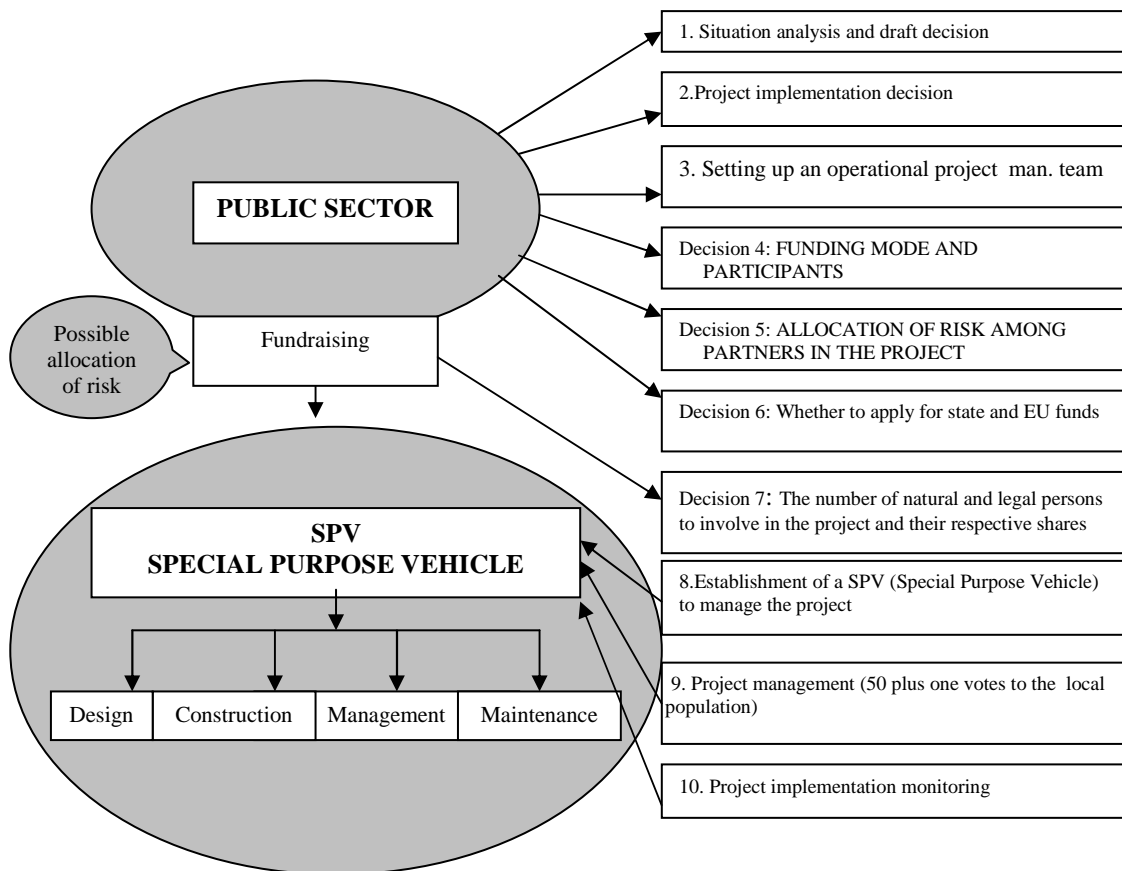
The role of Mon Perin Ltd. is to apply a business management approach to the development of the Municipality; first of all, it manages the most valuable resources and municipal land set apart for tourism facility construction. In 2007, a secret ballot was taken, in which the citizens of Bale voted that the Municipality should not sell its land, but rather grant long-term lease on it, thus establishing a precedent in Croatia. In this way, the company Mon Perin Ltd. obtained by tender lease rights over a plot of land which currently holds two camping sites, and soon the construction permit should be granted. Mon Perin should thus become a proper tourism company owned by the local population having their own interest in the company in the form of shares. The citizens are even more likely to support the project because they expect to profit from it. In this way, synergy among all local community actors has been achieved.

Under the deed of establishment, when entering into contracts with investors in tourism facilities, the Municipality of Bale can become co-owner of the latter, or grant concessions in exchange for new shares and rights to Mon Perin's dividend. The Municipality has obtained decisive influence over the operation of Mon Perin and the development of its tourism sites by enshrining the right to veto in the deed. In other words, regardless of the number of shares owned, the Municipality has a seat on the Supervisory Board. By exercising its veto right, the Municipality can not only protect the interests of the local community, but can also influence employment policy and thus give young people from Bale – schooled with Municipal scholarships – the opportunity to manage their own economic resources.

## 6. PROPOSAL OF AN OPTIMAL MODEL OF PUBLIC-PRIVATE PARTNERSHIP FOR THE PURPOSE OF TOURISM DEVELOPMENT IN RURAL AREAS

Given that every PPP project is specific with regard to the asset being built, the number of actors participating in the partnership, the value of investment, the terms of payment, etc., it is very hard to obtain an "optimal" analytical-economic model of PPP applicable in any rural area. In other words, at present there can be no single model of public-private partnership in rural tourism because of the very specific nature of each individual project executed in this way. However, a general model serving as a guideline for the representatives of the public and the private sector should they decide to build tourism assets or provide tourism services by means of a PPP, can nevertheless be suggested. Such a model should take into account the experience gathered so far in the area of design, construction and management of resorts and assets by means of a public private partnership arrangement, the legal provisions that govern the implementation of such projects, the opinions of the public and the private sector about their respective needs and expectations from the project and the cost-effectiveness of the individual project, lacking which the project is pointless. After studying the available literature and practice in the world and Croatia and on the bubble of their own research, the authors suggest an institutional model of public-private partnership which has not yet been envisaged as the most appropriate model of rural tourism development by Croatian legislation (Scheme 1).

Scheme 1: A proposal for an optimal model of public-private partnership for tourism development in rural areas.



Source: Authors' research

Although designing an optimal model including a detailed analysis, calculations and other details determining the peculiar nature of a PPP is a daunting task, nevertheless an *optimal model of public-private partnership*, such as represented on the image above, is possible. This is a "guide of sorts for the development of tourism in rural areas by means of a public-private partnership". The proposed model envisages the establishment of a company on the basis of institutional public-private partnership and the implementation of a project in the suggested 10 stages.

As shown on the graph, the proposed model is made up of 10 stages, several of which – the decision on launching a PPP in tourism, the setting up of a management team for the PPP project, making decisions on the allocation of payments and risks and on the application for funds from national or EU sources – are under public sector (local government) control, meaning that the public sector bears the risk of its decisions in these stages of project implementation. At the fundraising stage, ways must be found to attract potential investors, but limiting, at the same time, the extent of the investment, to prevent any one natural or legal person from becoming major shareholders and gaining control over the project. For the project to remain in the hands of the local population, the deed of establishment should contain provisions guaranteeing the local inhabitants 50 plus 1 votes in the company assembly, regardless of their share in the company's equity.

A specially dedicated company, known as a Special Purpose Vehicle or Entity, should be set up to guarantee more efficient project management and to raise the capital required to achieve the objectives of the public-private partnership. This company shall also supervise construction works and monitor project implementation.

Picture 1 shows the SWOT analysis of the illustrated model. The SWOT analysis indicates that the proposed optimal public-private partnership model entails significant advantages for the development of rural tourism. The greatest benefit of this method lies in the synergy it achieves among the participants in the project – local community, the public and the private sectors – in managing jointly the development of tourism at the given destination, and in helping to achieve the expected profit.

In order to evaluate the validity of the model according to the criteria of successful management of a rural tourism destination, the suggested model was tested and compared with the Master Plan for Tourism Development of Istria and the rural destination Integral Quality Management System (picture 2). The first model, the Master Plan of Tourism Development of Istria, pertains to the middle (County) level of tourism development management, whereas the second, the *Tourism Destination Integral Quality Management (IQM)*<sup>1</sup> model is operated by the local Tourism Board. In Istria (and beyond), this model can only be found in Novigrad.<sup>2</sup>

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<sup>1</sup> IQM model – the Tourism Destination Integral Quality Management Model is one of the most advanced modes of managing tourism destinations and is applied in some of the most developed European destinations. This approach is based on the principle whereby the destination is managed comprehensively, so that each, even the most insignificant (according to generally accepted standards) component of the tourism product is considered an important element of the visitors' experience (3,9).

<sup>2</sup> In 2007, the project was awarded the Special Recognition of the Istria County Tourism Board "Zlatna koza – capra d'oro" for an extraordinary contribution made to the marketing of tourism in Istria" (Decision of the Istria County Tourism Board Committee, October 2007).



Picture 1: SWOT analysis of the illustrated optimal model of public-private partnership for the purpose of tourism development in rural areas

<p><b><u>Strengths:</u></b></p> <ul style="list-style-type: none"> <li>- synergy among local population, public sector and private business</li> <li>- involvement of all – anyone can become a member of the Company,</li> <li>- financial motivation, incentives</li> <li>- management of and control over destination development,</li> <li>- opportunities to influence project development,</li> <li>- opportunities to influence physical planning and their harmonization with development,</li> <li>- allocation of risk between the public and the private sector,</li> <li>- the public sector can tap into the "entrepreneurial spirit" of the private sector</li> </ul>	<p><b><u>Weaknesses:</u></b></p> <ul style="list-style-type: none"> <li>- lack of financial means of the local population,</li> <li>- lack of experts, managerial abilities, know-how,</li> <li>- lack of experience with similar projects,</li> <li>- initially weak position on the market,</li> <li>- possibility of political interference in the model,</li> <li>- the large number of participants can lead to diverging interests</li> </ul>
<p><b><u>Opportunities:</u></b></p> <ul style="list-style-type: none"> <li>- upward trend in rural tourism,</li> <li>- a relatively new, "fresh" model, only just giving the first results in the world</li> <li>- greater motivation of all participants in the project</li> <li>- each shareholder takes an active part in destination management and is therefore motivated to promote tourism development and to take an open-minded approach to tourism and tourists,</li> <li>- long-term support of the local government, which obtains direct and indirect benefits from the project</li> </ul>	<p><b><u>Threats:</u></b></p> <ul style="list-style-type: none"> <li>- lack of awareness on the part of the local population,</li> <li>- political parties may not reach a consensus on project implementation,</li> <li>- no legal provisions protecting investors,</li> <li>- no legal benefits for investors,</li> <li>- predominance of conservative thinking and unfamiliarity with similar models,</li> <li>- no similar models – examples of good practice,</li> <li>- red tape slowing down project preparation and execution,</li> <li>- physical planning not adjusted to development programmes,</li> <li>- possibility of political interference with the project,</li> <li>- poor profitability of Croatian tourism, especially of rural tourism.</li> </ul>

Source: Authors' research

The comparison takes into account eight basic criteria for the "successful management of a tourism destination" envisaged by the IQM model for rural destinations. These criteria are: opportunities for integration, consultation with groups (stakeholders) at the tourism destination, vision, clarity, motivation of the parties involved in destination development, cyclical process management (system monitoring, operational planning and involvement of the local population – forum).

Picture 2. Testing the efficiency of the illustrated model of PPP in managing the tourism destination according to success criteria set out in the IQM model for rural destinations – comparison of strategic management models: Master Plan (MP), IQM and PPP

Criterion	Master Plan	IQM	PPP
INTEGRATION	<u>Clusters</u> – hard to achieve in practice: neither stakeholders nor cities or municipalities can be forced to collaborate on cluster level	<u>Tourism Boards</u> are a form of integration, but there is no feeling of belonging either to a Tourism Board or another group – the integration is seen rather as an obligation than a form of association	<u>Permanent</u> – to mutual interest – very important because in either MP or IQM there is a feeling of ownership or interest
CONSULTATION	<u>Partial</u> (workshops)	<u>Partial</u> (workshops)	<u>Permanent</u>
VISION	<u>Yes</u> , but not generally accepted, nor communicated fully to all stakeholders	<u>Yes</u> , some of it can be communicated better with the help of Tourism Boards, but the message is "lost" until the next workshop	<u>Yes</u> – constantly "reheated" by the activities of the Company and the feeling of ownership
CLARITY	<u>Partially</u> clear MP goals and stakeholders' vision.	<u>Yes</u> , but the effect is diluted between workshops.	<u>Yes, permanent</u> . Both individual and Company goals are clear, because all participants feel ownership.
MOTIVATION	<u>No</u> . Hard to motivate everyone, especially the population, for the execution of the MP	<u>Partial</u> . Motivation can be achieved occasionally, but for the longer period it can be achieved with seminars, workshops, etc.	<u>Yes</u> , of a pecuniary nature, due to shares, which are a concrete motivation
CYCLICAL PROCESS (monitoring)	<u>Not really</u> (insufficient, i.e. it exists, but not to the necessary extent). Monitoring is «administrative» -	<u>Yes, but only in the public sector</u> (Tourism Boards, local government). Tourism Boards and local government units can achieve it institutionally by incorporating workshop results in the following budget and work plan, but only within their scope of operation, i.e. in the public sector, not in the private sector.	Yes. As in joint stock companies, regular yearly reports are made
OPERATIONAL PLANNING	<u>No</u> (difficult or inexistent) – there is no way of "forcing" or obligating local government units and Tourism Boards to enact the Master Plan	Decisions from the workshops <u>can be incorporated</u> through Tourism Board plans and local government budgets, <u>but only in the public sector</u>	<u>Yes, in both public and private sectors</u> , because the Company operates according to business management standards, so it strongly develops strategic and operational planning.
LOCAL POPULATION INVOLVEMENT	<u>No</u> , i.e. only to a very small extent (at the initial workshops during MP elaboration, and only some segments of the population).	<u>Yes, but only certain segments of the population</u> at workshops, meaning only occasionally (private accommodation), important role of the Tourism Board newsletter TZ Info.	<u>Yes</u> . Every inhabitant can become a shareholder.

Source: Authors' research.

The comparison indicates that the basic shortcoming of the Master Plan lies in the impossibility to motivate stakeholders, which arises either from the lack of incentives for integration with the main entity in charge of destination management under the Master Plan – the cluster – or from

the insufficient acceptance of the mission, vision and outcomes set out in the Master Plan.<sup>3</sup> Furthermore, Master Plan monitoring is carried out, but stakeholders are acquainted only partially with the results thereof. What is more, the Master Plan is not modified according to monitoring results.

The IQM system is more appropriate for micro-sites and is somewhat closer to the "grass-roots", the "field", where tourism takes place, so yearly workshops, Tourism Board newsletters<sup>4</sup> etc. are the best means to stimulate the local population and other stakeholders to take active interest in destination development. However, stakeholders find no incentive in membership in the local Tourism Board; the Tourism Board is rather viewed as an institution imposing additional obligations. Similarly, they do not feel part of their group, nor ownership of the Tourism Board or the destination itself, although the majority of participants in the workshop assessed favourably the invitation to take part in destination development through workshops.<sup>5</sup>

The public-private partnership model presented by the authors redresses the above-mentioned faults of the Master Plan and the IQM system, meeting, at the same time, all of the eight criteria for successful destination management based on sustainable development. Special emphasis here is placed on close integration and motivation of stakeholders coupled with a strong sense of ownership of the Company and of the destination, which guarantees optimal tourism development.

## **7. OPPORTUNITIES FOR THE IMPLEMENTATION OF THE OPTIMAL MODEL OF PUBLIC-PRIVATE PARTNERSHIP FOR THE DEVELOPMENT OF TOURISM IN RURAL AREAS**

The illustrated model could be applied in the development of tourism in rural Istria, but also beyond. Of special importance is the definition – at the beginning of the project – of all stages of project preparation and execution.

In addition to the usual PPP setup stages – situation analysis, decision on the implementation of the PPP project, forming a team to lead the PPP – the proposed *optimal PPP model* is geared to the needs of tourism development in rural Croatia and is specific because it requires the precise definition of the following: sources of financing, risk allocation, decision-making process, whether to apply for national and EU funds, the involvement or non-involvement of natural and legal persons in the role of investors and the mandatory establishment of an SPV (Special Purpose Vehicle) to manage the PPP project.

The presented model of public-private partnership can be applied in the jurisdiction of any local (regional) government unit, at state level and by other institutions in the public sector when they decide to carry out a tourism-related project in the rural areas. Furthermore, the model can be examined by the legislator with the objective of making statutory provisions for the establishment of the same or similar models, which the central government will then be able to suggest as the "guideline" for tourism development in rural areas.

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<sup>3</sup> A similar comparison can be found in: Krajnović, PhD thesis, (9)

<sup>4</sup> The description refers to the example of Novigrad in Istria.

<sup>5</sup> More in Krajnović, A., Babić, M., (8)

The principles underpinning this model are: safety, protection of the environment and sustainable tourism, values, quality, development funding, "sustainable" physical planning: special emphasis is placed on the last element, in the light of the significance of sustainable development and of the need to attract investors to underdeveloped rural areas.

The tools used by the model are: forum (population involvement), information, technology, software, ideas, programmes, experience, knowledge, life-long learning, partnership. Special emphasis here is placed on the importance of the forum and the involvement of the population, as well as on the partnership of all stakeholders, this being the only way to ensure sustainable development of the rural destination (and not only thereof). (3)

Finally, the proposed model of public-private partnership should be beneficial to all actors involved in destination management:

- **The public sector** – the public sector manages tourism development in the destination and actively involves the population in the project, reaps the financial benefits of the project and has the right to veto any major decisions referring to the project;
- **The private sector** – the private sector can buy shares in the project and has rights to the dividend, the opportunity to make decisions, actively participate in the project and boost employment by creating new jobs;
- **The population** – synergy among all social groups is achieved: the population can participate directly in the project and can influence the relations between the project and civil society programmes;
- **Visitors** – visitors have the opportunity to enjoy the services provided by a new tourism project supported by both the public sector and the majority of the local population;
- **Environment protection and sustainable rural tourism** – the public sector can veto any major decision made by the Company, so it is safe to assume that it will do so in the interest of nature and the environment; the residents want to achieve sustainable development and, given that the Deed of Establishment grants them the majority vote in the assembly, all decisions of the Company can be expected to lead to the achievement of that goal.

## 8. FINAL CONSIDERATIONS

The impending need for strategic planning in tourism has been generally recognized; otherwise, there can be no sustainable and high-quality tourism development. Private businesses were the first to introduce strategic planning (1), but the need for the same approach has been recognized in tourism destinations as well. In the latter case, emphasis is placed on long-term and comprehensive (integrated) planning. Among Croatian regions, Istria has taken the lead in strategic planning and has adopted a Master Plan for tourism development.

A state-of-the-art approach to destination management is the Integral Quality Management model, which is defined as "the systematic pursuit of quality in both the narrow and wider sense; that is, the pursuit of short-term economic improvement and long-term local development." (3).

This approach tries to reconcile the interests of the public and the private sector by applying the private-sector method of quality management to the tourism destination in the following way:

- By "integrating and comprising the public-sector outlook in the approach",
- By taking into account all public and private actors involved in the process and their multiple and complex interaction and by bearing in mind "the tourists, the operators directly and indirectly involved in tourism, the local population and their representatives." (3).

However, practical instances of strategic destination development planning in Istria give rise to the following considerations:

- Strategic planning at County level (Master Plan), regardless of the excellent marketing, has not provided sufficiently detailed solutions to issues of quality destination management; in other words, it does not define precisely the entity in charge of the implementation of the Master Plan. Another shortcoming is the impossibility to motivate the local population and other stakeholders to accept the goals set out in the Plan and to become actively involved in its execution.
- The attempts to implement the IQM approach are a step forward in reaching the goals envisaged by the Master Plan. However, certain weaknesses have been noticed at execution stage: the insufficient involvement of stakeholders, mistrust in the public sector as the entity in charge of destination management, even bewilderment and lack of understanding of the reasons why certain stakeholders should be involved in destination management.
- The public sector on its own cannot carry out the basic functions of destination management, these being, first of all, integration and motivation of all those involved. Local government units – cities and municipalities – are generally focused on infrastructure-related projects, physical planning and utility projects, whereas the Tourism Board network concentrates mostly on organizing cultural events and entertainment. Furthermore, even the Act on Tourism Boards and the Promotion of Croatian Tourism (15) does not envisage Tourism Boards as destination managers.

By examining existing models and their advantages and disadvantages, the authors have tried to find a new, "fresh", approach to destination management which would provide quality and sustainability. Answers have been found in some instances thereof in Europe and also in a unique case, a precedent – that of Mon Perin Company in the small Istrian locality of Bale. On the basis of their research, the authors have developed, and hereby illustrated, their own development model, fully grounded in the principle of public-private partnership.

Among the many benefits of the model illustrated above, the authors wish to underscore the following:

- The model promotes a tourism system which will enable the local population to participate actively in destination development and give investors the opportunity to make a profit by becoming actively involved in destination development,
- The model achieves synergy among the local population, the public and the private sectors,
- Another achievement is a comprehensive, integral approach but, unlike the IQM model which, while envisaging an integrated product, remains limited to destination marketing, the model set out here provides for an integrated approach **within an area**

regulated by a plan, thereby giving destination management a third, spatial, dimension.<sup>6</sup>

The need for statutory regulation of the status of an institutional public-private partnership – especially for the purpose of site-sensitive tourism and specifically in rural areas – cannot be stressed enough.

Once the population has been made aware of the importance and educated about the need to become involved in similar public-private partnership arrangements and to participate actively in managing tourism – and not only tourism – development of the area where they live, the preconditions for a wider application of this model in other tourism destinations in Croatia and beyond will have been put in place.

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<sup>6</sup> The authors mean that the one-dimension approach is typical of strategic management in tourism undertakings; the IQM model is characterized by a two-dimensional approach which adds to the first the comprehensive interpretation of the tourism destination with the involvement of the public sector and the local population. The model proposed by the authors adds a third dimension, in which the issue of accountable and active territorial management is successfully incorporated in integral destination management.