CHAPTER 12

THE ROLE OF THE PUBLIC-PRIVATE PARTNERSHIP MODELS IN SUSTAINABLE TOURISM DEVELOPMENT

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INTRODUCTION

Over the last twenty years, the concept of the public-private partnership, i.e., more precisely, the entry of private capital investments into the traditionally publicly-financed sector, has becoming a prerequisite for tourism growth and development.

The sustainable tourism development requires a large number of investments in the general and the tourist infrastructure of a tourist destination. The slowness of decision-making in the public sector and the limited budgetary resources lead to underinvestment in the public infrastructure. This is the reason why the public infrastructure often does not follow the enhancement of national standards or the improvement of the level and quality of services. This disparity is mostly noticeable in new EU member states and in EU accession candidates (Marenjak, Skenderović, Vukmir & Čengija, 2007).

Nowadays, a growing need for investment in the public infrastructure arises as well as in the quality of public sector services in general, but due to the above-mentioned limitations, the public sector is not able to adequately meet these growing needs.

It is possible to meet these needs by using the resources owned by the private sector entrepreneurship, which has the knowledge and experience required in response to the identified specific problem. In addition to that, the private sector is also able to supply the financial resources needed for the implementation of the solution to the above-mentioned problem.

A possible solution to the problem can be the co-operation between the public sector and the private entrepreneurship which is generally known as public-private partnership (PPP) (Cetinski, 2005).

Over the last years, PPP has been increasingly used in EU states as the optimal model for public infrastructure financing and contracting. A more frequent application of various PPP models has emerged mainly as a response to the above-mentioned limited funding resources for public infrastructure construction by the public sector, and hence the need for introduction of alternative financing sources, mostly the private sector, in the investment in public infrastructure. This phenomenon has been particularly noted in growing countries that are being hurriedly funded and thus require improvements of infrastructure as an indispensable basis for development (Marenjak, Skenderović, Vukmir & Čengija, 2007).

PPP dates back to the 18th century as the concept of public infrastructure privatization (Marenjak, Skenderović, Vukmir & Čengija, 2007); namely in the form of concession agreements signed by governments of mainly underdeveloped countries and big companies.

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 (Rajko, 2009). 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 it 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, of which the most important 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 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 sector. 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 (Rajko, 2009).

The advantages of public-private partnerships are reflected in the increased efficiency compared to purely public supply of more complex forms of public services. Such increased efficiency is characterized by the following:

- significantly reduced public expenditures as a result of the effort to achieve an optimal ratio between investment and return – profit maximization,
- PPP benefits from the positive effects of the bidding process within the public sector – the competition among different economic subjects from the private sector during the bidding process to be awarded the partnership with the public sector,
- PPP benefits from the positive effects of innovativeness in the private sector, which results in greater adaptability to the changes in the new situation, quicker reaction to the changes in demand, and finally, lesser expenses,
- PPP exploits the economies of scale laws, better ratio between public service costs and quality, and setting up quality management processes. The quality of services is a resultant of the private sector's innovativeness and it is achieved with less cost than if the services were supplied by the

public sector only. In this way, the quality of the public service provided is improved and the satisfaction of end-users is increased,

- more cost-effective risk management

It can be said that the above-mentioned advantages of PPP represent in fact the application of modern management principles, as well as the knowledge and skills provided by the private sector, which are thus transferred to the public sector.

Considering all 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 (Green paper on public-private partnerships and community law on public contracts and concessions, 2004) 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 (Rajko, 2009).

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 also includes 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 (Rajko, 2009).

PPP AND QUALITY

As far as the tourism sector is concerned, it is particularly important to emphasize the impact of PPP on the quality of services supplied within PPP projects. The quality reflects in the control of services provided and in the control mechanisms of the business process that provides the public service. The private sector, in the interest of profit protection and maintenance, has at its disposal well developed internal audit and internal control systems, quality systems and the alike. These mechanisms are not so developed in the public sector, except for the system of control of decisions implemented, which is often provided for by laws.

Complex public projects often require high innovativeness in their development, both in construction and operation. Influenced by various market mechanisms, the private sector is forced to use innovation in order to survive on the market. Due to its monopoly position, the public sector does not develop innovativeness with the same intensity as the private sector does (Juričić, 2008).

PPP RESEARCHES TO DATE

The literature on PPP is mostly dedicated to describing practice cases, whereas less literature is dedicated to establishing the economy of PPPs and defining theoretical models of this form of association.

PPP model implies, almost as a rule, projects in which the project financing technique is applied (Juričić, 2008).

PUBLIC-PRIVATE PARTNERSHIP IN TOURISM

Achieving progress in tourism is hard (well-nigh impossible) without collaboration and strong forms of partenrship. 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, 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" (Cetinski, 2005).

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 four 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 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" (Cetinski, 2005).

Positive effects of public-private partnership model on sustainable development include the following:

- creation of prerequisites for (higher-quality) tourism development – general and tourist infrastructure, suprastructure and other projects in tourism,
- affirmation of all advantages of private entrepreneurship in the public sector – personnel, operating, commercial, financial, marketing advantages. This leads to development of the tourist destination in which a PPP project is being implemented and to enhancement of its competitiveness in the tourism market,
- greater availability of long-term sources and application of other forms of financing as well as significant increase of opportunities for direct foreign investments, which is a far better relationship than, for instance, credit indebtedness, because in this case the investment risk is not borne entirely by the public sector, but also by the private sector,
- local self-government units' budget relief. PPP models result in relieving the budget of the pressure or burden of issuing loan repayment guarantees, financial subsidies or covering loss, if any. The funds or the potential of government institutions thus made available can now be directed to other projects of importance for the overall population,
- development of local and national economy.

PPP brings to projects the market principles of operation and opportunities for the realization of large infrastructure projects. Such large investments give scope for new employment and further influence the economic activity of a number of companies in a tourist destination. In this way the PPP models act as a lever for economic development of the local community, thus positively influencing improvement of the standard of its citizens.

Moreover, the PPP models positively affect the development of tourism, because they provide the tourist destination with the basic infrastructure. In addition to that, the multiplier and the accelerator effect of tourism development are added to the lever effect of PPP models, thus achieving additional synergy effects that have direct positive implications for sustainable tourist, economic and social development of the local community.

Consequently, PPP has a positive influence on the development of regional and national economy.

PUBLIC-PRIVATE PARTNERSHIP IN ISTRIA COUNTY – RESEARCH RESULTS

In order to sound the opinion and attitude of the public towards public-private parternship, 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 (Rajko, Krajnović & Tomčić, 2008):

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 for implementing 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.

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 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's statute, no major decision could be passed. The deed of establishment lays down that 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 (Kiš & Borovečki, 2008).

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 Riviera" – which partly covered the territory of the Municipality – but it 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's 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 the 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.

PROPOSAL OF AN ACCEPTABLE MODEL OF PUBLIC-PRIVATE PARTNERSHIP – INTEGRATED PARTNERSHIP MODEL (IPM) TO PROMOTE THE DEVELOPMENT OF SUSTAINABLE TOURISM

Starting from the assumption that it is not possible to establish such an optimal model of public-private partnership that could be applied in the implementation of all tourist infrastructure projects, the paragraphs below will provide a proposal of an *acceptable model of public-private partnership* that is not founded on the legislation currently in force in the Republic of Croatia. The economic feasibility of the project implementation, i.e., its market orientation, has been chosen as the basic criterion for establishment of the acceptable model of public-private partnership.

The proposed acceptable model is a repercussion of all the knowledge acquired and the researches on the specified topic, which has not taken into consideration legislative and other constraints, the current situation in the macroeconomic environment, or the usages and practices in the Croatian economy. It is crucial for the model to reveal to the public sector a new way of planning and implementing public infrastructure projects by using all available resources in the environment.

Taking into consideration the management stages (planning, organization, staffing, operation and control), the familiarity of local self-government units with the term 'public-private partnership', their fiscal capacity, investment opportunities, the priorities that they consider the most important when forming an optimal model and the answers to poll questions; the paragraphs below will provide a proposal of an acceptable model of public-private partnership – named IPM (Integrated Partnership Model) – that could be used in the development of tourist infrastructure in the Republic of Croatia (Rajko, Ilak Peršurić & Juraković, 2010). This model represents an institutionalized form of public-private partnership that has not been fully defined yet in the legislation of the Republic of

Croatia and hence requires amendments to the legislation in order for it to start to be applied in practice.

The proposed IPM model was developed on the basis of the research on PPP application in the European Union and in the Republic of Croatia, on the basis of a similar example of good practice called "Mon Perin" in the Municipality of Bale, but also, based on the opinion survey carried out among representatives of local self-government units in the County of Istria, and it can be useful for anyone who wants to start with the implementation of a tourism project in the Republic of Croatia through public-private partnership model.

Based upon research of the practice and the available literature, we have set up such acceptable model of public-private partnership that it consists of four successive stages:

1. Mandatory conditions that the project has to meet
2. PSC calculation = socio-economic efficiency analysis
3. Calculation of the net present value of the project
4. Project implementation

1. Mandatory conditions that the project has to meet before implementation through IPM.

Given the fact that all PPP projects are associated with large investments and that any project in order to be implemented through PPP requires a long preparation of documents, which implies large costs for staff recruitment, it was proposed that only those projects whose budget is over one million euros should be taken into consideration for project implementation through IPM.

Since the preparation of each PPP project lasts several years and such projects are used to develop infrastructure that should serve citizens – tourists for several decades, it was proposed that only those projects that will meet the needs of the citizens in the long run, i.e. that will be used for at least 20 years, should be taken into account.

In order for a project to be realized through the IPM model, it is necessary to set aside enough time for the preparation of complete documentation that is required for public procurement, because every detail has to be very clearly described. If there is not enough time, the entire project could be jeopardized, hence the application of the IPM model in such cases is strictly not recommended.

In order for a project to be realized at fair market prices, it is necessary to find companies that are willing to enter into a joint PPP project and that the final price is established through bargaining negotiations with the interested companies. Since, in case of PPPs, the majority of projects cannot be executed by any construction company due to insufficient technical and technological capacity, and due to the fact that there are not many companies suitable for such projects, a minimum of 3-4 companies that should be interested in being involved in a PPP project has been identified as an indispensable prerequisite for the IPM model in order for such a project to be even considered as suitable for implementation through IPM.

One of the basic prerequisites that have to be met by the IPM model is to be financially sustainable, i.e., to be able to operate without external assistance. If this criterion is met, the project is further considered in the context of the possibility of its implementation through the IPM model.

In case of project implementation through PPP, the local (regional) self-government unit usually incurs long-term debts. The statutory limitation should be taken into consideration which provides that any local (regional) self-government unit is allowed to incur debts up to maximum 35% of the annual budget for the purpose of project implementation through the PPP model.

One of the most important characteristics and advantages of IPM is the risk sharing with a number of partners that will manage the risks better, i.e., that already have experience in similar projects. If this issue is defined in a manner acceptable to all the parties involved, there are good chances for the project to be implemented through the IPM model.

The criteria described above have been established by studying the available literature and the national and international practice. If one of the above listed criteria is not met, the project is not "suitable" to be implemented through the IPM model; if all criteria are met, the project is considered to have the basic requirements for implementation through the IPM model.

2. PSC – socio-economic efficiency analysis

If the project meets the specified mandatory conditions within the IPM model, the next step is to prepare the socio-economic efficiency analysis, i.e. to construct the Public Sector Comparator (PSC). PSC represents a ratio (coefficient) that depicts the relationship between the usual cost of public procurement (including the entire capital, operating costs and general costs, and taking into account all the risks) and the private investor's bid (PPP bid), where such investor undertakes a portion of risks and responsibilities. A specific PSC should be prepared for each project and such PSC should provide data on whether the construction of a project through the public-private partnership model (where the private partner bears the majority of risk during the entire duration of the project) is more acceptable than the usual project implementation by applying the public procurement procedure and including all the subsequent risks.

PSC is calculated as the ratio of the present cost (net present cost – NPC) of the total project future expenditures (for public procurement) during the entire project life cycle (whole of life cost) to the expenses for implementation of the project through the PPP model.

$$PSC = \frac{NPC\,(total\_future\_expenditures)}{PPP\_expenditure}$$

3. Calculation of the Net present value of the project (NPV)

After having assessed the socio-economic justifiability of the project implementation through the public-private partnership model (when it is established that the project implementation through the PPP model is more cost-efficient than its implementation by applying the classic public procurement procedure), the Net present value of the project (NPV) is calculated for the entire implementation period, taking into account cash flows, the market price of capital and the overall investment.

The Net present value (NPV) of the project in a certain period (n) is calculated as:

$$NPV = \sum_{t=1}^{n} \frac{R_t}{(1+k)^t} - C_0$$

where:

R_t – the net cash flow from the project in each of the n examined years

k – the risk-adjusted discount rate (cost of capital)

n – the period in which the project will be financially realized

Co – the project start-up costs

In order for a project to be financially profitable, NPV has to be above zero, i.e.:

$$\sum_{t=1}^{n} \frac{R_t}{(1+k)^t} - C_0 > 0$$

The acceptable public-private partnership model allows potential investors (natural and legal persons) to get involved in project funding as stakeholders. Apart from the stakeholders, public infrastructure projects are financed with non-repayable funds by Ministries, European Union funds and other sources. The goal of the acceptable model of public-private partnership is to create surplus value from the money invested by stakeholders at a rate higher than the cost of capital, as this is a prerequisite for the stakeholders to participate in the project. The overall cost of the project is partially paid from non-repayable grants from various institutions as well as from the funds raised through the initial public offering (IPO) from potential investors (stakeholders) that expect certain earnings by investing in the project. The total investment (C_o) = V + L + U, where: V – the external non-repayable funds; L – funds of the local self-government unit; and U – the funds of natural and legal persons raised through the IPO.

In order for a project to be acceptable for investors (including the local self-government unit), the Net present value (NPV), taking into consideration the total investment reduced by the external non-repayable funds, must be positive. By taking this into account, the following formula was obtained:

$$\sum_{t=1}^{n}\frac{R_t}{(1+k)^t}-(C_0-V)>0, \text{ i.e. } \sum_{t=1}^{n}\frac{R_t}{(1+k)^t}>C_0-V$$

The formula shows that a public-private partnership project will be acceptable to stakeholders, provided that the sum of all cash flows (during the entire period of project implementation) divided by the potential (1+k) of the current year is higher than the total cost of the project reduced by external non-repayable funds.

4. Project implementation

Having estimated that the project meets the preliminary conditions for implementation through the IPM model, having checked it through PSC, and upon receipt of the results that the Net present value of the project is higher than the difference between the total investment and the non-repayable funds received, the actual implementation of the project can start. Each public-private partnership project can be implemented in several ways, but the IPM starts from the assumption that it is of utmost importance to satisfy the criterion of project profitability, and it is for this reason that it is proposed that the project should be planned on still undeveloped land whose value will increase after the land rezoning to be implemented by the local self-government as an active participant and stakeholder in the project. In order for the project to start with a more concrete realization, the optimal public-private partnership model assumes the establishment of a specially organized company (PUD) that will manage the project from its beginnings to, and after, the final completion of construction. IPM requires that on the occasion of PUD foundation, the Articles of Association should include a clause allowing the local population and the local self-government to have control over the project development, i.e., to have 50 percent plus one vote when taking strategic decisions regarding the project itself. After foundation of PUD, certain funds are required that have to be raised through the initial public offering (IPO), which can be implemented in several phases. After the financial scheme has been decided and the necessary documents have been prepared, the project construction will commence; and after completion of the construction, the project will be commissioned and operated.

The definition of the proposed optimal model of public-private partnership was established largely thanks to one example of good practice that is being implemented by a small municipality on the Istrian peninsula – Bale.

PROSPECTS FOR PPP DEVELOPMENT IN CROATIA

PPP opportunities for the purpose of project financing of infrastructure systems have not yet been sufficiently exploited in the Republic of Croatia. However, certain changes can be expected in the future. Wider application of PPP can be expected for the purpose of project financing of infrastructure and other relevant activities (SDURH, 2006). However, an efficient use of PPP mechanism requires a strong development of management and financial capacities – first of all, at the level of local and regional self-government units.

The extent and efficiency of the application of PPP models depends also on the environment as well as on the involvedness of international institutions.

The PPP model should not be regarded as a universal solution to the infrastructure requirements, but as a useful complement and/or alternative to the conventional methods of funding from public sources. The models of financing through PPP are still at their beginnings in Croatia, because the factors that enable its successful implementation – from the legal and institutional framework, public support, expertise of the public and private sector, to attracting foreign investors – have only just been defined or developed.

The extent of the PPP application will depend on the development of expertise of the state administration and the local and regional self-government bodies, as well as on the development of the private sector economy.

The efficient application of this model will influence the economic and environmental sustainability of projects, thus positively affecting the quality of life of the citizens and the overall socio-economic development (Aralica, Račić & Šišinački, 2007).

CONCLUSION

The need for sustainable social and economic development requires imposing the partnership between the public and private sector as one of the possible solutions for an efficient use of available resources, where the interests of both the public and the private sector are met through the growth of standards and welfare of the citizens, while at the same time achieving high rates of return on capital invested.

The emergence and development of PPP as a segment of sustainable development are based on the effort to improve the quality and availability of goods and services without imposing, usually additional, taxes and funds for new projects. The goal of such projects is that the private sector designs, finances, builds and operates (public) projects, and in return takes the associated portion of income (profit) that is generated during the realization of the project.

Partnership emerges as a function of the historical, economic, sociological and political context and its application is possible at all levels of the economy. It is created by capital pooling in those areas where the public capital is not sufficient to finance larger investment projects and activities. Due to this reason, i.e., in order to solve the lack of capital problem, the private interest emerges as a partner with the public sector.

It should be emphasized that tourism often arises in receptive communities whose local self-government units have at their disposal scarce financial resources in the budget. It is precisely in such smaller local self-government units that the importance of the public-private partnership model is particularly emphasized in the development of tourism.

The sustainability of access to the public sector funding through PPP models has also been proved in practice. The effects of these models include primarily the creation of prerequisites for the development of tourism, greater availability of long-term funding sources, and the opportunity to use alternative forms of financing.

Another important effect is the public budget relief, which in turn has positive effects on the economic and social development of the local community.

This way the PPP models positively affect the local and national economy. Because of the specific need that tourism implies in terms of infrastructural development, this influence is (also) evident precisely in the tourism sector.

Due to the possibility of entry of foreign capital in the investments in PPP models, and under conditions of intensified integration among countries, the positive effect of PPP models on the supranational economy and sustainable development is also noticeable, thus increasing the quality and standards of the entire community and region (Čišić & Perić, 2005).

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