



MF  
40,11

# Combating fiscal constraints for PPP development

Mihaela Grubišić Šeba, Dubravka Jurlina Alibegović and  
Sunčana Slijepčević  
*The Institute of Economics, Zagreb, Zagreb, Croatia*

1112

Received 8 July 2013  
Revised 6 November 2013  
Accepted 9 March 2014

## Abstract

**Purpose** – Public-private partnership (PPP) growth is often related to infrastructure development needs and public debt increase. Despite huge infrastructure (re)construction needs, the number of PPP projects in Croatia has been rather small so far. The purpose of this paper is to analyse the prospects for PPP projects development in Croatia in the near future. It is examined whether the stance of local authorities towards implementing PPP projects depends more on the necessity of developing infrastructure needs of local citizens or on the available funds for capital investments in local budgets, which are, after covering all operational expenditures, scarce.

**Design/methodology/approach** – The Municipal Assemblies in European Local Governance (MAELG) survey data for Croatia are combined with available secondary data on local budgets' revenues and expenditures in the period from 2008 to 2010 for the surveyed local government units. The differences between the answers of local representatives were tested for statistical significance by Pearson  $\chi^2$  test, while ANOVA is used for testing statistical significance of budgetary data comparison. Some descriptive statistics' results are also used. Apart from the quantitative data, qualitative research on PPPs, especially for fiscally constraint governments is used throughout the paper.

**Findings** – The main findings of the paper are that most Croatian local units are severely fiscally constraint to implement any capital projects. Their public revenues are often reserved for covering operational expenditures only. Since local representatives are mostly affirmative towards private sector involvement in providing public services, there is a room for PPP projects in Croatia. Due to the fact that every PPP contract requires active participation of the public partner, two possible solutions are proposed: pooled financing with a possible option of project' bonds issuance to institutional investors and engaging publicly owned assets into infrastructure projects' development.

**Originality/value** – The value of this paper is that it showed that there is little room for financing infrastructure development in Croatia if budgetary rules are followed straightforward. The paper aims to show fiscally constraint local governments a possible way for financing capital projects and rendering public services to their citizens. These solutions may also be applied in other indebted countries, especially if they own a significant portion of public assets.

**Keywords** Local government, Debt pooling, Fiscal constraints, Infrastructure development, Public asset management, Public-private partnership

**Paper type** Research paper

## 1. Introduction

Pure public-private partnership (PPP) contracts in infrastructure development involve various forms of long-term engagement of private partners in design, financing, construction, operation, maintenance and management of a public infrastructure and rendering public services for which quality the government remains accountable to the citizens (Funke *et al.*, 2013). Most infrastructure projects require large up front investments, making PPPs increasingly popular as a way of obtaining and maintaining public infrastructure in many sectors (Yescombe, 2007). PPPs are nowadays present in transport infrastructure construction, operation and maintenance (roads, railways, bridges, tunnels, ports, airports), providing adequate social infrastructure (schools, hospitals, prisons, social housing) and rendering public services in water supply, waste



water treatment and waste disposal. Malhotra (1997) argued that PPPs are a more efficient alternative to traditional provision of public facilities and services by the state.

In addition for being judged based on what they own, or on how much they spend, governments are also scrutinised for delivering quality public services to their citizens (Torres and Pina, 2001). Public projects have traditionally been financed with public money in Central and Eastern Europe (Moszoro and Krzyzanowska, 2011) and in Southern Europe (Metaxas and Preza, 2012) as opposed to, for example, Spain where various PPP forms have been utilised since 1960s (Torres and Pina, 2001). Since traditional procedures for awarding public contracts for works and services require planning and allocation of substantial funds in the public budget (Antellini Russo and Zampino, 2012), the increase in PPP contracts worldwide is often attributed to governments' attempts to evade budgetary constraints by taking liabilities off the balance sheet (International Monetary Fund (IMF), 2004; Maskin and Tirole, 2008). By deferring budgetary spending for capital investments over a number of years in the future, PPPs enable governments to fund more infrastructure projects earlier than under traditional public capital investment processes that are heavily dependent on existing deficit and/or fiscal constraints (Posner *et al.*, 2009). One of most prevailing concerns thereof is that government's desire to avoid reporting immediate liabilities may blind them to the future fiscal costs and risks instead of bringing the expected value for money from investing in capital projects (Budina *et al.*, 2007).

Lack of budgetary funds has been the predominant reason for the private sector's involvement in central and regional infrastructure development in Croatia (Jurlina Alibegović, 2011; Metaxas and Preza, 2012). Besides inadequate structure of local and regional budgetary revenues and expenditures, the reasons for private sector involvement in infrastructure development are: increased local and regional needs for infrastructure, the size of local and regional capital projects, high costs of capital projects' preparation and construction as well as borrowing restrictions at the central and regional levels. Financing infrastructure in once centrally planned Croatian economy has rather become a matter of immediate necessity or certain regulation fulfilment than obtaining higher efficiency in public services' rendering for which PPPs are widely praised for.

Just like all capital projects' implementation depends on available funds, PPP projects' implementation is not limitless, regardless of who is financing them. The government borrowing limits are prescribed by the European Union (EU), the IMF and national government spending and borrowing guidelines. The EU fiscal rules were introduced in 1996 within the Maastricht treaty, requiring the member states to avoid excessive government deficits. The latter are capped to 3 per cent of planned or actual government deficit to gross domestic product (GDP) level in the current fiscal year and to 60 per cent of overall government debt share in GDP.

There are three levels of reporting that concern PPPs in each EU country: accounting, statistical and budgetary treatment (EPEC, 2010). The accounting treatment of PPPs in closely related to the degree of public accountability and control over taxpayers' money spending. The strongest public control is exacerbated by the accrual-based accounting system which is practically the same financial reporting that private companies have. Traditional cash-based accounting system records only cash receipts and expenditures, while hybrid (modified) accounting system lies between the two corners. The latter is adopted in Croatia and, based on its principles, non-financial assets' purchases are not capitalised, but expensed following their purchase. The EU countries tend towards accrual-based accounting, employing either

economic risk and reward criteria or control criteria in recording public assets on the central and local government's balance sheets. Statistic treatment of PPPs in Europe is binary – they are either recognised fully or not recognised at all in government debt records. Budgeting for all financial commitments up front is viewed as essential for considering all known costs of PPPs at the time at which the commitment is made because otherwise the PPP projects may seem cheaper than they really are (Posner *et al.*, 2009).

A trend towards territorial and fiscal decentralisation combined with local economic development necessity has amplified local needs for infrastructure finance. With rather scarce budgetary resources at their disposal, local authorities are faced with difficulties in mitigating huge operating expenditure requirements with little budgetary revenues left for capital investments (Bond *et al.*, 2012). For those governments that do not have surplus in public receipts over expenditures, there are traditionally three possible solutions for delivering infrastructure investments. They can borrow funds and repay them later (Josifov *et al.*, 2011), they may seek grants or intergovernmental transfers (Nam and Parsche, 2001) or they can privatise some public assets or some of their operations (Platz, 2009). There is also a PPP solution that lies between traditional public procurement and privatisation which may help public authorities to bypass certain financial constraints (Antellini Russo and Zampino, 2012). Government spending limits within the EU create, therefore, an incentive for PPPs' implementation in government operations because they shift borrowing for capital investment from the government to the private sector (Hall, 2008).

The link between local government fiscal constraints and PPPs has not been empirically proven in the literature except for the recent research related to Italy (Antellini Russo and Zampino, 2012) that confirmed positive relation of local government borrowing restrictions and financing infrastructure through PPP contracts. Our starting hypothesis is that due to regulatory prescribed government spending limits, there is little room for financing capital projects in Croatia. The main goal of this paper is to analyse what are the prospects for PPP development. In this respect, two research questions have been raised:

*RQ1.* Concerns local authorities' stance towards PPP projects.

*RQ2.* Examines whether the stance of local authorities towards implementing PPP projects depends more on the necessity for infrastructure development or on available budgetary funds for capital investments.

After the introductory part on interdependence of budgetary funds, infrastructure needs and PPPs, the second part of the paper describes the fiscal conditions and restrictions for infrastructure investments in Croatia. Regulatory setting and practical applications of PPP projects, with focus on the projects implemented by local government are described in third section. A possible financial scheme for PPP projects that circumvents budgetary constraints is presented in the fourth part of the paper. Last section concludes.

## **2. Fiscal constraints for Croatian local government**

There are 576 local government units spread over the territory of the Republic of Croatia that take care of local infrastructure needs of 4.3 million inhabitants. In total, 20 are regional self-government units (counties), 555 are local self-government units that

include 126 cities (which are divided into big cities of over 35,000 inhabitants and other cities) and 429 municipalities, while the City of Zagreb has a special status of both a city and a county.

Since 2001 the process of decentralization started in Croatia by transferring additional responsibilities to local government units. The division of responsibilities and authorities of municipalities, cities and counties is prescribed in large number of specific laws published in Croatian Official Gazette. Municipalities and towns perform tasks of local significance that directly address the needs of their citizens such as: settlement improvement and lodgement, physical and urban planning, utility services, child care, social welfare, primary health care, upbringing and primary education, culture, physical education and sports, consumer protection, natural environment protection and improvement, fire-prevention and civil protection, local transport on their territory and other activities prescribed by regulation. Big cities and county centres are responsible for all local tasks and public services' provision to their citizens including public roads maintenance, implementation of physical planning documents, construction and location permits issuance. Unlike cities that take care of local area, counties are responsible for fulfilling public functions of regional importance on the area that does not belong to big cities. However, big cities may also be responsible for public functions that would otherwise be within the scope of duties of the counties provided that they sustain conditions for rendering such services. The central responsibility for communal services and education up to the secondary school level only is transferred to cities and counties. Current expenditures' coverage in health care and social welfare is transferred to counties. Financially stronger cities cover material and capital investments' costs in primary education, while the counties cover these costs in secondary education. Only one public function – fire protection is entirely transferred to the municipal level, making Croatia a much-centralised country.

Fiscal capacities of local government units to render public services within their responsibilities have been widely researched in Croatia. The analyses show weak fiscal capacities of most local government units and limited fiscal autonomy to raise revenues from their own resources (Bartlett *et al.*, 2013; Jurlina Alibegović *et al.*, 2013; Maleković *et al.*, 2011; The Institute of Economics, 2010). As a consequence, there is need to raise funds for project financing by borrowing. However, municipalities, cities and counties can borrow funds for investing into capital projects only with previous approval of the Government of the Republic of Croatia (Jurlina Alibegović *et al.*, 2013).

The Ministry of Finance has settled general principles for local and regional government borrowing. Local and regional self-government units in Croatia may incur debt in two ways: borrowing by taking a loan or issuing debt securities (municipal bonds). Counties can issue guarantees to the municipalities and cities with previous approval from the Croatian Government. Municipalities, cities and counties can issue guarantees to the public institutions or companies in which they have a majority ownership stake. All borrowings, guarantees and obligations cannot exceed maximum rate prescribed by the Budgetary Act (2012). The level of total borrowing of the local government units in Croatia is defined by the central state through annual enactment of the measures that limit borrowing of local units. As evidenced by the data in Table I, there are two key restrictions on local government units' borrowing (Jurlina Alibegović *et al.*, 2013). The first restriction puts a cap on borrowing of all local units in the country, while the second one concerns borrowing of each particular local unit. Total borrowing limit of a local and a regional government unit for fiscal year can be up to 20 per cent of realised public revenues in the previous fiscal year (Budgetary Act, 2012).

Year	Allowed purpose of borrowing	Annual debt service limit (annual commitment)	Additional restrictions	
1998-2012	Reconstruction and development (financing of capital projects)	20% of realised revenues	Includes the amount of average annual annuities, guarantees given in previous fiscal years and current portion of the long-term debt	They are prescribed on an annual basis as of 2003. From 2007 to 2012 additional restrictions are set at 2.3% of realised current revenues of all Croatian local authorities in the previous fiscal year

**Table I.**  
Conditions for local government borrowing, 1998-2012

**Source:** Authors' compilation according to the data published in the Official Gazette

It is rather strict criteria compared to, for example, Poland where the total sum of local government debt may not exceed 60 per cent of the income realised in the current fiscal year (Kania, 2011). The amount of total borrowing limit in Croatia includes the amount of annual loan annuity, liabilities regarding securities' issuance and guarantees in previous years, as well as all unpaid liabilities. If these conditions are met, an additional borrowing limit for local and regional self-government unit has been capped to 2.5 per cent of current revenues in the previous fiscal year of all sub-national government units in Croatia (Act on Execution of the State Budget of the Republic of Croatia, 2012).

To attract financing local government units must be capable of identifying and analysing all technical and financial options as well as reassuring private investors that they have sufficient, reliable revenues to service their debt. Municipalities, towns and counties must be able to identify, prioritise and plan capital investments, compare and choose between different financing options from budgetary funding and classic borrowing to issuing municipal bonds and using PPPs. They should understand the impact of borrowings on other capital investments both in terms of annual debt service and annual operational and maintenance expenditures (Jurlina Alibegović, 2010). Most recently, strategic documents have been prepared at the local and regional levels in Croatia. The process of strategic planning at the local level was initiated by the Law on regional development (2009) and the Strategy on regional development of the Republic of Croatia 2011-2013 (2010). A participative approach that includes strategic planning, programme budgeting with capital investment planning and taking responsibility of performance results has been introduced. All counties have made development strategies for 2011-2013 period and informed the Ministry of Regional Development and EU Funds about their implementation. However, local government units have still many problems with planning the revenues and long-term expenditures since they have been highly dependent on the grants received from the state budget (Jurlina Alibegović *et al.*, 2013). The problem which arises regarding the borrowing restrictions concerns the lack of transparency in fulfilling the criteria necessary to get the approval from the Government of the Republic of Croatia for issuing private or public debt by municipalities, towns and counties. With the exception that the requests are to be solved in the order of submission, the only principle applied is the principle of the first comer. In this way potentially good projects can be circumvented if they are submitted for borrowing approval late in the fiscal year. In addition, the criteria cannot be literally evaluated as there are no public data on total local authorities' debt outstanding.

The need for local government borrowing increased with the economic crisis. In the 2007-2011 periods the expenditures for fixed assets acquisition showed a strong downward trend, that was a direct consequence of budgetary revenues' decline. Borrowing has become urgent as it is often the only way to ensure the implementation of local infrastructure projects. However, borrowing criteria for local authorities are rather strict, making Croatia's entire local government the least indebted in Europe (Bajo, 2011). Local government domestic debt accounts for a stable 0.5 per cent share in GDP as of 2008 according to the Ministry of Finance (2012, p. 27). The structure of public expenditures in local budgets is characterised by prevailing portion of current expenditures. Only one fifth of total expenditures has been allocated to investment projects, which is not sufficient for funding various infrastructure projects for meeting the needs of local inhabitants.

### 2.1 Fiscal constraints – evidence from the field

In order to test the appeal of PPP projects to local government units, comparative councillors' views on PPP, based on the data from Municipal Assemblies in European Local Governance (MAELG) survey are used. The MAELG survey addresses the number of different issues including local councillors' attitudes towards public sector reforms, democracy, public participation in decision-making process, recruitment patterns and political career of councillors. Researchers from 15 European countries and Israel conducted MAELG survey in the period between 2007 and 2010 in order to analyse local councillors' attitudes towards different questions from cross-national perspective. The comparative results of the research have been published in Egner *et al.* (2013). As there is no other data which can be used to analyse the stance of local authorities towards implementing PPP projects, to answer our research questions we analysed the attitudes of local councillors on PPP implementation in Croatia by means of the MAELG database. On average most local councillors in Austria find that PPP is more effective in solving problems than public administration and representative bodies, while the majority of local councillors in Switzerland disagree with this thesis (Krapp *et al.*, 2013). We focused on Croatia only due to its specificities in fiscal revenues and expenditures and specific administrative regulation that prevents more intensive capital investments and more intensive use of PPPs at the local government levels. The survey of city councillors was conducted from 2008 to 2010 by sending the same MAELG questionnaire to all 126 cities in Croatia.

Our sample consists of 298 local councillors from 39 cities with more than 10,000 inhabitants. It includes answers from public representatives of 23 per cent of Croatian cities that are located in 17 out of 21 counties, in which lives 77.4 per cent of the entire country's population. The 21th county is the City of Zagreb, the capital of Croatia that is, due to its special status of both the largest city and a county in the same time, excluded from the survey. The sample characteristics are shown in Table II, whereby Columns 3 and 4, Columns 5 and 6 and Columns 7 and 8 should be looked at together.

As evidenced by the data in Table II, statistical differences, shown with the value of Pearson  $\chi^2$  test, are evidenced in the number of local councillors' answers from different counties, the number of inhabitants of the county that are represented by the city councillors, and the percentage of overall Croatian population represented by answers of city councillors. The latter is obtained by multiplying the population of the county that the city councillors cumulatively represent with the share of a particular county's population in overall Croatian population.

Table II.  
Sample characteristics

County name	1	2	3	4	5	6	7	8
	Number of cities	Number of respondents' answers	Rank of responders' answers	% of represented city's inhabitants in the county	Rank of the county based on the number of inhabitants in the cities	% of overall population in the county represented with councillors	Rank of county based on the overall represented population	
Zagreb	2	20	8	9.58	12	0.71	10	
Zadar	1	7	15	6.49	14	0.26	12	
Osijek-Baranja	1	12	10	3.55	17	0.25	13	
Sibenik-Knin	2	10	13	56.45	2	1.44	7	
Vukovar-Srijem	1	11	12	3.77	16	0.16	17	
Split-Dalmatia	4	26	3/4	52.7	4	5.59	1	
Istria	5	25	5	42.41	8	2.06	3	
Dubrovnik-Neretva	2	6	16	43.04	7	1.23	8	
Krapina-Zagorje	1	7	14	6.77	13	0.21	15	
Medimurje	2	24	7	30.69	9	0.82	9	
Sisak-Moslavina	4	37	1	47.88	6	1.93	4	
Varaždin	1	15	9	4.33	15	0.18	16	
Koprivnica-Križevci	3	26	3/4	54.7	3	1.48	6	
Bjelovar-Bilogora	3	11	11	21.86	10	0.61	11	
Primorje-Gorski								
Kotar	3	24	6	48.74	5	3.37	2	
Lika-Senj	1	2	17	19.20	11	0.23	14	
Karlovac	3	35	2	62.69	1	1.89	5	
Total (mean per county)	39	298 (8)		(30.3)				
Pearson $\chi^2$ test	624	8,279***		4,470***				22.4 (1.32) 4,768***

**Note:** \*\*\*1 per cent level of statistical significance  
**Source:** Authors' calculation from the survey data

The largest number of councillors that responded to the survey questions came from two continental counties – Sisak-Moslavina and Karlovac County, while Lika-Senj County was least represented with only two councillors who answered the questionnaire. The cities whose inhabitants had cumulatively more than 50 per cent share in the county's population were in Karlovac, Šibenik-Knin, Koprivnica-Križevci and Split-Dalmatia County. The representatives from the smallest cities in the county came from Osijek-Baranja, Vukovar-Srijem and Varaždin County. Overall, the counties from the Slavonian region were least represented in the sample as measured by small part of Osijek-Baranja and Vukovar-Srijem city representatives in entire counties' population and no answers obtained from city councillors from Brod-Posavina, Požega-Slavonia and Virovitica-Požega County. The councillors from the cities represented on average 1.32 per cent of a country's population, with councillors from Split-Dalmatia County representing 5.6 per cent of total Croatian population and councillors from Vukovar-Srijem and Varaždin county representing less than 0.2 per cent of the total population. Overall, with all inequalities between the cities and counties, the entire sample of local authorities' representatives can be said to be representative of the entire population of Croatian cities.

The counties are not only significantly different in the number of answers of the councillors, number of inhabitants and the size of the cities, but there are very big differences in revenues and expenditures as well as in overall fiscal capacities to finance infrastructure development. To avoid temporary budgetary effects average fiscal revenues and expenditures in three fiscal years: 2008, 2009 and 2010 are used. Only collected taxes and administrative fees were counted as they are most stable revenues. The most important results are shown in Table III, whereby the results for the cities are grouped at the level of counties to make the data view easier. The data were also converted to euro equivalents at the average FX rate of 1 euro = 7.5 kuna.

Average revenues from taxes and administrative fees between the cities covered by the survey range from 578,000 to 96.2 million euros (the difference of 166 times), while the deviances between cumulative cities' total revenues from taxes and administrative fees per counties range from 6.2 million to 1.2 billion euros between the counties which is the difference of 600 times. Most tax and administrative fees' revenues are used to cover labour and material costs of the cities. These fixed costs range from 845,000 to 57.2 million euros (68 times difference) between the cities and from 4.3 to 721.3 million euros between the counties which is a 168 times difference. Seven out of 39 cities, or 18 per cent of the sample, could not cover their labour and material costs from taxes and administrative fees. In addition, two cities lacked more than 45 per cent additional tax and administrative fees' revenues for pure fixed costs' coverage. In the right-hand part of Table III the total deficit (surplus) from non-financial assets is shown. Revenues from non-financial assets are mostly caused by selling the land owned by the cities with negligible revenues from concessions. The expenditures on non-financial assets are caused by investments in transport infrastructure, purchase of land, building residential and business objects, investing in reconstruction of existing infrastructure and investing in other equipment. Overall budgetary expenditures exceed revenues. It is obvious from the data presented in Column 9 that show the share of revenues from non-financial assets in total expenditures on non-financial assets. As it is evidenced by ANOVA values, all the differences between selected variables across the counties in the sample are significant. These data suggest that something is wrong either in tax and administrative fees' revenues distribution, or that material and labour costs are too high, or that some cities need to be regrouped for fiscal capacity



**Table III.**  
Fiscal capacities and share of non-financial asset revenues in expenditures at counties' level, in euro, from 2008 to 2010

Name of the county	Average revenues from tax and administrative fees			Average labour and material expenditures			Difference between average tax and fee revenues and fixed expenditures 8 (2-5)	Mean average share of non-financial assets' revenues in non-financial assets' expenditures 9
	Total 2	Minimum 3	Maximum 4	Total 5	Minimum 6	Maximum 7		
Bjelovar-Bilogora	17,226,174	1,369,105	2,615,447	16,116,032	1,403,413	1,724,804	1,110,142	0,0512
Dubrovnik-Neretva	124,509,906	3,051,193	29,601,880	84,475,036	2,173,257	20,032,131	40,034,871	0,0763
Istria	216,386,448	4,181,593	29,562,217	177,950,587	2,523,888	21,057,409	38,435,862	0,1147
Karlovac	299,783,103	2,806,100	21,936,650	208,045,328	1,675,911	15,369,205	91,737,775	0,0708
Koprivnica-Krizevci	229,513,313	2,047,733	16,531,174	145,591,714	2,005,912	9,434,010	83,921,600	0,0418
Krapina-Zagorje	27,284,716	3,897,817	3,897,817	19,834,999	2,833,571	2,833,571	7,449,717	0,0446
Lika-Seni	6,200,271	3,100,136	3,100,136	3,710,795	1,855,398	1,855,398	2,489,476	0,0146
Medimurje	216,963,023	1,543,163	10,539,518	145,862,855	907,777	7,111,587	71,100,168	0,1281
Osijek-Baranja	22,073,350	1,839,446	1,839,446	19,536,164	1,628,014	1,628,014	2,537,186	0,0265
Primorje-Gorski Kotar	1,171,890,456	2,141,969	66,753,337	999,779,043	1,360,525	57,239,660	172,111,413	0,0808
Sisaak-Moslavina	474,102,261	578,110	26,675,835	314,126,677	844,581	16,014,219	159,975,583	0,0767
Split-Dalmatia	289,489,848	690,504	96,172,259	213,245,067	769,979	55,316,888	76,244,780	0,1236
Sibenik-Knin	176,784,861	3,201,907	19,286,995	117,303,730	4,784,282	12,502,161	59,481,132	0,0444
Varazdin	51,970,747	3,464,716	3,464,716	25,227,039	1,681,803	1,681,803	26,743,709	0,0453
Vukovar-Srijem	16,919,130	1,538,103	1,538,103	16,860,918	1,532,811	1,532,811	58,212	0,0348
Zadar	21,795,681	3,113,669	3,113,669	16,780,680	2,397,240	2,397,240	5,015,002	0,1352
Zagreb	117,453,560	5,162,087	6,255,304	70,155,516	3,131,448	3,710,414	47,298,045	0,0498
Total	3,480,346,849	578,110	96,172,259	2,594,602,177	769,979	57,239,660	885,744,671	0,0759
ANOVA test	15,919***			23,190***				9,038***

**Note:** \*\*\*1 per cent level of statistical significance

**Source:** Authors' calculation from available secondary data for the survey sample

purposes. Even though the deficits per capita are small and controllable on an annual basis, it is so only due to fiscal stability rules and transfers from the central budget to local budgets at the end of the fiscal year, that for certain cities became a rule. The main question raised here and throughout the rest of the paper is how the local government units can achieve their goals in providing adequate infrastructure to the citizens when they even cannot cover their fixed costs?

All counties have almost 886 million euros at disposal for investments in non-financial assets. But how this amount should be distributed over 3.17 million inhabitants covered by the survey? According to current remaining budgetary revenues after fixed costs' coverage, there is from 0.32 euro left to invest in Vukovar-Srijem to 927.7 euro left to invest in Sisak-Moslavina County per inhabitant, with a country average at acceptable 279 euro per inhabitant. Transferred into investments per square kilometre there is 23.7 euro available to invest in Vukovar-Srijem County and 97,531 euro per square kilometre to invest in Međimurje County with again an acceptable country average of 17,688 euro per square kilometre. The best positioned counties, i.e. cities, according to money left for investments per inhabitant, are from Sisak-Moslavina County, followed by Koprivnica-Križevci, Karlovac, Međimurje, Primorje-Gorski Kotar and Šibenik-Knin County. However, according to the money left to invest per square kilometre the best positioned are Međimurje County that is followed by Koprivnica-Križevci and Primorje-Gorski Kotar County. The rankings of available access revenues to invest in non-financial assets are presented in Table IV.

### 3. PPP regulatory and practical application in Croatia

The development of legal and institutional framework necessary for implementation of PPPs in Croatia commenced in 2006, first starting from the guidelines that only considered the implementation of contractual PPPs. During 2008, Public Private

County name	Available money to invest per square kilometre		Available money to invest per inhabitant	
	Amount in euro	Rank	Amount in euro	Rank
Bjelovar-Bilogora	420.51	16	9.27	15
Dubrovnik-Neretva	22,478.87	6	326.63	7
Istria	13,663.66	11	184.74	8
Karlovac	25,299.99	5	711.70	3
Koprivnica-Križevci	48,010.07	2	726.07	2
Krapina-Zagorje	6,061.61	12	56.06	12
Lika-Senj	465.06	15	48.88	13
Međimurje	97,531.09	1	624.76	4
Osijek-Baranja	610.63	14	8.32	16
Primorje-Gorski Kotar	47,968.62	3	581.07	5
Sisak-Moslavina	35,804.74	4	927.72	1
Split-Dalmatia	16,794.00	9	167.65	9
Šibenik-Knin	19,933.36	8	543.83	6
Varaždin	21,191.53	7	152.00	10
Vukovar-Srijem	23.72	17	0.32	17
Zadar	1,375.48	13	29.50	14
Zagreb	15,456.88	10	148.92	11
Total	17,688.01		279.11	

Source: Authors' calculation from the survey data

**Table IV.**  
Regular budgetary funds  
available for investments  
in non-financial assets  
after fixed costs' coverage

Partnership Act was adopted and the governing public institution for approval and supervision of PPP projects – the Agency for Public-Private Partnerships (APPP) was established. In 2009 the government adopted a set of regulations implementing provisions of the PPP Act which provide a solid legislative basis for establishing and carrying out PPP projects. Today the area of PPP in the Republic of Croatia is regulated by the Public Private Partnership Act (2012), Regulation on implementation of Public Private Partnership Projects (2012), Concessions' Act (2008) and the Public Procurement Act (2011). The latter in particular concerns the procedures for awarding public procurement contracts and concessions to private partners. Other specific sectorial regulation may also be relevant in certain cases, especially when regulating concessions. Our analysis of regulatory issues is based on the analysis of different Croatian laws and supplementary regulatory framework for PPPs.

The 2012 Act defines PPP as the long-term contractual relationship between public and private partner subject of which is construction and/or reconstruction of public infrastructure for the purpose of rendering public services within the area of the public partner's competence. The Croatian regulation recognises two different PPP models: contractual and institutional (statutory) PPP. In the contractual PPP mutual relationship between the public and private partner's (company) is regulated by a governing PPP contract. In the institutional PPP form contractual relationship between public and private partner(s) is transferred into an incorporated project company (in which public partner usually has minority ownership stake) for the purpose of PPP project implementation.

In line with the borrowing restrictions, the Agency for PPP has to seek the prior consent of the Ministry of Finance with regard to the compliance of the estimated direct financial liabilities of a public partner with budgetary plans, projections and restrictions regardless of whether the proposed PPP project is to be implemented at the central or local level. The direct financial responsibilities are estimated monetary charges the public partner must pay for the purpose of project realisation according to the traditional budgetary model (PPP Act, 2012). In addition, the Ministry of Finance gives its opinion concerning direct and indirect fiscal effects and risks of the proposed PPP project.

Subject to prior consent of the Ministry of Finance, the APPP can approve nominated PPP projects and records them in the publicly available Registry of PPP projects. The public partner must submit the proposal for the PPP project to the Agency according to the regulatory prescribed criteria. These are the following: the proposal for the PPP project has to be in accordance with the legal definition of PPP and has to contain all necessary elements specified in the regulation; public body must propose the PPP project; public sector comparator needs to show that there is a value for money in the project, public partner needs to retain the ownership of public infrastructure and the PPP contract is supposed to last between 5 and 40 years. The only criterion for selection of private partner is the most favourable bid.

When going through the PPP public procurement procedure for selection of private partner and PPP contract award, public partner needs to protect public interest, respect free market competition rules as well as the principles of transparency, contractual freedom and environment protection. In PPP projects' contracts and implementation a private partner takes over financial and construction obligations and risks and, in line with the Eurostat's rules, either availability and/or demand risk. Public partner usually transfers a right to build a certain facility to private partner and awards them a concession. Private partner can be permitted to engage in commercial activities and

collect revenues from the third parties in the market as long as it is specified in the PPP contract.

In March 2012 the Centre for Monitoring Business Activities in the Energy Sector and Investments (CEI) was incorporated as the legal entity with public authorities for purposes of monitoring and providing support for businesses undertaken by the State or legal entities in the majority state ownership, in energy sector, investments above 10 million kuna (1.33 million euros) and investment projects that include PPP regardless of its value. CEI could be of great help in providing expert advice to local government units in conducting PPP projects. However, local authorities are not legally obliged to request CEI's help.

The history of PPP regulation and implementation is rather short in Croatia. According to the data from the Registry of PPP projects that is run by the APPP, there have been only three cities and a county that conducted PPP projects so far. These are the cities of Koprivnica (Koprivnica-Križevci County), Osijek (Osijek-Baranja County), as well as Varažin city and Varaždin County. A brief description and value of implemented PPP projects in Croatia are shown in Table V.

There is an overall perception that due to the unresolved privatisation affairs local councillors are not prone to attracting private investors in Croatia despite the fact that the central government is constantly trying to improve the investment climate and remove the most obvious investment barriers. The mostly cited barriers to investments are long waiting time for obtaining certain bureaucratic permissions for construction of facilities, lengthy property (re)registration process, corruption at the local level and inefficiency of judicial protection of investors (World Bank, 2002; Budak *et al.*, 2011). However, according to the survey results shown in Table VI, over 56 per cent surveyed local councillors' consider PPP as more efficient in solving public infrastructure problems than public administration. Over 80 per cent of respondents agree that competition in provision of public services facilitates choice of public services'

Project	Sector	Local government unit	Value in million euro
High school and sports hall in Koprivnica	Education	Koprivnica	9.3
Central bus station in Osijek	Transport	Osijek	16.0
Reconstruction of the county hall	Public Administration	Varaždin	1.2
Upgrading the schools in Varaždin county	Education	Sračinec, Vidovec, Cestica, Knebinjec	6.6
		Gornji, Vinica	2.5
		Radovan, Bednja, Višnjica, Maruševec, Podrute	5.4
		Ludbreg, Semovec, Ivanec, Varazdinske Toplice	4.3
		Marusevec, Tužno, Sveti Đurđ	2.1
		Trnovec	1.9
		Varaždin	5.3
			3.7
City sport hall in Varaždin	Sport	Varaždin	23.6

Source: Agency for PPP, PPP projects' registry

**Table V.**  
Overview of PPP  
projects in Croatia

Statement	Attitude	Frequency	Percentage	Cumulative percentage
PPP solves problems more efficiently than public administration	Strongly disagree	9	3.02	3.02
	Disagree	26	8.72	11.74
	Undecided	95	31.88	43.62
	Agree	116	38.93	82.55
	Strongly agree	52	17.45	100.00
Competition of public service providers facilitates choice	Total	298	100.00	–
	Strongly disagree	6	2.01	2.01
	Disagree	9	3.02	5.03
	Undecided	44	14.77	19.80
	Agree	174	58.39	78.19
The benefits from privatizing public services are small	Strongly agree	65	21.81	100.00
	Total	298	100.00	–
	Strongly disagree	16	5.37	5.37
	Disagree	58	19.46	24.83
	Undecided	115	38.59	63.42
	Agree	92	30.87	94.30
	Strongly agree	17	5.70	100.00
	Total	298	100.00	–

**Table VI.**  
Gradation of  
local councillors'  
attitudes on PPP

**Source:** Survey results

providers, while less than 25 per cent would support the privatisation of public services. Overall, local representatives are supportive for PPP projects and private partners' involvement into infrastructure projects' delivery and rendering public services to their inhabitants.

#### 4. A possible financial scheme for fostering infrastructure PPPs

Financial instruments to fulfil funding gap in PPP projects are mostly explained from the perspective of the private partner. Yet, most PPP projects require direct or indirect financial involvement of the public partner. The latter relies to guarantees a public partner gives to commercial banks regarding the implementation of infrastructure projects (EPEC, 2011a, b); small public participation in funding that makes capital projects bankable to commercial banks and supranational financial institutions and that also contributes to lowering the overall price of debt; taking in public assets into a PPP project; bearing opportunity costs of not using the public assets for generating revenues during the PPP contract duration; public financing arising from occurrence of risks transferred to the public sector; and co-financing of large projects, that is, among others, a precondition for applying for the EU taxpayers' funds (EPEC, 2011a, b).

Borrowing constraints hamper infrastructure development and rehabilitation in lots of Croatian municipalities. Even though at the first sight it seems that there is no way out from the enchanted circle of limited budgets and fiscal constraints, there are two possible solutions that can be intertwined. The first one concerns pooled financing while the second one deals with giving public assets into concessions more heavily.

Pooled financing relies on grouping smaller projects into a pool of projects to be financed by a loan and/or project bonds issuance. It is recently adopted by sub-national

governments in Asian and African countries (Platz, 2009). The facility should be structured using a non-recourse project finance approach, whereby loans made by the facility would be repaid solely from the cash flows generated by the projects. The guarantee for bonds' (loan) repayments are primarily flows of funds expected from the projects after their construction although for certain types of projects additional guarantees can be approved to private partners in form of transferring a part of tax revenues to creditors.

A variant of pooled financing that has been used for sustaining liquidity in some Croatian municipalities is cash pooling. This type of service has been offered to municipalities by largest domestic banks. Varaždin, Koprivnica and Rijeka have used PPPs, cash pooling and municipal bonds as different models to finance education and sport facilities so far. Since cash pooling is not regulated in most countries, counterparties must take due care when defining their rights and obligations arising from cash pooling agreement (CMS Legal Services EEIG, 2010). The same principles for cash pooling apply to debt pooling.

Suitable projects for pooled financing facility are infrastructure projects that need to be implemented in the targeted time frame due to regulatory rules in certain sectors. Some examples include: waste and wastewater disposal, energy efficiency projects, local transport infrastructure and some social infrastructure such as hospitals and schools.

Pooling the projects would also facilitate the procedure of allowing borrowings to local governments by the Ministry of Finance and facilitate projects' preparation and private partners' selection. It is optional whether the final public debtor would be a designated local government with the backing of the central government or the guarantees of domestic development bank/regional development agencies, or the designated debtor would be the central government itself. The basic mechanism of debt pooling has recently being described by Bond *et al.* (2012) who propose direct central government borrowing for pooled projects. According to Bond *et al.* (2012) local governments would only need to identify small infrastructure projects most critical for their local economic development and politically support the projects or, if possible, invest in them some cash or assets in kind. The latter can be achieved by providing land or access/usage rights to private investors. Bond *et al.* (2012) further develop the pooled financing mechanism proposing that its management should be entrusted to a strong local bank that would take the principal responsibility for credit analysis of prospective projects. Alternatively, the CEI can take over these tasks if invited by local governments in Croatia. A syndicate of domestic banks would most likely be the first one to provide loans to a pool of designated local government's projects. It is because domestic fixed income market is undeveloped and all fixed income instruments issued are held to maturity by the institutional investors. If the projects manage to return the funds to its lenders from the project cash flows, the rest of debt can be repackaged and sold in the form of securities to institutional investors such as pension funds, to free up lending potential for other prospective projects in the future.

Pooled financing not only solves for borrowing constraints and high transaction costs that prevent particular municipalities willing to finance local infrastructure projects from borrowing larger amounts of money in the market, including issuing project bonds with long-term maturities and selling them in the market, but also solves for the problems of lack of experience of local authorities in approaching private investors and making the projects bankable. Investors might be interested to bid because the pooled infrastructure projects offer regional and/or project diversification

benefits, while the transaction costs related to obtaining the funds from the regional governments are shared and smaller. If there is a possibility that private developers can operate a couple of similar projects in more than one municipality investing in pooled projects can not only be more attractive to private investors but it can ultimately bring higher efficiency in infrastructure-related services delivery after the (re)construction phase completion.

Apart from pooling the projects of local units for financing purposes, engaging public assets into local infrastructure projects' delivery has also its benefits and can further enhance credit capability of the pool of local infrastructure projects. A typical Croatian (regional) Government is involved into bringing in spatial plans, has lots of public land at disposal that is, as a rule, neither properly recorded nor valued into the public asset registry (Grubišić *et al.*, 2009). In addition, it has no clear medium- or long-term plans for infrastructure development. Public land is mostly used when needed and if its legal ownership is scattered over various owners, the asset ownership concentration often costs much more than it would be the case if the land usage had been planned carefully. Local public budgets often do not have any revenues from concessions or they are negligible. The only revenues from public assets come from occasional land sales to private parties that later develop commercial objects on it. Some exceptions appear in a few larger municipalities that have been engaged actively into public land management to create affordable housing to their citizens amid the rising market prices of residential flats (cities of Zagreb, Varaždin, Bjelovar, Osijek).

Instead of one-off sale of public assets in the situation when there are no clear plans that determine its future usage, public assets can either be given to concessionaires for certain period of time to develop infrastructure projects that would serve public services rendering to local inhabitants. It is far better than relying on limited fiscal room for borrowing to develop infrastructure projects or to engaging into a non-reversible situation of selling public property for financing operational expenditures, i.e. deficits. There are no limits for using publicly owned land for infrastructure development and/or as collateral in borrowings for the purpose of infrastructure development either at the supranational or at the national levels (Peterson and Kaganova, 2010). The latter fact needs to be recognised at local level when adopting the plans for infrastructure development via or without PPPs.

## 5. Conclusion

Given the current state of rather fixed portion of budgetary revenues' usage for fixed costs' coverage and borrowing limits that can circumvent priority and good capital projects', PPPs emerge as one of logical solutions for implementing infrastructure projects in Croatia. However, the PPP implementation is not without restrictions as public partner often has either to guarantee or to cover a certain percentage of investment project's costs coming either from excess budgetary funds or from borrowing. As demonstrated by the fiscal constraints and survey results combined with publicly available local budgetary data, the room for capital investments is rather small in Croatia. Furthermore, some cities and municipalities cannot even cover their current expenditures by regular public revenues collected from taxes and administrative fees. Provided that the annual borrowing limit by all local authorities is not reached, one county in financially good state such as, for instance, Istria could borrow the amount that is slightly over 0.5 million euros. Such an issue size is not enough for fixed costs' coverage related to municipal bonds' issuance. The possibility that some other counties or cities that are really constrained by current portion of fixed costs in their regular public revenues engage

into public infrastructure investments are close to zero unless these projects are subsidised by the central state.

Given that current administrative territorial partition of Croatia and fiscal revenues' allocation from certain taxes and administrative fees are determined by political and some other goals, the local authorities are faced with difficult task to reconstruct the existing and deliver the new infrastructure according to their inhabitants' needs. In that way debt pooling of certain local authorities to enhance borrowing capacity can be a solution. Recently, some Croatian municipalities have had experience with cash pooling at the local level for combating liquidity shortfalls. However, the problems that would need to be resolved in case of debt pooling would be the value for money achievement in capital projects for which the borrowing capacity from several local authorities' is pooled for and that projects are of regional importance. In that case the capital project would probably, conditioned on its sound preparation, be eligible for EU funds attraction, supranational banks' guarantees, funds and guarantees from central or local development banks and loans from commercial banks. Since domestic capital market has always suffered from illiquidity that is deepened by financial and real-sector crisis as of 2008, issuance of project bonds in domestic market is not likely for the time being unless the private placement with institutional investors is in question. But in this case, local infrastructure projects would often be too small to be negotiated on a case by case basis.

The result of MAELG survey for other countries show that local councillors in different countries have different opinion about PPP projects. Our research results have shown that, contrary to perceptions, local representatives are open to greater private involvement in public services' provision. The same holds for providing their citizens a choice to select public services providers. Proneness of local councillors towards private involvement in public services rendering is related to local budgetary deficits' size and a small portion of non-financial assets' revenues compared to expenditures on non-financial assets. As the former mainly concern revenues from public land sale and as public authorities' on average do not think that there are benefits associated with public services' privatisation, a possibility to encourage capital investments at the local level would be engaging into closely planned and controlled usage (concessions) of public land instead of their sale. This would also contribute to increase in revenues from non-financial assets, fitting to strict borrowing rules prescribed by the central state and fulfilling the condition that public infrastructure remains in public ownership that is one of regulatory preconditions for PPP implementation. Introduction of debt pooling and broadening the concessions' award at the local levels should be gradual steps towards more intensive PPP implementation in Croatia.

## References

- Act on Execution of the State Budget of the Republic of Croatia (2012), "Official gazette no. 139".
- Antellini Russo, F. and Zampino, R. (2012), "Infrastructures, public accounts and public-private partnerships: evidence from the Italian local administrations", *Review of Economics and Institutions*, Vol. 3 No. 1, pp. 1-28.
- Bajo, A. (2011), "Capital investment plans and local government debt in Croatia", Newsletter No. 54, Institute of Public Finance, Zagreb, March, available at: [www.ijf.hr/eng/newsletter/54.pdf](http://www.ijf.hr/eng/newsletter/54.pdf) (accessed 7 July 2013).
- Bartlett, W., Maleković, S. and Monastiriotis, V. (Eds) (2013), *Decentralization and Local Development in South East Europe*, Palgrave Macmillan, Houndmills, Basingstoke and Hampshire.



- Bond, D.L., Platz, D. and Magnusson, M. (2012), "Financing small-scale infrastructure investments in developing countries", Working Paper No. 114, DESA, United Nations Department of Economic and Social Affairs, New York, NY, available at: [www.un.org/esa/desa/papers/2012/wp114\\_2012.pdf](http://www.un.org/esa/desa/papers/2012/wp114_2012.pdf) (accessed 7 July 2013).
- Budak, J., (ed.) ask mam n chk google Jurlina Alibegović, D. Nestić, D. and Slijepčević, S. (2011), "10 Issues on public administration reform in Croatia tag lk book", The Institute of Economics, Zagreb and Fridrich Ebert Stiftung, available at: [www.fes.hr/E-books/pdf/Reforma%20javne%20uprave%20Final.pdf](http://www.fes.hr/E-books/pdf/Reforma%20javne%20uprave%20Final.pdf) (accessed 7 July 2013).
- Budgetary Act Amendments (2012), "Official gazette no. 136".
- Budina, N., Brixi, H.P. and Irwin, T. (2007), "Public-private partnership in the new EU member states – managing fiscal risks", Working Paper No 114, World Bank, Washington, DC, available at: <http://elibrary.worldbank.org/doi/pdf/10.1596/978-0-8213-7153-4> (accessed 7 July 2013).
- CMS Legal Services EEIG (2010), "Cash pooling in Central and Eastern Europe", pp. 48, available at: [www.cms-db.com/Hubbard.FileSystem/files/Publication/025c2b57-9a8a-45fe-8710-2db2eca1705c/Presentation/PublicationAttachment/e676e07d-d13d-4522-948f-2f4d31ab7117/Cash\\_Pooling\\_CEE\\_Version\\_Dec\\_2010\\_v-0\\_lo-res%5B1%5D.pdf](http://www.cms-db.com/Hubbard.FileSystem/files/Publication/025c2b57-9a8a-45fe-8710-2db2eca1705c/Presentation/PublicationAttachment/e676e07d-d13d-4522-948f-2f4d31ab7117/Cash_Pooling_CEE_Version_Dec_2010_v-0_lo-res%5B1%5D.pdf) (accessed 7 July 2013).
- Concessions' Act (2008), "Official gazette no. 125".
- Egner, B., Sweeting, D. and Klok, P.-J. (Eds) (2013), *Local Councillors in Europe*, Springer, Wiesbaden.
- EPEC (2010), "Eurostat treatment of public-private partnerships – purposes, methodology and recent trends", available at: [www.eib.org/epec/resources/epec-eurostat-statistical-treatment-of-ppps.pdf](http://www.eib.org/epec/resources/epec-eurostat-statistical-treatment-of-ppps.pdf) (accessed 7 July 2013).
- EPEC (2011a), "Using EU funds in PPPs – explaining the how and starting the discussion on the future", available at: [www.eib.org/epec/resources/epec-using-EU-funds-in-ppps-public.pdf](http://www.eib.org/epec/resources/epec-using-EU-funds-in-ppps-public.pdf) (accessed 7 July 2013).
- EPEC (2011b), "State guarantees in PPPs – a guide to better evaluation, design, implementation and management", available at: [www.eib.org/epec/resources/epec-state-guarantees-in-ppps-public.pdf](http://www.eib.org/epec/resources/epec-state-guarantees-in-ppps-public.pdf) (accessed 7 July 2013).
- Funke, K., Irwin, T. and Rial, I. (2013), "Budgeting and reporting for public-private partnerships", Discussion Paper No. 7, OECD International Transport Forum, Fiscal Affairs Department, International Monetary Fund, Washington, DC, available at: [www.internationaltransportforum.org/jtrc/DiscussionPapers/DP201307.pdf](http://www.internationaltransportforum.org/jtrc/DiscussionPapers/DP201307.pdf) (accessed 7 July 2013).
- Grubišić, M., Nušinić, M. and Roje, G. (2009), "Towards efficient public sector asset management", *Financial Theory and Practice*, Vol. 33 No. 3, pp. 329-362, available at: [http://hrcak.srce.hr/index.php?show=clanak&id\\_clanak\\_jezik=74964](http://hrcak.srce.hr/index.php?show=clanak&id_clanak_jezik=74964) (accessed 7 July 2013).
- Hall, D. (2008), "Public private partnerships (PPPs) – summary paper", a report commissioned by the European Federation of Public Service Unions (EPSU). The University of Greenwich, London Public Services International Research Unit (PSIRU), October, available at: <http://gala.gre.ac.uk/2429/1/2008-11-PPPs-summ.pdf> (accessed 7 July 2013).
- International Monetary Fund (2004), "Public-private partnerships", available at: [www.imf.org/external/np/fad/2004/pifp/eng/031204.pdf](http://www.imf.org/external/np/fad/2004/pifp/eng/031204.pdf) (accessed 7 July 2013).
- Josifov, G., Pamfil, C. and Comsa, R. (2011), *Guidelines on Local Government Borrowing and Recent Developments in South East Europe*, NALAS, Skopje, Macedonia, available at: [www.nalas.eu/borrowing/](http://www.nalas.eu/borrowing/) (accessed October 2013).
- Jurlina Alibegović, D. (2010), "Innovative municipal development financing. The case of three Croatian cities", in Ramirez, L. and Kebede, G. (Eds), *Strategic Planning for Local Development. Case Studies from Small and Mid-Sized European Cities*, UN-HABITAT SIRP and Local Government and Public Service Reform Initiative, Open Society Institute, Belgrade and Budapest, pp. 167-188.

- Jurlina Alibegović, D. (2011), "Public-private partnerships in Croatia institutional framework and case studies", in Damjanović, D., Pavlović-Križanić, T. and Peteri, G. (Eds), *Public and Private Partnerships, Successes and Failures in Central and South Eastern Europe*, PALGO Cetar and Open Society Foundations, Belgrade and Budapest, pp. 47-63.
- Jurlina Alibegović, D., Slijepčević, S. and Kordej-De Villa, Ž. (2013), "Can local governments in Croatia cope with more responsibilities?", *Lex Localis – Journal of Local Self-Government*, Vol. 11 No. 3, pp. 471-495.
- Kania, M. (2011), "The influence of public private partnership projects on the debt of the public sector – an analysis of the polish legal solutions", *European Procurement and Public Private Partnership Law Review (EPPPL)*, Vol. 6 No. 4, pp. 189-195.
- Krapp, M.-C., Pleschberger, W. and Egner, B. (2013), "Local councillors and administrative reforms", in Egner, B., Sweeting, D. and Klok, P.-J. (Eds), *Local Councillors in Europe*, Springer, Wiesbaden, pp. 221-236.
- Law on regional development (2009), "Official gazette no. 153".
- Maleković, S., Puljiz, J. and Bartlett, W. (2011), "Decentralisation and regional policy in Croatia: the impact of EU accession and the prospect of territorial reorganization", *Research Paper*, No. 5, John S. Latsis Public Benefit Foundation Research on South Eastern Europe/LSEE Research on South Eastern Europe, pp. 1-34, available at: [www.irmo.hr/files/Research\\_Paper\\_5.pdf](http://www.irmo.hr/files/Research_Paper_5.pdf) (accessed 10 October 2013).
- Malhotra, A.K. (1997), "Private participation in infrastructure: lessons from Asia's power sector", *Finance & Development*, Vol. 34 No. 4, pp. 33-35.
- Maskin, E. and Tirole, J. (2008), "Public-private partnership and government spending limits", *International Journal of Industrial Organization*, Vol. 26 No. 2, pp. 412-420.
- Metaxas, T. and Preza, E. (2012), "Public-private partnerships in Southeastern Europe: the case of Croatia", Paper No. 43830, Munich Personal RePEc Archive (MPRA), available at: [http://mpra.ub.uni-muenchen.de/43830/1/MPRA\\_paper\\_43830.pdf](http://mpra.ub.uni-muenchen.de/43830/1/MPRA_paper_43830.pdf) (accessed 15 March 2013).
- Ministry of Finance – Republic of Croatia (2012), "Monthly statistical review", Bureau for Macroeconomic Analysis and Planning No. 207, Zagreb, available at: [www.mfin.hr/en/monthly-statistical-reviews\\_2012](http://www.mfin.hr/en/monthly-statistical-reviews_2012)
- Moszoro, M. and Krzyzanowska, M. (2011), "Implementing public-private partnerships in municipalities", Working Paper, WP-908, IESE Business School, University of Navarra, Madrid, available at: [www.iese.edu/research/pdfs/DI-0908-E.pdf](http://www.iese.edu/research/pdfs/DI-0908-E.pdf) (accessed 7 July 2013).
- Nam, C.W. and Parsche, R. (2001), "Municipal finance in Poland, the Slovak Republic, the Czech Republic and Hungary: institutional framework and recent development", working paper No. 447, Center for Economic Studies & Ifo Institute for Economic Research (CESifo), Munich.
- Peterson, G.E. and Kaganova, O. (2010), "Integrating land financing into subnational fiscal management", Working Paper No. 5409, The World Bank, Poverty Reduction and Economic Management Network, Policy and Debt Department (probably) Washington, DC, available at: <http://siteresources.worldbank.org/INTDEBTDEPT/Resources/468980-1207588563500/4864698-1207775351512/WPS5409.pdf> (accessed 7 July 2013).
- Platz, D. (2009), "Infrastructure finance in developing countries – the potential of sub-sovereign bonds", Working Paper No. 76, DESA, United Nations Department of Economic and Social Affairs, New York, NY, available at: [www.un.org/esa/desa/papers/2009/wp76\\_2009.pdf](http://www.un.org/esa/desa/papers/2009/wp76_2009.pdf) (accessed 7 July 2013).
- Posner, P., Ryu, S.K. and Tkachenko, A. (2009), "Public-private partnerships: the relevance of budgeting", *OECD Journal on Budgeting*, Vol. 9 No. 1, pp. 1-26, available at: [www.oecd.org/gov/budgeting/43410287.pdf](http://www.oecd.org/gov/budgeting/43410287.pdf) (accessed 7 July 2013).
- Public Private Partnership Act (2012), "Official gazette no. 78".

- Public Procurement Act (2011), "Official gazette no. 90".
- Regulation on Implementation of Public Private Partnership Projects (2012), "Official gazette no. 88".
- The Institute of Economics (2010), "Background paper for efficient decentralisation in Croatia", Research study commissioned by the Croatian County Association, Zagreb.
- Torres, L. and Pina, V. (2001), "Public-private partnership and private finance initiatives in the EU and Spanish local governments", *The European Accounting Review*, Vol. 10 No. 3, pp. 601-619.
- World Bank (2002), "Croatia – administrative barriers to foreign investment", World Bank, Foreign Investment Advisory Service-FIAS, available at: [www.wbginvestmentclimate.org/uploads/Croatia-english.pdf](http://www.wbginvestmentclimate.org/uploads/Croatia-english.pdf) (accessed 6 February 2013).
- Yescombe, E.R. (2007), *Public-private Partnerships. Principles of Policy and Finance*, Elsevier, Burlington, MA.

#### Further reading

- Act on Establishing The Center for Monitoring Business Activities in the Energy Sector and Investments (2012), "Official gazette nos 25 and 120".
- Budgetary Act (2008), "Official gazette no. 87".
- Eurostat (2004), "New decision of Eurostat on deficit and debt – treatment of public-private partnerships", No. 18.
- Ministry of regional development, forestry and water management (2010), "Strategy of regional development of the Republic of Croatia 2011-2013", version 1.0., in Croatian, available at: [www.mrrfeu.hr/UserDocsImages/STRATEGIJA\\_REGIONALNOG\\_RAZVOJA.pdf](http://www.mrrfeu.hr/UserDocsImages/STRATEGIJA_REGIONALNOG_RAZVOJA.pdf) (accessed October 2013).

#### Corresponding author

Dr Mihaela Grubišić Šeba can be contacted at: [mgrubisic@eizg.hr](mailto:mgrubisic@eizg.hr)

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.