

# Country report on the legal framework on Public-Private Partnership (PPP): CROATIA

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## 1. Introduction

The Republic of Croatia is situated in South-Eastern Europe. The total area of Croatia is 88,073 square kilometres, of which land area is 56,594 sq. km and the coastal sea area is 31,479 sq. km. According to the census of 2011, the Republic of Croatia has 4,284,889 inhabitants. The capital is Zagreb, which is also the economic, commercial, cultural and academic centre of Croatia, and has 790,017 inhabitants.<sup>1</sup>

Gross domestic product for 2015 amounted to 334.219 million kunas<sup>2</sup> or 77.985 kunas per capita. In the last ten years, i.e. from the end of 2008, there has been a trend of falling GDP, 13% in the period from 2009 to 2014, however, since the beginning of 2015 there has been a growth rate of GDP of 1.7%.<sup>3</sup> The main economic activities in Croatia are agriculture, food industry, textile industry, wood processing industry, metal processing, chemical industry, oil industry, electrical industry, construction, trade, shipbuilding, maritime affairs and tourism.<sup>4</sup> According to data of the Croatian National Bank, Croatian public debt at the end of May 2016 amounted to 285 billion kunas, which is 84.1 million kunas less than in April and 4.8 billion kunas less than in May 2015.<sup>5</sup>

Croatia is extremely rich in heritage which is documented by Table 1 below. In spite of such richness, so far Croatia has not succeeded to assess its cultural heritage to its maximum potential. On the other hand, the uncontrollable use of cultural heritage as an attraction or mass-tourism market, where cultural decisions are swiftly transformed into economic decisions, steers away the whole issue of heritage management from favourable direction of sustainable development.

The main challenge in cultural protection field can, thus, be underlined as creating appropriate balance of particular characteristics of cultural heritage that embodies both the cultural and economic value. Unfortunately, in Croatia there is a serious increase in examples of “Disneyfication” of historic sites that turn heritage locations/sites into consumer-oriented entertainment package (Disneyland) with the aim of economic gains.

One of the measures to stimulate economic development and job creation is a public-private partnership (PPP). This measure, in addition to the growth of the economy, encourages investments in the development of infrastructure projects and enables the citizens to provide better public services. Public-private partnership is a long-term contractual relationship between the public and private partners, whose subject is the construction and/or reconstruction and maintenance of public buildings, in order to provide public services in the scope of the competence of the public partner (the Public-Private Partnership Act, Official Gazette 152/14).

Public-private partnership can be applied in the sectors of education, culture, science, sports, health, culture, etc. For example, it is possible to build or renovate schools, homes, hospitals, museums, etc.

<sup>1</sup> CBS, Census 2011

<sup>2</sup> [http://www.dzs.hr/Hrv\\_Eng/publication/2015/12-01-01\\_04\\_2015.htm](http://www.dzs.hr/Hrv_Eng/publication/2015/12-01-01_04_2015.htm)

<sup>3</sup> <http://www.aik-invest.hr/o-hrvatskoj/>

<sup>4</sup> <http://www.hr/hrvatska/gospodarstvo>

<sup>5</sup> <https://vlada.gov.hr/vijesti/hrvatski-javni-dug-krajem-svibnja-smanjen-na-285-milijardi-kuna/19392>



The advantages of PPP for public sector are the provision of additional funds outside the budget, possible reduction of costs while increasing service quality and rapid infrastructure development. Long-term and expensive preparation in relation to the normal procurement can be stated as a restriction<sup>6</sup>.

**Table 1: Cultural heritage monuments in Croatia**

Category of cultural heritage		Type of cultural heritage
6719 immovable cultural goods	6129 individual immovable cultural goods	1026 archaeological cultural sites (861 land archaeological sites and 165 underwater archaeological sites)
		2044 religious buildings and complexes and religious-secular buildings
		2161 civil buildings and complexes (1092 public buildings, 845 residential buildings and 224 residential-commercial buildings)
		574 memorial buildings and complexes and memorial features
		187 military buildings and complexes
		13 urban equipment
		124 other types of immovable individual cultural goods
	578 cultural- historical areas	110 archaeological areas (92 land archaeological areas and 18 underwater archaeological areas)
		383 historic settlements or parts of settlements (settlements or parts of urban character settlements (197), settlements or parts of rural character settlements (169), settlements or parts of industrial character settlements (17))
		61 historical-memorial areas
24 other types of cultural-historical areas		
	12 cultural landscapes	
2355 movable cultural goods	1247 individual movable cultural goods	
	927 collections	
	181 museum holdings	
147 intangible cultural goods		

Source: Ministry of Culture, 2016

Note: By 28 October 2016, a total of 9221 cultural goods have been entered into the Register of cultural goods of the Republic of Croatia (in three lists: the list of protected cultural goods, the list of cultural goods of national importance and the list of preventively protected goods).

<sup>6</sup> Barković, I., Širić, M. (2010) Uloga i značaj javno-privatnog partnerstva u Republici Hrvatskoj: izabrani primjeri, *Ekonomski vjesnik: Review of Contemporary Entrepreneurship, Business, and Economic Issues* str.198.



## 2. National context for PPP

### 1.1. PPP policy and law framework

Croatian institutional and legal framework for PPP dates back from the year 2006 when guidelines for the implementation of contractual forms of PPP have been passed. Still, they regulated only contractual and not institutional public-private partnerships. The Law on Public-Private Partnership has for the first time been passed in October 2008 and has to date been amended in 2012 and in 2014.

Croatian policy, institutional and legal framework for public-private partnerships dates back from the year 2006 when guidelines for the implementation of contractual forms of PPP have been passed. Still, they regulated only contractual and not institutional PPP. The Public-Private Partnership Act passed for the first time in October 2008 and has been amended in 2012 and in 2014.

The key policy document for the development of successful public-private partnership is The Strategic Framework for the Development of PPP in the Republic of Croatia (2009). The strategic framework in itself contains provisions on the scope, principles and objectives of the application of the PPP model, implementation and review. The Strategic Framework defines that the key to the successful establishment and application of PPPs is the best value for money, including<sup>7</sup>:

- risk distribution (in a way that the responsibility for a particular risk is allocated to the party more capable of supervising the risk and managing it);
- the greatest possible gain from the efficiency, expertise, knowledge, skills, flexibility, and innovation of the private sector for both the public and private sectors;
- the principle of preserving the integrity of the provision of public services and the availability of the public good;
- the principle of transferring expert and professional knowledge from the private to the public partner, with the aim of strengthening the professional and expert capacity of the public partner in the implementation of the PPP project.

The strategic Framework states that the application of various forms of PPPs should be conditional on better value for money, long-term budgetary sustainability and acceptable fiscal risks and readiness of the private sector to participate in a PPP (that is, fiscal profitability of the investment).

In 2006 the Government of the Republic of Croatia adopted the Guidelines on the Application of Contractual Forms of Public-Private Partnership (OG 98/06) to assist the realization of public infrastructure projects. The Guidelines have set the principles which the PPP must meet, the procedures of cooperation between public and private partnerships, rules for the establishment, implementation of projects and the powers of public authorities. The said document was only offering procedure guidelines, but without complying with the conditions of the Guidelines, it was not been possible to apply the PPP contracts and, until the enactment of the Act, they were the only document that regulated the area of public partnerships.

<sup>7</sup> The Strategic Framework for the Development of Public-Private Partnership in the Republic of Croatia, published by the Ministry of Economy, Labor and Entrepreneurship of the Republic of Croatia, 2009.



In 2008, the Public-Private Partnership Act (OG 129/08) was passed, which had given legal and institutional framework of public-private partnership in the Republic of Croatia. The Act stipulates the same and clear rules for all participants in the process and all kinds of public-private partnerships, provides greater protection of the project during the whole process, security of public bodies and private sector representatives<sup>8</sup>.

The Public-Private Partnership Contract is defined by the Act as a basic Contract regulating the rights and obligations between the public and private partners, or public partners and the special purpose vehicle (SPV) for the implementation of the project. The public body selects a private partner through a public procurement procedure, and SPV is a company founded exclusively by a private partner for the purpose of implementation of the project. The PPP Contract is the basis for the conclusion of many supporting and related contracts such as the financial contract, a direct contract, the treaty establishing the right to build, contracts with contractors, insurance contracts. The specificity of PPP Contracts is that they are long-term contracts based on the distribution of risk between partners in all phases of the project (from construction to management) and they can be concluded as a public contract or concession contract and the purpose of the project must be to provide public services from the competence of the public authorities. Furthermore, it is not possible to conclude the PPP Contract if the purpose of the project is of purely commercial nature<sup>9</sup>.

All contracts concluded before the adoption of the Act did not have the obligation to submit the contract to the Register of PPP contracts, however, after the adoption of the Act all Contracts with the characteristics of the PPP had to be submitted to the competent authority. The structure and management of the Register of PPP Contracts, registered entities, the registration procedure as well as the content and form of the necessary documentation required by the Regulations on the organization and keeping of the Register of PPP contracts were adopted in 2010 (OG 147/10).

The Register is the central source of information on all concluded contracts on public-private partnership and a unique electronic record of all contracts concluded on the territory of the Republic of Croatia. The register is public and managed by the Agency for Investment and Competitiveness (AiK)<sup>10</sup>.

In 2014, the Public-Private Partnership Act was amended. Significant additions in the new amendments to the Act (OG 152/14) are:<sup>11</sup>

- harmonising the definition of the cost of living to that defined by the norm ISO HRN 15 686-5: 2009 which clearly defines the value of the purchase at the same time reducing the risk of misinterpretation of the legislation;
- adding provisions governing the concept and issues of PPP projects of small value, thus simplifying the preparation of PPP projects of lesser value up to 5 million EUR;
- compliance with the Administrative Procedure Act in part related to judicial protection against acts of the Agency and alignment with the Misdemeanour Act in part related to the offense and the statute of limitations;

<sup>8</sup> Barković, I., Širić, M. (2010) Uloga i značaj javno-privatnog partnerstva u Republici Hrvatskoj: izabrani primjeri, *Ekonomski vjesnik: Review of Contemporary Entrepreneurship, Business, and Economic Issues* str. 199.

<sup>9</sup> Agency for Public Private Partnerships of the Republic of Croatian (2012): Structure of Public-Private Partnership, manuals for the preparation and implementation of public-private partnership model, Manual No. 4, Version 1, Zagreb

<sup>10</sup> Regulations on the organization and keeping of the Register of PPP contracts (OG 147/10, 16/13)

<sup>11</sup> Agency for Investment and Competitiveness, Analysis and overview of the PPP market in Croatia 2015, p.3.



- the Agency for PPP is merged to the Agency for Investment and Competitiveness.

In addition to the above amendments to the Act of 2014, at the beginning of 2015, the amendments to the Regulation on the implementation of PPP projects (OG 15/15) and Rules on PPP projects of lesser value (OG 23/15) came into force.

A public body is the only body authorized to propose PPP project, while a decision on the justifiability of using the PPP model is adopted by the Agency, with the prior approval of the Ministry of Finance, if it decides that a positive value for money is expressed, applying the basic criteria and based on the results of the preliminary analysis and display business justification, i.e. factors of comparison with the cost of the public sector (PSC - Public Sector Comparator). Other criteria for the assessment and approval of PPP projects are prescribed by a decree of the Croatian Government<sup>12</sup>.

Basic principles in preparing and implementing PPP projects are the principle of public procurement, principle of protection of public interest and the principle of cost-effectiveness, while the criteria for the selection of private partners is exclusively economically advantageous tender<sup>13</sup>.

In addition to the Public-Private Partnership Act and the aforementioned Regulation, some other laws of the Republic of Croatia are applied to the area of PPPs. For example, the procedure for selecting a private partner is carried out according to the rules of public procurement, which is regulated by the Public Procurement Act (OG 90/11), which regulates the procedures for the conclusion of public contracts and framework agreements in order to purchase goods or services, legal protection related to these proceedings and the jurisdiction of the central state administration body in charge of the public procurement system. The Civil Obligations Act (OG 35/05) governs the questions of validity, the necessary forms and the issues of resolving disputes between the parties to the contract, as a general law of the Republic of Croatia regulating contracts and contractual and non-contractual relationships between the parties. In the case of the conclusion of the PPP contract according to the concession model, there is the competence of the Concessions Act (OG 143/12), which regulates the procedures for granting concessions, the concession agreement, the termination of the concession, legal protection in the procedures for granting concessions, concessions policies, and other issues related with concessions.

## 2.2 Public institutions and PPP support units

According to the Act, the Agency for Public-Private Partnership has first been registered in 2008 and has officially been functional from January 2009. It acted as a central national agency as well as the knowledge centre responsible for evaluation, approval and monitoring of the PPP projects implementation, administration of the Registry of PPP contracts, best international practice implementation, and education in the field of PPP. In March 2015, a decision was made on the merger of the Agency for Public-Private Partnership to the Agency for Investments and Competitiveness. The Department for Public-Private Partnership within the Agency for Investments and Competitiveness took over the functions of the Agency for Public-Private Partnerships. Within AiK the Assessment, Approval and Monitoring of Public-Private Partnerships Department and the Education and Cooperation with EU Authorities Department were established. Sector for PPPs, in the scope of its regulatory action, maintains the Register of PPP contracts and monitors projects capital value of more than 330 mln EUR<sup>14</sup>.

<sup>12</sup> Agency for Public Private Partnerships of the Republic of Croatia (2009): A Guide for Public-Private Partnership (PPP) - Step by step, p. 15.

<sup>13</sup> Public-Private Partnership Act (OG 152/14)

<sup>14</sup> Agency for Investment and Competitiveness, Analysis and overview of the PPP market in the Republic of Croatia 2015, p.2.





Regarding the policy framework of the implementation of the PPP, the central role stays with the Ministry of Economy responsible for the PPP policy making and the Ministry of Finance, responsible for concessions policy-making.

In the preparation and implementation of the PPP projects, the Agency has a key role with the Ministry of Finance which grants approval for the PPP projects regarding their compliance with the budget projections and plans, fiscal risks and constraints regulated by special regulations, as well as the financial and fiscal sustainability of the project proposal. Similarly, the Ministry of Finance approves the PPP project proposal. Thus, the Agency and the Ministry of Finance form the functional unit. The process of approval of project proposals includes other relevant ministries and other central state administration and local and regional self-government responsible for the adopted sectoral development plans and strategies with defined objectives and expected impacts.

In the public procurement system, the significant role has the Ministry of Economy (training, supervision, and enforcement procedures for the award of public contracts), and the State Commission for Supervision of Public Procurement in charge for handling the appeals in the public procurement procedures, the granting of the concessions and selecting a private partner in public private partnership as a body of first instance and Administrative Court as a second instance body competent to deal with the same procedures.

Specifically, for energy sector, besides the Agency, the key role in project preparation has the Center for Monitoring Business Activities in Energy Sector and Investments (CEI) established by the end of March 2012. CEI is established by Government with the objective in finding solutions for improving the financial effectiveness of companies in the energy sector in which the state has shares or holds stock and appropriate and targeted directing of funds in a manner ensuring biggest and most long-term economic return, stable growth and centralized and systematic monitoring of all investments in the Republic of Croatia. Furthermore, CEI has been appointed as implementing body for the government PPP program and PPP projects. Within the CEI, its Sector for PPP is responsible for identification, preparation and implementation of PPP projects. In cooperation with local and regional governments the Center is preparing the tender documentation for selection of private partner.

## 2.3 Incentives and funding mechanisms available for PPP

There are several funding mechanisms described as follows:

### a) The private sector through contracts/concessions

A public-private partnership contract can be put together as a public contract or as a concession contract. When a concession contract is made, it is a concession with the characteristics of PPP in accordance with the Concessions Act, i.e. it is the case where on the basis of sectoral concession laws, delegating certain tasks within the competence of public authorities to other legal or physical persons can be achieved only by giving concessions (for works or services). If the concession granted has the characteristics of PPP, which is determined in accordance with the criteria set out in the Public-Private Partnership Act and based on the opinion of the Agency, the project is being implemented as a PPP project (based on the concession) and the contract concluded (concession agreement) is by its very nature a public-private partnership contract. Thus, the private partner gets the right to carry out certain public services or exploit public buildings and the right of commercialization of these services. It is also possible that the private partner has the right to charge directly from the public partner, but the specificity of the concession agreement is the fact that the private partner is charged from end users.





The second type of PPP contracts is the model of public procurement or the one that is based on the allocation of the right to build, for liabilities and risks undertaken by the related project the private partner gains the right to collect from the public partner the costs of construction, maintenance, undertaken risks, financing costs and profits of the private partner. This fee is determined based on the best bid and should represent value for money. Such a project is justified and there is value for money if the annual fee which the public body pays to the private partner is less than that which would be paid if it is not a PPP project, but exclusively by the model of public procurement<sup>15</sup>.

Commercial banks can also be included in the financing of public-private partnerships. Hypo Bank had financially monitored projects on enlarging schools and construction of school sports halls in Varaždin County in the amount of 28 million euros. Furthermore, with the help of the Hypo Bank loan, the Gymnasium "Fran Galović" in Koprivnica was built.

#### The role of the Croatian Bank for Reconstruction and Development (HBOR)

Financing PPP projects can be achieved by means of HBOR, for example, for projects in the field of energy efficiency, it is possible to use long-term available sources of finance with maturity up to 14 years and a fixed interest rate. The share of loans in total sources of financing may be up to 85%, depending on the risk assessment of the project and the available security instruments<sup>16</sup>.

#### Combining PPP and EU funds - combined projects

In the context of European investment policy, it is possible to combine PPP and EU funds, and in the process of approving these types of projects a key role, in addition to the Agency and the Ministry of Finance, has the Ministry of Regional Development and EU Funds.

The projects which are carried out according to the rules of the PPP, but are funded by private sources in combination with EU funds are referred to as combined projects. Joining the EU funds with private funds in the execution of PPP projects enables the implementation of infrastructure projects of public interest, that are, even though they are economically justified, unable to cover the total costs of living solely from the revenues from end-users or fees for availability. In this way, projects become feasible and encourage private investors, as well as financial institutions to invest in projects whose expected revenue is considered not to be able to cover the costs of construction and operation.

The simplest and most convenient way to combine EU funds and PPP is the use of financial instruments. The most commonly used financial instruments are LGTT (Loan Guarantee Instrument for Trans-European Transport Network), JESSICA (Joint European Support for Sustainable Investment in City Areas) and MARGUERITE FUND. These instruments are used to mitigate market failures, due to which the projects could not be realized, such as the coverage of publicly-defined project risks.

## 2.4 Relevant guidelines and documents on PPP

Significant basis for the preparation and implementation of PPP projects in Croatia was provided through the EU IPA twinning light project "Further strengthening of the system of public-private partnership in the Republic of Croatia", which was implemented with the assistance of the Ministry of Finance of the Republic of Lithuania and the Lithuanian Central Agency for the implementation of projects in the period from

<sup>15</sup> Agency for Public Private Partnerships of the Republic of Croatia (2012): Structure of Public-Private Partnership Contracts, Manuals for the preparation and implementation of public-private partnership models, Manual No. 4, Version 1, Zagreb

<sup>16</sup> [http://www.aik-invest.hr/wp-content/uploads/2015/09/aik\\_program\\_HR\\_WEB1.pdf](http://www.aik-invest.hr/wp-content/uploads/2015/09/aik_program_HR_WEB1.pdf)



September 2012 to March 2013. As a result of the project the manual and the brochure on public-private partnership was developed for the participants in the preparation and implementation of PPP projects and the report with recommendations on the possibilities of joining the financial PPP model with EU funds<sup>17</sup>. Ten manuals were published with explanations about certain procedures in the preparation of public-private partnerships projects<sup>18</sup>:

Manual 1: Discounting and the discount rate in PPP projects - the manual aims to explain the basic concepts of discounting methods so as to make the process of preparing and implementing PPP projects more efficient and of higher quality. It tries to explain the development of the comparator of public sector costs in the application of the process of discounting cash flows to calculate the present value of the total life costs of the project.

Manual 2: The financial model in PPP projects - the manual aims to explain basic concepts related to the financial model, as well as the obligatory structure, assumptions, calculations and output values. It also gives the basic instructions for the development of a financial model, which is the part of the tender documents.

Manual 3: Comparator of the public sector costs - the purpose of the manual is to provide basic information relating to the development of the comparator costs of the public sector which is defined by the Public-Private Partnership Act, and it represents a comparison of the present value of the total cost of living in the agreed period of the project under the traditional model of financing compared to the same kind of costs spent by the PPP model.

Manual 4: Structure of the PPP contract - the manual tries to explain the meaning of the most important provisions/clauses of public-private partnership contract.

Manual 5: Determination of payment capacity of local and regional self-administration units in public-private partnerships projects - the objective of the manual is to present the procedure on the basis of which local and regional self-administration units will be able to calculate the height of the annual borrowing and debt or the amount of the assumed obligations under the public-private partnership contract.

Manual 6 v.2: The meaning and procedure of calculating the value for money in PPP projects - the purpose of the manual is to give explanations in the part relating to the development of the comparator of the public sector costs in the section relating to the calculation of whether the PPP model creates added value for taxpayers.

Manual 7 v.2: The process of selecting a private partner - specific features of project implementation according to the public-private partnership model - the manual refers to the third level of control, i.e. public procurement procedure which is characterized by specifics in relation to the selection of the contractor with the traditional model of purchasing public buildings, e.g. subcontractors, applying the criterion of economically most advantageous tender, the procedure of competitive dialogue and prequalification, the selection of the private partner in the award of the concession and establishing the right to build, the method of calculating the estimated value of procurement, the establishment of special-purpose companies and the like.

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<sup>17</sup> <http://www.aik-invest.hr/jpp/medunarodna-suradnja/eu-programi-pomoci/projekti-agencije/>

<sup>18</sup> <http://www.aik-invest.hr/jpp/publikacije/>



Manual 8 v.2: The risks in public-private partnerships projects (identification and allocation of risks) - the objective of the manual is to explain the basic concepts related to the identification, quantification and allocation of project risks.

Manual 9 v.3: Preparation and implementation of public investments (public-private partnership projects) - the purpose of the manual is to provide a method of preparation process, assessment models and delivery of public buildings.

Manual 10: The combination of models of public-private partnership with the EU funds - the manual aims to explain the basic features of financing public investments from structural funds and from public-private partnership and define the process of combining EU funds and PPP. It also explains the reasons for the social justification and economic rationality of public projects financing from EU funds, which are delivered by the PPP model.

## 2.5 Previous and current PPP experience

The first public-private partnership contracts in the Republic of Croatia were concluded in 2006 and 2007. A total of 13 PPP contracts were concluded for the construction and reconstruction of schools, gyms and a bus station. Subsequently, in 2012 the PPP contract was concluded for the construction and management of a new passenger terminal at Zagreb airport as a concession model<sup>19</sup>.

The total value of the market of PPP projects in Croatia to date is 330 million euro of projects which are being implemented and 628 million Euro<sup>20</sup> in procurement and preparation. Most investments (39%) are associated with health care (CHC Rijeka, hospitals in Popovača and Varaždin), with transport (20%, Zagreb Airport), 10% for education (renovation and construction of schools in the County of Istria, Varaždin County and Koprivnica-Križevci County), 9% for objects of sports infrastructure and other projects of lesser value in the sector of energy efficiency (public lighting).

In 2015, the Agency for Investment and Competitiveness approved the project proposals of the total capital value of over 64 million Euro (Hospital in Varaždin, construction and reconstruction of secondary schools in Koprivnica and reconstruction of public lighting in the municipality of Kostrena, Vošnja and Novi Vinodolski)<sup>21</sup>.

Among the concluded projects that have been developed under a public-private partnership model, the Spaladium Arena in Split was constructed. In Varaždin County 44 schools were built, rebuilt or renovated, as well as the County Palace. In these partnerships, private investors have financed the construction and maintenance of public buildings owned by the county for a period of 25-30 years, while the County pays a monthly rental fee to private partners that covers the cost of financing investments and maintenance of schools. In Koprivnica, high school "Fran Galovic" and accompanying gym were built and it was the first facility of its kind to be built in Croatia under a public-private partnership. This model was recognized by

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<sup>19</sup> Agency for Public Private Partnerships of the Republic of Croatia (2012): Structure of Public-Private Partnership Contracts, Manuals for the preparation and implementation of public-private partnership models, Manual No. 4, Version 1, Zagreb.

<sup>20</sup> Data for 2015

<sup>21</sup> Agency for Investment and Competitiveness, Analysis and overview of the PPP market in the Republic of Croatia 2015, p. 4.



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Hypo Bank which has financially supported 25 projects in Varaždin County, as well as the high school in Koprivnica<sup>22</sup>.

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<sup>22</sup> Barković, I., Širić, M. (2010) Uloga i značaj javno-privatnog partnerstva u Republici Hrvatskoj: izabrani primjeri, *Ekonomski vjesnik: Review of Contemporary Entrepreneurship, Business, and Economic Issues* str.195.



## 3. National context for revitalization and cultural heritage<sup>23</sup>

### 3.1 Revitalization policy and legal framework

Safeguarding of cultural and historic values of built heritage is the main principle of cultural heritage revitalization policy in spatial planning. Thus, national and regional spatial planning documents, as well as those related to national and nature parks stress it as an important policy line. The Draft Spatial Planning Strategy of the Republic of Croatia (to be passed until the end of 2016 while the current Spatial Planning Strategy in force is from 1997) sees safeguarding of cultural heritage as a prerequisite for the preservation of spatial identity and sets priority actions to be done in this field. Its main policy lines include the following:

- careful choice of the purpose, content and modality of cultural heritage use which is appropriate to the size and character of the area (avoiding short-term one-purpose orientation motivated by market interests);
- balanced ratio of original historic forms of built heritage and contemporary phenomena when used for residential, tourist, cultural, educational or economic purposes;
- promotion of overall values of Croatian built heritage as a first class humanistic and economic factor with systematic education of their owners, users and managers;
- strong criteria for the folk and marginal construction both on the coast as well as on islands;
- recognition, registration and planned preservation of vistas;
- continuing evaluation of contemporary construction production of the 20<sup>th</sup> and 21<sup>st</sup> centuries as well as of global and regional architectural expression.

Architectural Policies of the Republic of Croatia 2013-2020, ApolitikA, national guidelines for quality and culture building (adopted by Croatian government in 2012) is the document setting the architectural policies of the Republic of Croatia which sees the preservation and protection of built heritage, vistas and cultural landscapes as a national priority since it reveals the stratification of construction turning it into the unique national identity. The role of the state in cultural heritage management is seen as a prerequisite, not only by way of its protection mechanisms and legal framework but also by setting the example to other owners and managers by way of its relation towards its preservation, protection and sustainable use.

When it comes to the legal framework, the principal law is the one on Physical Planning (Official Gazette 153/13) which determines the measures for cultural assets' enhancement. Also, the Law on Real Estate Value Estimate (Official Gazette 78/15) regulates special characteristics of estimated real estate such as its cultural value. According to the Law on Environmental Protection (Official Gazette 80/13, 150/13, 78/15) as well as the Regulation on Strategic Estimate of the Impact Plans and Programmes on the Environment (Official Gazette 84/08), strategic studies and estimate procedures evaluate the impact of every document on cultural heritage, which is part of the environment. The relationship between environmental protection and cultural heritage is mainly based on ensuring sustainable development,

<sup>23</sup> The text of Chapter 3 is based on material related to the Ljubljana Process „Rehabilitating our Common Heritage“ project.



where one of the goals is protection and renovation of cultural and aesthetic values of landscape. The Law on Nature Protection (Official Gazette 80/13) regulates protected natural values. Still, the majority of protected areas, national parks, nature parks, regional parks, protected landscape and forest parks include elements of protected cultural heritage, while in relation to park architecture monuments, the protected area may overlap with the protection of a cultural asset (in most cases, there is a total overlap). Therefore, a holistic approach is the main principle in planning and protection.

The laws in relation to spatial and urban planning as well as strategic environmental assessment are summarized in the Table below:

**Table 2: Legal acts relating to the spatial and urban planning, environmental assessment, construction, building, development and infrastructure provision**

Law on Physical Planning (Official Gazette 153/13)
Law on Works and Activities in Physical Planning and Construction (Official Gazette 78/15)
Law on Procedures regarding Illegally Built Structures (Official Gazette 86/12)
Law on Environmental Protection (Official Gazette 80/13, 150/13, 78/15)
Law on Nature Protection (Official Gazette 80/13)
Regulation on the Strategic Assessment of the Impact of Plans and Programmes on the Environment (Official Gazette 64/08)
Regulation on Informing and Participation of the Public and Interested Public on Environmental Protection Issues (Official Gazette 64/08)

Every intervention in space is implemented in accordance with the spatial planning documents, special regulations and land use permits. The land use permit establishes, among other things, special conditions stipulated by laws that bodies and persons must comply with, and which have to be obtained prior to initiating the procedure for issuing land use permits. In addition, the procedure for issuing the detailed design has to establish that the detailed design has been drawn up in compliance with the land use permit and the provisions of the Law on Physical Planning and Construction. If an individual building inscribed in the Register of Cultural Properties of the Republic of Croatia is being reconstructed, essential requirements regarding the building can be deviated from if they disrupt its fundamental monumental features in line with the obtained consent of the Ministry of Construction. The consent of the Ministry of Construction is issued upon the previously obtained opinion of the Ministry of Culture. In general terms this system works in practice. Still, the special conditions and protection measures pertaining to cultural properties are mandatory and mostly restrictive so that potential investors consider them as an additional burden.

### 3.2 Heritage protection policy and legal framework

There is a whole array of laws and legislative acts that regulate the field of culture in Croatia but there are not many policy documents that summarize and clearly expose policy goals, objectives, interests, planning projections and development directions. In order to improve management of cultural heritage policy, the Ministry of Culture adopted the Strategy for the Protection, Preservation and Sustainable Economic Use of Cultural Heritage in the Republic of Croatia in 2011. This document provides guidelines and recommendations for future integrated approach to heritage policy and management. Completion and revision of existing registries (built as well as moveable heritage including archaeology) is one of the most



important prerequisites for the effective and efficient implementation of the main goals of the Strategy. This is necessary in order to finalize the connection of the registry with the cadastre which will facilitate investment in and restoration of cultural heritage.

Protected and preserved heritage is one of the main goals of the Strategic Plan of the Ministry of Culture 2015-2017. Specific objectives for cultural heritage include development of the information system for cultural heritage of the Republic of Croatia; securing an optimum model for protection and management of cultural heritage assets; development of museums' and galleries' activities and development of archives' activities including securing conditions for regular underwriting of archival records.

The Ministry of Culture regularly co-operates with other ministries to bring general and related laws into harmony with cultural legislation. They also co-operate in fields in which the competencies of various ministries are involved, such as the protection of cultural heritage (with the Ministry of the Interior) and conservation and protection of historical town centres (with the Ministry of Construction and Physical Planning) among others. Regarding the issues of cultural heritage, the Ministry of Culture fosters co-operation, primarily with the Ministry of Tourism, Ministry of Construction and Spatial Planning (dealing with issues of land use planning, construction), Ministry of Environmental and Natural Protection (dealing with environmental and issues of sustainable development) and the Ministry for Regional Development and EU funds. Although the prospects for closer inter-ministerial co-operation are hindered by the strict sectorial division of activities, there are some good examples of cooperation. One of the examples is the establishment of an inter-ministerial working group between the Ministry of Culture and Ministry of Building and Spatial Planning dealing with cultural heritage, nature and environment protection and spatial planning in order to implement The European Landscape Convention.

Ministry of Culture carries national programmes and participation in international cultural cooperation projects. As such, the Ministry of Culture, namely The Directorate for the Protection of Cultural Heritage has taken part in the Ljubljana Process since its inception. The key priority in the process was to introduce the methodology proposed by the Ljubljana Process and integrate it in regular conservation activities with the aim to achieve successful rehabilitation of heritage. Participation in the Process did not have an effect on the existing regulation concerning heritage, nor in the legal text that regulates international cultural cooperation given that Croatian laws follow the principles of the international conventions in the field of cultural heritage.

Croatian regulations are aligned with the main European legal texts, Council of Europe conventions, recommendations and resolutions. The Republic of Croatia has been an active participant in the adoption of the Convention on the Protection of Underwater Heritage and was the third country in the world to ratify it. Following the ratification of the Convention on European Landscapes in 2002, Croatia did not prescribe a unified methodology at the expert level for identifying, making an inventory, evaluating, classifying and protecting landscapes, which has made it difficult to implement the Convention in practice. Also, Croatia is a party to the Convention on the Protection of Cultural Goods in the Event of Armed Conflict and the Protocol relating to the prohibition on the export of cultural goods from occupied territories of 8 October 1991, pursuant to notification of succession. Some principles of international conventions are embedded in the legal system and some are not but are all the same implemented (such as with the Centre for Underwater Archaeology in Zadar for example).

When it comes to policy making in the field of cultural heritage, one of the greatest problems is an inadequate organizational structure of conservation activities due to the intertwining of administrative and professional functions. Besides, the Strategy for Protection, Preservation and Sustainable Economic Use of Croatian Cultural Heritage 2011-2015 detected different problems concerning cultural heritage exploitation





for social and economic development. Most of the issues arising in this field originate from the inconsistent and unsystematic policy development that is reflected in somewhat maladjusted situation in the heritage sector. Generally, efficiency of protection, preservation and sustainable use of cultural heritage should be increased along with the increase of awareness of individuals and the community regarding the importance of cultural heritage and its sustainable use.

A lot has to be done to solve a number of problems, especially in the lines of improvement of the legal framework for the protection, preservation and sustainable use of cultural heritage with the emphasis on the increasing knowledge, skills and motivation of all participants in the protection and preservation of cultural heritage for its sustainable use. The sustainable use of cultural heritage is, in the Croatian context, the fundamental prerequisite for the development of cultural tourism along with the encouragement of the development of entrepreneurship based on cultural heritage, which includes cultural industries.

The main law in the field of heritage is the Law on Protection of Cultural Assets from 1999 which was amended in 2003, 2009, 2010, 2011 and 2012. The following Table presents numerous heritage legislation acts in Croatia.

**Table 3: Cultural heritage legislation in Croatia**

Law on the Protection and Preservation of Cultural Property (Official Gazette 69/99, 151/03, 157/03, amendments 87/09, 88/10, 61/11, 25/12)
Law on the Rehabilitation of the Threatened Monumental Complex of Dubrovnik (Official Gazette 21/86, 26/93, 33/89, 128/99)
Ordinance on the identity card of inspectors for the protection of cultural property and on the form and manner of keeping records on implemented supervisions (official Gazette 129/99)
Ordinance on conditions under which physical and legal persons obtain permits for work on the protection and preservation of cultural property (Official Gazette 74/03, 44/10)
Ordinance on the procedure and manner of issuing permits for undertaking underwater activities in interior waters and territorial sea waters of the Republic of Croatia that are protected as cultural property (Official Gazette 22/09, 36/11)
Ordinance on archaeological research (Official Gazette 102/10)
Ordinance on the form, content and method of keeping the Register of the Cultural Property of the Republic of Croatia (Official Gazette 89/11)
Ordinance on professional titles in conservation-restoration activities and conditions and manner of their attainment (Official Gazette 59/09)
Ordinance on the determination of cultural objects considered as national treasures of EU Member States (Official Gazette 38/04)
Ordinance on the content, form and manner of issuing official identity cards to employees of the Directorate for the Protection of Cultural Heritage of the Ministry of Culture and official identity cards of the City Institute for the Protection of Cultural and Natural Monuments in Zagreb (Official Gazette 110/04)
Ordinance on the criteria for establishing the value of movable goods of cultural, artistic or historical value



(Official Gazette 77/04)
Ordinance on marking immovable cultural heritage property and structures in which collections of cultural property objects are kept (Official Gazette 12/06)
Ordinance on conditions under which permits are issued for exporting and removing cultural property from the Republic of Croatia (Official Gazette 141/06)
Regulation on the establishment of the Agency for the Renovation of the Osijek Citadel (Official Gazette 28/99)
Regulation on the merging of public institutions engaged in restoration activities (Official Gazette 2/97, 119/01)
Regulation on the establishment of the International Centre for Underwater Archaeology in Zadar (Official Gazette 33/08)
International legal provisions
Law on the Ratification of the Convention on the Protection of Underwater Cultural Heritage (Official Gazette, International Conventions 10/04)
Convention for the Protection of the Architectural Heritage of Europe, Granada, 1985 (Official Gazette 6/94)
Convention on the protection of cultural goods in the event of armed conflict and its Protocol relating to the prohibition on exports of cultural goods from occupied territories (Official Gazette, International Conventions 6/94)
Law on the Ratification on the UNIDROIT Convention on Stolen or Illegally Exported Cultural Objects, drawn up in Rome, 24 June 1995 (Official Gazette, International Conventions, 5/00, 6/02, promulgation)
Law on the Ratification of the European Convention on the Protection of Archaeological Heritage (revised), 1992, drawn up in Valetta, 16 January 1992, (Official Gazette, International Conventions, 4/04 and 9/04 promulgation)
Law on the Ratification of the Convention on the Protection of Intangible Cultural Heritage (Official Gazette, International Conventions 5/05, 5/07 promulgations)
UNESCO Convention on Measures to Protect and Prevent Unauthorized Imports, Exports and Transfer of cultural goods (Official Gazette, International Conventions, 12/93)
Convention on the Protection of World Cultural and Natural Heritage (Official Gazette, International Conventions, 12/93, adopted in Paris, 1972). The Republic of Croatia became a party to the Convention pursuant to notification of succession of 8 October 1991 (Entered into force on 8 October 1991)
Regulation on the promulgation of the Agreement between the Government of the Republic of Croatia and the Government of the United States of America on the protection and preservation of certain cultural goods (Official Gazette, International Conventions 11/05)
Law on the Ratification of the Second Protocol to the Convention on the Protection of Cultural Goods in the Event of Armed Conflict (Official Gazette, International Convention 11/05)
Law on the Ratification of the Framework Convention of the Council of Europe on the value of cultural heritage to society (Official Gazette, International Conventions 5/07)



Regulation on the Ratification of the Treaty between UNESCO and the Government of the Republic of Croatia on the Establishment of the Regional Centre for Underwater Archaeology in Zadar, Croatia, as a category II Centre under the auspices of UNESCO (Official Gazette 1/09)

Law on the Ratification of the Convention of European Landscapes (Official Gazette 12/02)

### 3.3 Public participation in revitalization and heritage conservation

Generally, active public participation in matters of interest for public benefit (which also entails revitalization and heritage conservation) is regulated by the *Code of Practice on Consultation with the Interested Public in Procedures of Adopting and Implementing Laws, Other Regulations and Acts* (Official Gazette 77/09). The Code establishes general principles, standards and measures for conducting consultations with the interested public, in the procedures of enacting laws and adopting other regulations and acts of state bodies which regulate matters and take positions of interest for public benefit. According to this Code, participation of the interested public (citizens, civil society organizations, representatives of the academic community, chambers, public institutions and other legal entities performing a public service or who might be affected by the law, other regulation or act which is being adopted, or who are to be included in its implementation) comprises four levels: informing, consultation, involvement and partnership.

Specifically, when it comes to public participation concerning revitalization and heritage conservation, the tasks of research, analysis, record-keeping, restoration, conservation and preservation of cultural property may be performed by specialized legal or physical entities. The Minister of Culture prescribes conditions which must be fulfilled by legal or physical entities to acquire permission for the performance of these tasks and the Ministry of Culture keeps a register of such legal and physical entities. The initiator of the elaboration of the physical plan is obliged to inform the public on the drawing up of the physical plan. In accordance with the Physical Planning Act (Article 14, Official Gazette 153/13) the public shall have the right to participate in the procedures for the development and adoption of spatial plans. With a view to obtaining opinions, guidelines and recommendations for the drawing up of the plans, there is one or more previous deliberations upon which the draft physical plan is submitted for public discussion during which the competent state bodies and legal entities with public authority, local and regional self-government units, citizens, associations and property owners can give their proposals, views and opinions.

The Draft Spatial Development Strategy of the Republic of Croatia (to be implemented by the end of 2016) sets out long-term tasks of spatial development until 2030 focusing also on the importance of public participation (development of the participatory model) and access to information and documents important for physical planning.

The "Strategy of Conservation, Protection and Sustainable Economic Use of Croatian cultural heritage 2011-2015" is the basic document that sets long-term goals and guidelines for the conservation, protection and use of cultural heritage and ways of their implementation in accordance with the sustainable development of Croatia. One of the goals include strengthening partnerships (public participation) and informing the professional and general public about the importance of cultural heritage as a development resource and about capabilities of its commercial use in accordance with the principles and practices of sustainable development.

It is estimated that there are around 1.000 civil society organizations active in the field of cultural heritage, but most of them are related to intangible cultural heritage.



The annual Croatian award called 'Vicko Andrić Award', among other, rewards individuals and civil society organizations for outstanding achievements in the field of protection and restoration of cultural heritage in Croatia. Thus, the Society of Friends of Dubrovnik Antiques was awarded for 2015 as the best example of civil society organization in the field of protection and restoration of Croatian cultural heritage.

### 3.4 Public institutions and support units for revitalization and heritage conservation

The Ministry of Culture performs administrative and other tasks in the field of culture, including those related to heritage. The Directorate for the Protection of Cultural Heritage in the Ministry of Culture is the competent body for performing administrative and expert duties connected with the protection and preservation of cultural property. Conservation activities and the protection and preservation of cultural heritage are carried out through the Directorate together with its 21 conservation departments (organized according to regional principles) as well as through the City Institute for the Conservation of Cultural and Natural Heritage in Zagreb, which is part of the local/regional government structure rather than the Ministry of Culture. The conservation service within the Ministry of Culture is a hybrid solution; the service is actually designed as a state administration instead of being set up as archives, museums, restoration services - decentralized in the field of operations, centralized in the register of monuments, and standardized in the methods of action.

Conservation and restoration work in Croatia is carried out by the Croatian Conservation Institute as a central public institution, individual institutions such as museums, archives and libraries, restoration departments of higher education institutions, and legal and natural persons who are licensed for works on cultural heritage. The Institute's work is decentralized through eight restoration departments. The conservation and restoration activities imply professional and scientific activities without administrative jurisdiction, implementing protective works on cultural heritage with the aim of preserving its monumental character. Apart from the Croatian Conservation Institute, the Institute for the Restoration of Dubrovnik is a public institution specifically founded for restoration, conservation and renovation.

Regional and local administrations may also assume authority in decision-making concerning cultural heritage since, in most cases in Croatia, they are legal owners of heritage buildings, sites and locations, hence most actions related to cultural heritage necessarily include the direct involvement of the local administration in the capacity of investor or administrative/managing authority.

Supervision of the application of legal regulations in practice is a matter for the Inspectorate Section of the Directorate for the Protection of Cultural Heritage.

The Croatian Council for Cultural Heritage is a counselling body established as to monitor and promote the status of cultural property. The Council has nine members and deliberates on general issues in the area of the protection and preservation of cultural heritage and gives recommendations and opinions for the advancement of activities for the protection and preservation of cultural goods.

Generally, the main actors addressing the issues of cultural heritage are the state, church and academic community besides the estimated 1.000 civil society organizations active in the field of cultural heritage.

When it comes to general revitalization policy, the main responsible public body is the Ministry of Construction and Physical Planning. The revitalization system is organized according to the same principle as heritage conservation, implementing the revitalization policy through its 21 regional conservation departments.



### 3.5 Incentives and funding mechanisms available for revitalization and heritage protection

Public financing of culture in Croatia is organized at national, regional and local level. Therefore, sources for public expenditures include the local level, provinces/regions, towns/cities and municipalities. At national level, on a yearly basis, an invitation for the Proposal of Programmes for the Public Needs of Culture in the Republic of Croatia is published. Pursuant to the applications received, a Programme for the Protection and Preservation of Cultural Goods is drawn up, for the implementation of which funds are assured from the State Budget which represents the main source of finance for protection, conservation, restoration, presentation and maintenance projects concerned with cultural goods. Local administration, civil society organizations as well as Regional development agencies also fund and invest in cultural heritage. Greater amounts donated to cultural heritage are noted only in Zagreb, Rijeka, Dubrovnik, Zadar and Split.

European Union funds are also available for the sustainable restoration of cultural heritage through the Grant Allocation Programme for Sustainable Restoration of Cultural Heritage which is operated by the Ministry of Regional Development and European Union Funds. The Programme is operated within the framework of the OP Competitiveness and Cohesion 2014-2020, PA 6 Environment Protection and Sustainability of Resources, specific objective 6c1. Enhancing protection and management of cultural heritage for development of tourism and other economic activities.

A specific way in which funds for cultural heritage are assured in Croatia is through the monument annuity. The provisions in the Law on the Protection and Preservation of Cultural Property regulating the distribution of funds collected through the monument annuity fund ensure that a certain percentage of funds is distributed by the local government in the city/municipality where the annuity has been collected. Physical and legal persons that carry out commercial activities in immovable cultural goods, or in designated protected urban zones, pay an annuity which amounts to 2% of revenues. The monument annuity is also paid in case a cultural asset is used in a printed work, for promotion, or when an income or profit is, as said, made from an economic activity performed in an immovable cultural asset. Of this amount, 60% goes to the town or municipal budget, and 40% to the state budget, at the disposal of the Ministry of Culture which uses the funds to promote the preservation of cultural heritage in less developed environments. Budget revenues from the monument annuity are disbursed exclusively for the protection and preservation of cultural goods. In general, it is used for cultural goods in public ownership, but can also be used for works on privately owned property - for example to improve the condition of facades for the purpose of improving the image of a place.

Additional financing for the restoration of heritage is offered through some measures by the Ministry of Tourism (projects mainly for tourism purposes). The former Heritage in Tourism Programme has now been splintered into several financing programmes which open the door for heritage subsidies. Thus, the Competitiveness of Tourism Economy Programme offers possibilities for some types of heritage assets' renovation but for tourism purposes only while Development of Tourism Infrastructure Programme finances visitor and/or interpretation centres.

10 years ago, the public-private partnership model has been introduced for different projects. Still, in the cultural heritage sector, such projects are extremely rare. This is due to difficulties present in other sectors as well as due to the specific character of this sector.



When it comes to international financing for the rehabilitation of cultural heritage, donations, pre-accession funds, and loans are common. They were especially significant in the renovation of architectural heritage damaged during the Homeland War or for new purposes of cultural heritage.

### 3.6 Relevant guidelines and documents on revitalization and heritage protection

Cultural heritage revitalization is treated in the hierarchy of documents related to spatial planning. Thus, special attention is given to it in the Draft Spatial Planning Strategy of the Republic of Croatia, as the first level document, which is hoped to be passed with the establishment of new Government. The Spatial Planning Strategy of the Republic of Croatia from 1997 also dedicates attention to the protection of cultural and historic values in spatial planning: it determines principles, aims and guidelines of built heritage protection. The Spatial Planning Programme of the Republic of Croatia from 1999, as the second level document, complements the previously mentioned Strategy and determines measures and activities to be done in the field, including built heritage protection. Individual Spatial Plans represent the third level documents and determine protection and preservation of cultural/historic values measures of built heritage. Urban development plans and detailed development plans are implementing documents. Spatial plans for areas with special characteristics in force are those related to the built heritage protection in national and nature parks while there is an array of decentralized spatial plans made according to regional/local criteria.

Apolitika: the Architectural Policies of the Republic of Croatia sets the national guidelines for the quality and culture of construction.

Also, cultural heritage is included in the following national strategic documents: Strategy of the Government Programmes 2014-2016; Strategic Plan of the Ministry of Culture 2015-2017; Strategy of Protection, Conservation and Sustainable Economic Use of Cultural Heritage of the Republic of Croatia 2011-2015; Strategy for the Development of Archives' Services in the Republic of Croatia; Strategy of the Croatian Tourism Development up to 2020; Strategy of the Regional Development of the Republic of Croatia and Operational Programme for Regional Competitiveness.

The recently completed Strategy of Tourism Development of the Republic of Croatia 2020 includes a chapter on cultural tourism which is seen as one of the main Croatian tourism products. The Strategy properly sets the needed activities as to boost tourism development based on culture. Still, time will show if the implementation phase will really include what has been set by the document. Also, the Cultural Tourism Development Action Plan has been completed in 2015. Cultural heritage tourism is an important sub-product of cultural tourism; these documents, however, offer just a general directions of tourism development and not specific operational guidelines for heritage protection.

On the other hand, Guidelines for heritage protection and presentation of cultural assets are a necessary part of conservation studies carried out when conservation work is being performed on a certain heritage building/site/location. They are carried out by licensed conservators. Also, Guidelines for the Renovation of Traditional Housing (stone, wood and Slavonic structures made of bricks and mud) have been issued by the Ministry of Tourism. They contain general guidelines and are intended for the heritage owners willing to transform their houses into tourism infrastructure. Besides these general guidelines, the responsible conservation institute experts issue their approval together with the specific guidelines for renovation of the historic building with the tourism purpose.





Spatial planning documents often include guidelines for heritage revitalization and presentation. The Draft Strategy of Spatial Planning of the Republic of Croatia, once passed, would act as a principal document containing the guidelines for cultural heritage enhancement.

Generally, Croatia is a signatory of international documents related to heritage protection which also determine general policy issues (see Chapter 3.2).

### 3.7 Previous and current experience in revitalization and heritage conservation

Although Croatia is extremely rich in heritage, its conservation and revitalization is not adequately provided for all its assets. No exact data exist on the revitalization projects since the Registry of cultural goods is still incomplete. This has a huge impact on future PPP projects since the Registry is a prerequisite for investments in terms of the selection of potential heritage candidates for PPP schemes. Neither has an organized system of long-term concessions come to life nor there is a systematic rehabilitation priority list. Unresolved cultural heritage property ownerships often make it even more difficult. Generally, the private sector financing of cultural heritage is extremely low. Besides, there is no coordination of different sources of finance for protecting and preserving cultural heritage which often results in the lack of management plans.





## 4. PPP in revitalization and heritage protection - case studies

### 4.1. Case studies description

#### **Project name:** Varaždin County Palace

The revitalization of Varaždin County Palace which took place in 2006 is the first example of Public Private Partnership Investment in revitalization of cultural heritage on the territory of the Republic of Croatia. After the adoption of the Public-Private Partnership Act (OG 129/08) in 2008, the Varaždin County Palace project has been submitted and registered to the national Register of PPP contracts managed by the Agency for Investment and Competitiveness (AIK).

The Varaždin County Palace was built in the Rococo style in 1768, but was destroyed in the fire of 1776, losing much of its original stylistic features during renovation. The palace was built by the master builder Jacobus Erber, according to the plans obtained from Vienna and adapted for the conditions and needs of the city of Varaždin. Over the years, it gradually dwindled in significance, and this resulted in its neglect, and inappropriate use and furnishings<sup>24</sup>.

Renovation work began in the 1990s, but the at the rather slow pace mostly due to the lack of funding. The greatest amount of renovation took place in 2006, when sufficient funding was assured through a public-private partnership between the Varaždin County and the private company Meteor-Privatno Partnerstvo d.o.o. This allowed the Palace to be renovated in a relatively short period of time. Private investor Meteor-Privatno Partnerstvo d.o.o. have financed the construction and maintenance of the Palace owned by the County for a period of 20 years, while the County pays a monthly rental fee to private partner covering the cost of financing investment and maintenance of the Palace<sup>25</sup>.

According to the national Register of PPP contracts, the estimated capital value of the revitalization of Varaždin County Palace was 1.197.000 Euro (excluding VAT). A great restoration and conservation project has returned the Palace to its original condition, and now it once again houses the Varaždin County Headquarters - its original purpose for which it was built<sup>26</sup>.

#### **Project name:** Croatian History Museum

Except the revitalization of Varaždin County Palace, so far no other PPP projects in the field of culture have been realized. The Croatian History Museum is the PPP project in development registered to the national Register of PPP contracts and managed by the Agency for Investment and Competitiveness (AIK).

The beginning of the Croatian History Museum's public activity are tied to the National Museum in Zagreb and the opening of its first collections to visitors in the summer of 1846. Due to the insufficient space, the Museum has never had a permanent display (today, the Museum's activities proceed at two locations in

<sup>24</sup>Korunek, M., Matica, B., Trstenjak, Ž. (2009) Obnova palače Varaždinske županije s osvrtom na povijesni razvoj županije kao institucije. *Godišnjak zaštite spomenika kulture Hrvatske*, 33/34 (33/34), pp. 55-78.

<sup>25</sup><http://www.varazdinska-zupanija.hr/dodatno/%C5%BEupanijski-projekti/javno-privatno-partnerstvo/>

<sup>26</sup><http://www.aik-invest.hr/jpp-project/rekonstrukcija-zgrade-varazdinske-zupanije/>



Zagreb: in the Baroque-era palace and in a section of the Meštrović Pavilion on Victims of Fascism Square)<sup>27</sup>.

In 2007, the Croatian Government assigned the Zagreb tobacco factory building to the Croatian History Museum and bought it from the private company Adris grupa d.d. Constructed in the historicist style in 1881, the Zagreb tobacco factory is the work of architect Rupert Melkus together in technical cooperation with Milan Lenucij and Aleksandar Seć. The Zagreb Tobacco Factory building is the only preserved building of industrial architecture from the 19<sup>th</sup> century.

The former Zagreb tobacco factory, a protected monument of industrial engineering, will undergo thorough renovation and reconstruction. The old two-winged, two-story building will be thoroughly reconstructed and transformed into the Croatian History Museum. The aim of the Croatian History Museum project is to provide the adequate space for museum collections. The project is consisting of reconstruction of the former Zagreb tobacco factory and its adaption for museum functions. The building itself is protected cultural heritage and once the Museum moves to its new location, it will for the first time have sufficient space to fully actualize a national historical museum, implement educational functions and achieve the objective of its public activity<sup>28</sup>.

The Adris grupa d.d., former owner of the Zagreb tobacco factory, built on the south and west side of the factory a modern business building for their business premises with a two-level underground garage. The basement area of the business building is intended to be partly used as a storage for the Museum archive. The business building is finalized, and the old building will be renovated and transformed into the History Museum which will have its own space for the first time in its long history<sup>29</sup>.

According to the national Register of PPP contracts, the estimated capital value of the Croatian History Museum project is 16.800.000 Euro (excluding VAT) and expected duration of the contract is 27 years<sup>30</sup>.

**Project name: Croatian State Archives**

Croatian State Archives is PPP the project in development registered to the national Register of PPP contracts and managed by the Agency for Investment and Competitiveness (AIK).

The project aim is to ensure adequate protection of records of enduring importance to the business and official purposes and as legal evidence, provide access to archival material, regardless of the time, place and public memory of the documented events. The construction of the new archive building in Kerestinec on the outskirts of Zagreb aims to provide adequate space for performing the main archival services: storage of the archival material, and access and use of archival material by the public. Together with the old archive building, it will ensure the archival services in the long-term.

According to the national Register of PPP contracts, the estimated capital value of the Croatian State Archives project is 18.400.000 Euro (excluding VAT) and expected duration of the contract is 27 years<sup>31</sup>.

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<sup>27</sup><http://www.hismus.hr/en/about-us/>

<sup>28</sup><http://www.hismus.hr/en/about-us/museum-mission/>

<sup>29</sup>Nadilo, B. (2012) Uređenje kompleksa tvornice duhana Zagreb. Kuća hrvatske povijesti – od doseljenja do osamostaljenja. *Gradjevinar*, 9/2012, str. 749-761. URL: [http://www.casopis-gradjevinar.hr/assets/Uploads/JCE\\_64\\_2012\\_9\\_749-761\\_gradiliste.pdf](http://www.casopis-gradjevinar.hr/assets/Uploads/JCE_64_2012_9_749-761_gradiliste.pdf)

<sup>30</sup><http://www.aik-invest.hr/jpp-project/hrvatski-povijesni-muzej-u-zagrebu/>

<sup>31</sup><http://www.aik-invest.hr/en/jpp-project/croatian-state-archives/>



## 5. Conclusions and perspectives for future revitalization projects using PPP schemes

Although there are a number of cases of public-private partnerships in Croatia, officially, there is only one case in the field of culture (Revitalization of the County Palace in Varaždin) categorized as PPP which has been realized so far. Two projects in the field of culture (Croatian History Museum and Croatian State Archives) are in development having intention to use PPP schemes but their realization seems unrealistic in a sooner period. According to the volume of investment, the greatest share of PPPs is in the field of healthcare (39%) and transport (20%). Judiciary sector participates with 18%, education sector with 10%, sports infrastructure with 9%, culture with 3,5% while the remaining part is related to small value projects primarily concerning energy efficiency (public lighting). The volume of investment, however, does not correspond to the number of projects meaning that smaller number of projects in a certain sector may be of a greater investment value. Thus, projects using PPP schemes are mostly present in the field of education (14 projects whether realized or in development, having intention to use PPP schemes for reconstruction of schools), public lighting (6 projects) and healthcare 4 projects) while a much smaller number of them are in sport (3), transport (2), tourism (1), judiciary (1) and welfare sector (1). It is interesting that the reconstruction of the County Palace in Varaždin qualifies as the first PPP project in Croatia. Still, so far no other PPP projects in the field of culture have been realized. As said, there is the interest in using PPP schemes for two other cultural heritage projects whose realization has encountered some ownership issues which is why their realization is currently rather slow.

The Department for Public-Private Partnership within the Agency for Investments and Competitiveness has produced a number of documents which can be very helpful for parties potentially interested in PPP schemes. These have been complemented with a number of educational activities with the aim to raise awareness on benefits of the PPP. Although there are obvious advantages in using PPP schemes and despite the valuable work of the main responsible body for the PPP in Croatia, the number of PPP projects in Croatia in general and especially in the field of culture is rather low. The reasons for this may be searched in the following:

- lack of political support for PPP projects;
- small number of potential investors due to the economic situation in general;
- although simplified, still rather complicated procedures for PPP projects;
- long-term and expensive preparation of PPP projects in relation to the normal procurement;
- still incomplete Registry of cultural goods which is a prerequisite for investments;
- unresolved cultural heritage property ownerships for a number of heritage assets;
- special conditions and protection measures pertaining to cultural properties which are mandatory and mostly restrictive which may avert potential investors;
- lack of understanding of the concept of PPP by potential investors;
- rather negative perception of PPP schemes in the media and the public;
- lack of understanding of the local governments on the importance of regular maintenance of cultural heritage buildings.



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Thus, perspectives for future revitalization projects using PPP schemes are dependent on the needed organizational improvements in the cultural sector, further simplification of PPP schemes as well as on stronger awareness raising and capacity building campaigns for potential investors. The most important factor for successful PPP projects remains with the factor of political support to them.



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