Challenges Faced by Local Government Units in the Use of EU Funds

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This article explores the main challenges faced by local government units in Croatia in the absorption of EU funds. The research is based on a thematic analysis of interviews conducted with local government representatives and business consultants from all regions of Croatia, ensuring

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comprehensive territorial coverage and capturing the heterogeneity of local governance experiences across municipalities and cities of varying sizes, development levels, and geographic locations. The study identifies four key challenges: limited human capacity, difficulties in ensuring financial sustainability, administrative complexity, and political influence. This paper contributes to the ongoing debate on the need for a comprehensive reform of the local self-government system in Croatia, advocating for territorial amalgamation as a means of strengthening local absorption capacity, seen as a prerequisite for the effective implementation of cohesion policy and balanced regional development.

Keywords: EU funds, local government units, absorption capacity, cohesion policy, Croatia, regional development, Europeanisation

1. Introduction

Despite the long-standing implementation of cohesion policy and substantial financial resources available through European Structural and Investment Funds, numerous local government units (LGUs), especially in newer EU member states, continue to encounter significant challenges in utilising these funds effectively. As one of the European Union's central investment frameworks, cohesion policy serves as a cornerstone of efforts to achieve balanced territorial development and to foster economic, social, and institutional convergence across regions. Although cohesion funds are designed as instruments for reducing regional disparities and promoting sustainable development, their implementation at the local level is frequently hindered by structural and institutional weaknesses. Local governments, as the closest administrative level to citizens, are pivotal in executing development interventions funded by the EU.

While substantial research has examined cohesion policy at the national and regional levels, the local dimension, especially in the Croatian context, remains insufficiently explored. The majority of existing studies focus on programme management and coordination, yet little is known about how local government units, the key actors responsible for translating development frameworks into practice, manage the challenges of implemen-

tation. Within the broader framework of multi-level governance, cohesion policy operates through the interaction of European, national, regional, and local actors, whose cooperation and coordination are essential for achieving intended outcomes. The success of local governments in this system depends on their ability to translate EU and national priorities into feasible local projects while adhering to complex procedural, financial, and administrative requirements. This gap is particularly evident in newer EU member states, where structural and institutional constraints exacerbate disparities in fund absorption. These challenges highlight the need to better understand the factors that shape the capacity of local governments to act as effective implementers of cohesion policy. Accordingly, this paper asks: What are the administrative, financial, political, and technical challenges faced by Croatian LGUs in absorbing EU funds?

This study addresses the above question by offering a systematic, interview-based analysis of the challenges faced by practitioners directly involved in the preparation and implementation of EU-funded projects within Croatian local government units. By shifting the analytical focus to the local scale, the study reveals how micro-level factors, such as staff shortages, fragmented governance networks, and local political dynamics, shape overall absorption performance. The findings contribute to theoretical debates on multi-level governance and Europeanisation and provide an empirical basis for policy measures aimed at strengthening local administrative capacities and improving the effectiveness of EU funds absorption across newer member states.

2. Literature Review

Through principles of multi-level governance and subsidiarity, cohesion policy recognises the importance of the local level for achieving territorial and economic convergence goals (Marks & Hooghe, 2004; Piattoni, 2009; Stephenson, 2013, pp. 818–821). In the multi-level governance theoretical model, the vertical dimension captures how mandates and resources flow among the EU, national, and local levels, while the horizontal dimension encompasses cooperation and competition among peer LGUs and other economic and societal stakeholders. Ensuring the effective engagement of local government units in the implementation of cohesion policy presupposes the existence of adequate managerial capacities and resilient institutional frameworks, without which their developmental role remains

structurally constrained. In this multi-layer system, EU funds play a crucial role as a form of "soft" governance, influencing national, regional, and local decision-making not through direct coercion, but through financial incentives, policy learning, and the diffusion of administrative norms and procedures (Mairate, 2006; Bachtler & Mendez, 2007; Piattoni, 2016).

From the perspective of Europeanisation theory, which refers to the construction, diffusion, and institutionalisation of formal and informal rules, procedures, policies, and norms from the European to the national and local levels (Radaelli, 2003, p. 30; Börzel & Risse, 2003, pp. 1–2; Vidačak & Škrabalo, 2014, pp. 152–153), the quality of local governance and the extent of institutional adaptation are key determinants of successful fund absorption. While most of this diffusion happens from the top down, where EU rules and requirements flow through national and regional bodies, there is little evidence of genuine bottom-up input from local practitioners. In newer EU member states, Europeanisation processes have often been superficial and externally driven (top-down), with limited transformative impact on deeper managerial practices (Dabrowski, 2012). By comparing top-down mandates with local-level, bottom-up innovation, we can see how differences in implementation affect cohesion outcomes. This scenario highlights the importance of conceptualising local administrative capacity as a combination of human resources, organisational structures, and political-institutional stability (Dabrowski, 2013, pp. 376–379; Incaltarau, Pascariu, & Surubaru, 2020, pp. 955–957).

Specifically in Croatia, a highly fragmented local governance structure, low fiscal autonomy, and substantial reliance on central government transfers significantly hinder the effectiveness of local governance (Bajo & Primorac, 2010; Koprić, 2016; Puljiz, 2020; Swianiewicz et al., 2024). In many cases, Croatian LGUs operate with constrained human and financial resources, which may contribute to a lack of specialised staff and institutional knowledge, potentially leading to reliance on external support or reduced engagement in complex administrative procedures. These challenges are further intensified by complex administrative procedures and demanding co-financing requirements, which place additional pressure on local government capacities and may limit their ability to fully participate in available EU funding opportunities (Puljiz et al., 2018). In response to such limitations, territorial amalgamation, meaning the merging of local government units, has become a dominant reform trend across Europe in recent decades. It is widely recommended as a strategy to strengthen functional capacities, enhance efficiency, and reduce the costs of public administration (Swianiewicz, 2010; Swianiewicz et

al., 2024). In the Croatian context, Đulabić and Lopižić (2025) argue that most so-called "reforms" of local self-government have amounted to partial adjustments, initiated only under strong political will or external pressure. Political actors functioning as veto players, together with the enduring influence of path dependency, remain the key factors explaining the limited and incremental nature of local governance reform in Croatia.

European cohesion policy remains one of the EU's key investment strategies aimed at fostering economic, social, and territorial cohesion among member states. LGUs are crucial actors in the successful implementation of this policy because they are close to citizens, understand the local context, and can directly deal with local development problems. However, the execution of cohesion policy remains problematic, particularly in newer member states, due to institutional weaknesses, limited administrative capacities, and underdeveloped governance mechanisms that reduce their ability to absorb allocated funds efficiently (Bachtler & McMaster, 2008; Surubaru, 2017). At the local level, limited administrative capacity, scarce human resources, and insufficient experience with complex governance tasks remain key obstacles, particularly in municipalities that are expected to manage significant responsibilities with constrained institutional and fiscal autonomy (Swianiewicz, 2014). Sub-national actors in newer member states frequently struggle with substantial administrative burdens, complex compliance with EU regulations, and difficulties in strategic planning and project execution (Dabrowski, 2013).

The experience of Central and Eastern European (CEE) member states provides valuable comparative insight into the evolving dynamics of cohesion policy implementation. The 2004 enlargement deepened the Union's internal diversity. When accession negotiations with the first wave of CEE candidates began in 1998, their average GDP per capita stood at less than 40% of the EU average (Vachudova, 2005, p. 123). By the time of accession in 2004, most of the new member states had reached between 40% and 75% of the EU average (Eurostat, 2005), so the convergence challenge for cohesion policy remained profound. While the accession process spurred Europeanisation and structural reforms, the first decade of membership revealed significant weaknesses in fund absorption, with many countries struggling to utilise their allocated resources effectively (Hagemann, 2019). Low administrative capacity, insufficient coordination, and implementation delays in infrastructure projects frequently led to the risk of decommitment. Despite these early inefficiencies, CEE states have since demonstrated measurable progress through reforms that professionalised public administration and strengthened fund management

mechanisms. Consequently, their absorption rates improved steadily over subsequent financial periods, illustrating how institutional learning and administrative adaptation can enhance cohesion policy outcomes (Becker, Egger, & von Ehrlich, 2010; Incaltarau, Pascariu, & Surubaru, 2020). Moreover, investments in human capital notably enhance the absorption and effectiveness of EU funds, contributing directly to sustainable regional and local growth (Biedka et al., 2021). EU's peripheral regions continue to experience brain drain and the migration of skilled human resources towards economic and administrative centres, exacerbating regional disparities and limiting developmental prospects (European Commission, 2017; Iammarino, Rodríguez-Pose, & Storper, 2019). Addressing these human capital deficiencies is critical for achieving balanced regional development as envisioned by EU cohesion policy.

The situation in Croatia very much resembles the challenges of other CEE countries regarding the absorption of EU funds, especially when it comes to the role and responsibilities of local and regional administrative units. According to Đulabić (2014), improving the effectiveness of local governments requires rationalising the system of local and regional governance by transforming smaller units into more robust, financially capable entities better suited to supporting and co-financing developmental projects. Furthermore, the politicisation of public administration adversely affects development processes, especially evident in newer member states, where political appointments and insufficient professionalisation lead to inefficiencies and diminished EU funds absorption (Incaltarau, Pascariu, & Surubaru, 2020). Research by Glaurdić and Vuković (2017) has shown that politically affiliated local governments in Croatia are more likely to receive intergovernmental grants, indicating the persistence of clientelistic practices in the allocation of public resources. These clientelist dynamics are reinforced by systemic corruption rooted in institutional environments marked by low transparency, weak accountability, and concentrated political power, where mayors supported by narrow winning coalitions often operate without meaningful electoral consequences (Vuković, 2017).

Taken together, the reviewed literature highlights that the effective absorption of EU funds depends on the overall developmental capacity of local governments. These insights provide the conceptual foundation for the empirical analysis that follows, which explores the key challenges faced by Croatian LGUs in translating policy objectives and governance frameworks into effective practice.

3. Methodology

The study is based on semi-structured interviews with representatives of LGUs and business consultants (BC) actively involved in the preparation and implementation of EU-funded projects. Participants were selected purposively to ensure diversity in experiences, institutional contexts, and development levels within Croatia's local government administrative system. This sampling strategy ensured comprehensive territorial coverage across all Croatian counties and reflected the heterogeneity of local government structures and developmental challenges. One LGU from each of the twenty Croatian counties (excluding the City of Zagreb due to its distinct administrative structure) was included, ensuring a balance between smaller and larger units and encompassing all levels of the national development index classification. Interviews involved LGU representatives or associated institutions, such as local development agencies, who participate directly in EU fund-related activities, irrespective of their formal positions. Additionally, seven interviews were conducted with business consultants who have extensive experience working with LGUs across Croatia. These consultants represent various geographic and institutional backgrounds, including small businesses, independent consultants, and employees of larger advisory firms, some of whom previously held positions in local governments or state institutions managing EU funds. In total, 27 interviews were conducted (LGUs and BCs).

The methodological approach employed thematic analysis, which is appropriate for the exploratory nature of the research and focuses on patterns emerging from participants' experiences. This method systematically identifies and interprets relevant themes within data without predefined theoretical frameworks, thus generating novel insights directly from empirical data (Braun & Clarke, 2006; Guest, MacQueen, & Namey, 2012; Nowell et al., 2017). Due to the sensitive nature of the topic and the importance of building trust, all interviews with LGU representatives were conducted face-to-face in official LGU facilities. Interviews with consultants were likewise conducted in person, at locations selected for the respondents' convenience. The average duration of interviews was approximately 40 minutes, with variations depending on the complexity and depth of the content discussed. Participants received detailed information on the study, data protection measures, and provided informed consent. Participation was voluntary, anonymity was assured, and audio recordings were securely stored and anonymised for transcription and analysis.

Data analysis followed Braun and Clarke's (2006) six-phase thematic analysis process. Initial familiarisation included repeated transcript readings. Initial coding was performed manually, followed by grouping codes into preliminary themes. These themes underwent refinement for coherence and theoretical relevance before the final definition and naming aligned with research objectives. The analytical narrative and conclusions were systematically structured around research question, ensuring logical coherence and depth of interpretation. Rigorous coding, reflective analysis, and illustrative quotes reinforced the validity, transparency, and trustworthiness of the qualitative findings. Due to the necessity of presenting the research findings in English, direct quotes from participants were carefully translated to maintain their original meaning and authenticity. Special attention was paid to preserving semantic and conceptual accuracy during translation, adhering to methodological best practices for qualitative research. This approach ensures the credibility and validity of the qualitative analysis by faithfully reflecting the participants' intended meanings (van Nes et al., 2010).

4. Results

Local government units face diverse challenges in utilising EU funds, with the nature of these challenges largely influenced by their specific administrative and developmental contexts. The findings from the interviews are organised into thematic categories based on their frequency and significance within the research context. The themes identified include: (1) Limited human capacity, (2) Financial sustainability, (3) Administrative complexity, and (4) Political influence. In the following sections, the results corresponding to each identified theme will be presented.

4.1. Limited Human Capacity

Local government units largely face managerial limitations in the process of utilising EU funds, with the lack of skilled and experienced staff representing one of the most significant barriers to the effective preparation and implementation of projects. Approximately three-quarters (75%) of interviewed LGUs identified staff shortages as the most pressing challenge, particularly in smaller municipalities. Respondents from the eastern and southern parts of Croatia most frequently emphasised persistent

difficulties in recruiting qualified and experienced staff. Although there is a strong ambition to implement complex development initiatives, there is often an insufficient number of qualified personnel capable of managing the operational demands of the project cycle. This issue is particularly pronounced in smaller local government units that are not administrative centres, where staffing is limited and individuals are often responsible for a wide range of tasks, including duties related to EU projects, despite lacking specialised knowledge. In such smaller municipalities, it is not uncommon for one or two people to handle all tasks necessary for the functioning of the municipality itself. This illustrates the vertical constraints of multi-level governance, where EU mandates flow down to municipalities, but local units lack the staff to adapt these top-down requirements effectively (Marks & Hooghe, 2004; Radaelli, 2003).

The situations faced by employees in a large number of local government units in Croatia significantly hinder their opportunities for professional development and the advancement of their knowledge, as illustrated by the following example from an underdeveloped municipality in southern Croatia, which realistically depicts the limited possibilities for attending training sessions and workshops: "I'm the only one here, and I literally have to lock up the municipality when I leave. For example, tomorrow I'm going to an information workshop, and that means I'll have to lock the office" (Interviewee 1, LGU).

The interviewee clearly highlights that the chronic lack of staff in small local government units significantly hinders participation in training sessions and workshops held outside the municipal office, as there is no substitute personnel to take over daily administrative duties. Attending professional development activities often means a temporary shutdown of municipal administration, forcing municipalities to choose between maintaining basic functions and investing in the development of competencies necessary for the implementation of EU projects. In such circumstances, municipal leaders in smaller and often less developed areas frequently take on key operational tasks related to EU funds themselves, not only due to institutional necessity but also out of a personal ambition to stimulate local development through projects. Aware of the importance of EU funds for the advancement of their communities, many mayors actively participate in all phases of the project cycle, from drafting applications and collecting documentation to managing public procurement procedures and submitting reimbursement claims.

The situation is further complicated by the fact that many local government units, especially smaller and fiscally weaker ones, have no real pos-

sibility of hiring additional staff due to legal restrictions that define the maximum share of salary expenditures within the overall budget. Interviewees note that hiring additional professionals would be beneficial, but that local government units are constrained by fiscal responsibility rules that prevent them from allocating more than a certain percentage of their budget to staff costs. Even when funding is available, local governments often struggle to find qualified personnel on the labour market, particularly in smaller areas where wages are lower and work in local administration is perceived as less attractive. Public calls for employment are frequently repeated, and even when candidates do apply, they often lack relevant experience, requiring additional training, which places further strain on already limited system capacities. Smaller communities in particular face a shortage of qualified labour; few candidates are available, and those who do apply often lack the experience and competencies necessary to manage complex projects independently. Thus, even with political will and financial resources, local government units find it difficult to recruit suitable staff, further impeding capacity-building efforts. The following statement from a representative of a municipality of average development from northern Croatia illustrates these challenges:

> Local government units are no longer such a desirable place to work as they once were, because the workload has increased significantly and the demands are much higher, so I'm not very optimistic that we'll be able to find someone ready for the job if we decide to hire. (Interviewee 15, LGU)

The traditional perception of public administration as a stable and desirable workplace is increasingly shifting, especially among younger and more educated professionals, who now often view it as static, insufficiently stimulating, and less well-paid compared to the private sector. In smaller and peripheral areas, where career opportunities are limited, this trend further hampers the ability to attract and retain qualified employees, thereby deepening the problem of weak local capacities.

> If someone was good at EU funds five or six years ago, in my view, they've probably left the local government unit… The reason is that they can advance more, earn a higher salary, and be more independent… Working in a local government unit, in a way, puts you in a box – you become just one of the people working in local government. (Interviewee 26, BC)

Although such examples are relatively rare, some LGUs in the north-western parts of Croatia have sought to mitigate these trends by employing shared staff, thereby improving coordination and reducing dependence on individual employees. However, these positive practices are exceptions

rather than the rule, as the outflow of skilled employees from local government units continues to pose a serious threat to the sustainability of managerial capacities. The reasons for leaving include higher salaries, opportunities for professional advancement, and the desire to avoid a sense of stagnation, particularly in smaller and developmentally constrained environments. In such settings, employees rarely have the opportunity to specialise, instead performing a broad range of administrative tasks that underutilise their potential and lead to long-term demotivation. As a result, valuable knowledge gained through practice is lost, the transfer of experience is hindered, and local administration becomes highly vulnerable to staff turnover. Especially problematic is the absence of effective reward systems. Although civil servants often generate significant benefits for local budgets through their work, these contributions are rarely acknowledged through additional incentives. Some interviewees therefore suggest introducing performance-based bonuses tied to the successful implementation of projects as a means to retain high-quality staff, though they recognise that this would be difficult to implement in practice.

Particular concern is raised by the loss of institutional knowledge that disappears from the system with the departure of experienced employees. This knowledge encompasses not only technical skills related to EU funds, but also a deep understanding of institutional logic, administrative procedures, and informal mechanisms of cooperation that are essential for the effective functioning of local government. Since such knowledge is typically acquired through years of practical experience within the system, formal education alone can hardly compensate for its loss. Therefore, preserving and transferring this knowledge is just as important as attracting new personnel, as it constitutes a critical foundation for long-term institutional development. Despite examples of LGUs that have successfully developed internal capacities, a large number of municipalities still face significant deficiencies. Many lack institutional knowledge and experience, which hampers their ability to utilise EU funds. The core issue is the shortage of qualified personnel, but even where staff are present, the specific skills required to manage complex project tasks are often lacking. Public procurement is particularly demanding, its strict rules and shifting interpretations frequently lead to errors, financial corrections, and challenges in planning for sustainability, especially in construction-related investments. As the mayor of a smaller municipality from central Croatia emphasised, municipalities are predominantly responsible for managing infrastructure, which is why technical expertise plays a decisive role in project success:

> It's a fact, and it has been proven, that municipalities led by mayors with engineering backgrounds achieve much better results than all the others. And why is that? It's very simple. Municipalities and cities are essentially about infrastructure. Especially in small municipalities, there's no need for political manoeuvring – you're there to build something. (Interviewee 20, LGU)

Several business consultants, who are working for LGUs, pointed out that many local government units in Croatia have unrealistic expectations regarding infrastructure investments, simultaneously aiming to develop business zones, community centres, and municipal infrastructure, often without a clear understanding of actual needs and available resources. Such an approach complicates the alignment of development priorities at the national level, particularly in the context of limited funding and a high number of applicants. Less developed areas often set ambitious but unfeasible plans instead of focusing on strengthening their internal capacities. Development is frequently driven by political cycles, while strategic planning is neglected in favour of short-term projects with political visibility, regardless of their long-term sustainability. At the same time, many LGUs lack sufficient understanding of investment documentation; civil servants often do not know how to analyse feasibility studies or assess their quality. Consulting firms sometimes produce substandard documentation, which LGUs accept without proper review, making it difficult to evaluate the justification of proposed projects. The way many LGUs approach development initiatives often reflects deeper structural weaknesses that extend beyond a mere lack of technical knowledge. In addition to the knowledge gap, the problem also lies in staffing policies, where political loyalty often takes precedence over professional competence. Instead of hiring qualified personnel with experience in managing EU projects, key positions are frequently filled by individuals lacking the necessary knowledge and skills, which further undermines the institutional capacities of local government. "I mean, let's be honest – most of those municipalities and cities hire politically suitable people… We can be frank, everyone always hires their own" (Interviewee 24, BC).

Although it is important to avoid generalisations, certain examples presented during the research vividly illustrate the depth of the challenges faced by some local government units. While such cases do not necessarily reflect the overall state of the system, their intensity and symbolic weight point to the severe consequences of long-term neglect of professional competence in staffing decisions.

> I have a mayor who doesn't know how to read an email. Neither he nor his secretary… He doesn't even have a computer in his office. Neither of them

> does. Do you think that's normal? … You have a mayor who does nothing – absolutely nothing – he doesn't apply for anything, he doesn't care, he just does his own thing, has a little side business, and so on… He'll be mayor until he retires… One of them even told me: We're not going to apply for the call, why should we? It's too much paperwork. (Interviewee 24, BC)

Changes in political leadership within local government units present a challenge to the continuity of EU project preparation and implementation, particularly for infrastructure interventions that require long-term planning. In municipalities with frequent shifts in power, it is common for an entire mandate to be spent on preparing documentation, resolving property and legal issues, and defining strategic objectives, while successors, who were not involved in the preparation, take over implementation and gain political credit. In addition to disrupting continuity, changes in leadership often lead to changes in staffing structures, where individuals appointed by the previous administration are replaced. In such cases, professional expertise and experience are frequently subordinated to political loyalty, further weakening the capacity for effective project implementation. In this context, the importance of professionalising local administration becomes especially evident, along with the need for stable and competent staff who are independent of political cycles. Practical experience suggests that the real drivers of development should be skilled professionals within the administration, rather than solely elected political officials. While mayors can provide strategic direction and articulate a development vision, the implementation and long-term orientation of local policy must be grounded in the knowledge, experience, and institutional stability ensured by career civil servants.

4.2. Financial Sustainability

Municipalities and cities often face difficulties in co-financing projects, particularly when it comes to securing their own financial resources and achieving long-term sustainability. Around half of the interviewed LGUs reported that limited own revenues prevented them from meeting co-financing requirements, forcing them to postpone or scale down planned investments. Despite engaging in strategic planning and drafting implementation programs, LGUs frequently lack the capacity to allocate resources effectively in line with clearly defined priorities. This results in inefficient use of funds and hampers the implementation of projects that have already been initiated. An additional complicating factor is the oc-

currence of unforeseen costs caused by the continuous rise in construction prices and inflation, which often leads to significant deviations from the initially defined budgets and financial projections. "The designer estimated the cost at €1,000,000.00. We received four bids, and the lowest one was €1,450,000.00 excluding VAT" (Interviewee 2, LGU).

This example illustrates how the co-financing system is often misaligned with market realities, leaving LGUs exposed to substantial financial burdens. Although the LGU secured approximately €650,000 in non-repayable funding, the lowest bid for project implementation amounted to €1,450,000, creating a need for an additional €800,000 from its own resources, excluding unforeseen costs. In such cases, municipalities and cities are forced to find alternative sources of funding to bridge the gap between the approved grants and the actual project expenses. This usually involves reallocating funds from their own budgets, seeking assistance from regional or national institutions and other public sources, or taking on debt through credit arrangements. Due to limited budgetary capacities and the political sensitivity surrounding increased borrowing, LGUs often struggle to secure the necessary additional funds, resulting in financial uncertainty, delays in project implementation, or the need to scale down the planned activities. Furthermore, access to grants is frequently hindered by specific eligibility rules, lengthy administrative procedures, and financial corrections that place an additional strain on local budgets.

> Sometimes it even happens that, because of those absurd financial corrections and their ridiculous rules, it would've actually been more cost-effective to take out a loan, complete the project, and pay the interest, you would have come out better and saved yourself a lot of stress… Initially, the plan was for the City to co-finance about 3% of the total investment of around €27 million. In the end, the City was forced to co-finance 30%. (Interviewee 3, LGU)

These situations highlight a certain paradox in the financing of local government projects: even when LGUs secure a high percentage of non-repayable funding, most commonly around 85%, and in some cases even 100%, they may still face serious financial difficulties in closing the overall financial structure of the project. This suggests that securing a high level of external co-financing is not necessarily a sufficient guarantee of project sustainability and further underscores the limited financial capacities of local governments. Even when LGUs succeed in obtaining a significant share of grant funding for project implementation, they often encounter difficulties due to substantial increases in the prices of materials and ser-

vices during the project implementation period. Market instability and inflationary pressures can lead to major deviations from initially planned cost estimates, forcing LGUs to bear the financial burden of unexpected cost differences themselves.

For the long-term stainability of development projects, high-quality feasibility studies containing cost-benefit analyses are particularly important for LGUs. As a mandatory component of the documentation required when applying for larger EU-funded projects, feasibility studies should present clearly the expected economic, social, environmental, and other benefits that a given project will generate within its local context. Based on these analyses, projects are assessed for their economic justification, and decisions on their funding are made accordingly. However, in practice, feasibility studies at the local level are often prepared superficially or with intentionally overstated expected benefits, aiming to secure a higher evaluation score and thus funding, even when the objective circumstances do not support the claims made in the analysis. Most LGUs lack the internal professional capacity to prepare such studies and therefore typically rely on external consultants. Yet, the quality of these studies varies significantly, due to differing levels of consultant expertise and the limited competence of evaluators, who are often insufficiently familiar with the cost-benefit analysis methodology. Furthermore, inadequate quality control allows feasibility studies, especially for smaller projects, to pass evaluation despite having a weak analytical foundation. Such practices can lead to the financing of projects with questionable profitability and sustainability, ultimately resulting in the inefficient use of EU funds. "That often happens, especially with feasibility studies – maybe less so now, but it used to be common at the beginning – like, give me the study and make sure it looks good. I mean, which is absurd, of course" (Interviewee 21, BC).

A particularly alarming issue, as identified through field insights, is the deliberate adjustment or even falsification of data within feasibility studies in order to demonstrate artificially a project's profitability. Such manipulations result in the allocation of funds to initiatives that do not meet genuine sustainability criteria. While these projects may appear formally successful, they frequently incur additional costs, fail to deliver the anticipated benefits, and may lead to long-term environmental, social, and economic consequences. Interviewees emphasise that the planning process often neglects considerations related to post-investment maintenance, focusing instead on addressing immediate needs without accounting for the LGUs capacity in subsequent years. Many LGUs, particularly those from underdeveloped areas in the eastern and southern parts of Croatia,

approach strategic planning without a long-term vision, opting instead for short-term and politically expedient solutions. Rather than prioritizing sustainable projects that could provide lasting value to the community, local decision-makers tend to support initiatives that are quickly implemented and offer immediate visibility. Consequently, a lack of foresight regarding future maintenance obligations can lead to significant financial and operational challenges in the post-implementation phase. "A lot of projects are carried out just to satisfy certain political interests, so that a mayor or municipal leader can say they built or accomplished something during their term. And afterward, whether it's sustainable – who cares?" (Interviewee 18, LGU).

4.3. Administrative Complexity

Local government units face numerous challenges related to the inefficient functioning of state administration and the lack of coordination within the EU funds management system, which hinders their ability to utilise available funding effectively. Nearly all interviewed LGUs expressed frustration with the excessive administrative burden, slow responsiveness of state institutions, and the overall inconsistency of procedures, describing the system as fragmented, unpredictable, and increasingly difficult to navigate. Here we see how top-down administrative procedures, designed at the EU and national scale, collide with local administrative legacies, underscoring the gap between formal diffusion and real-world implementation outlined by Europeanisation scholarship (Surubaru, 2017; Vidačak & Škrabalo, 2014). Interviewees highlight key obstacles such as insufficient inter-ministerial coordination, the fragmentation and heterogeneity of project application systems, and lengthy, complex administrative procedures. One of the main issues identified by the respondents is the lack of coordination among ministries in the planning and publication of calls for project funding.

> We all have the call publication plan and we know which calls are expected, but it's never actually followed. It's really just a plan, and if something is scheduled for June but doesn't get published, then you're not even sure if it'll happen in September… The worst part is the timing, sometimes 3 or 4 calls on completely different topics are announced at the same time. (Interviewee 6, LGU)

Given that LGUs generally lack sufficient capacity, the simultaneous preparation of applications for multiple calls places additional strain on

their already limited resources. Calls for proposals are often published at the same time and with short deadlines, leaving local units with very little time to prepare high-quality project applications. These dynamics hamper effective planning and often prevent the full utilisation of available funds, particularly in the case of larger and more complex projects that require a longer timeframe for implementation. Interviewees also highlight the absence of a unified online system or portal for the preparation and implementation of EU projects. Instead, multiple separate platforms are managed by different ministries, often with uncoordinated criteria and varying procedures. They warn that, rather than becoming more user-friendly and streamlined over time, the system is becoming increasingly fragmented and complex, making it more difficult to keep track of updates and to prepare adequately and on time for new calls:

> Each institution has its own system for project applications… I think that's the biggest stumbling block for us, because a lot of time and human resources are wasted due to the lack of a unified platform for applying to EU projects. (Interviewee 12, LGU)

The continuous introduction of new systems for applying to and managing EU projects presents a significant challenge for LGUs, as each new system requires a period of adjustment. Users frequently face numerous difficulties, particularly due to the lack of training for operating within new digital environments. According to the interviewees' experiences, new systems do not necessarily lead to improvements; they are often technically underdeveloped, with numerous bugs that are only corrected retrospectively. Rather than facilitating project implementation, these systems often place an additional burden on the administration and create uncertainty, especially when support is minimal and available instructions are unclear. Interviewees emphasise that frequent changes and the introduction of new platforms increase the administrative workload, as LGUs are forced to constantly keep up with new rules and functionalities. Further complexity in project planning and implementation is caused by the unpredictability of the evaluation process, as prolonged and temporally inconsistent assessments hinder effective budget management and the timely coordination of project activities.

> It can take a year and a half, even two years, to get the results. I have to admit they're a bit faster now, but it's never less than 10 months… You have to somehow plan your timeline and budget, and you really should receive information on whether your project has been approved much earlier. (Interviewee 14, LGU)

In addition to the issue of prolonged evaluation of project applications, LGUs frequently face significant delays in the processing of reimbursement claims, even after a project has already begun or been completed. For example, the substantial financial resources that LGUs must temporarily secure from their own budgets while awaiting reimbursement often create difficulties in planning further development activities and investments. Delays in reimbursement, sometimes lasting several months after project completion, can place a serious strain on local budgets, undermining both liquidity and the strategic flexibility of LGUs, particularly in the case of high-value projects that require substantial pre-financing from their own funds. Moreover, the slow approval of reimbursement requests further erodes trust among all involved stakeholders, especially in cases where LGUs lack the financial capacity to bridge the waiting period independently. As a result, LGUs may find themselves unable to meet payment obligations to contractors on time, which can seriously jeopardise the timeline and overall success of project implementation. The following example illustrates this issue in the context of a developed city located in the northern part of Croatia, demonstrating that such challenges are not limited to less developed areas.

> We pre-financed the project in the amount of €800,000. Now, that's quite a large sum. And it creates problems for us in planning other investments while we wait for the reimbursement. It was a project that was 100 percent funded, so we should, if there are no corrections, receive the full amount. And we've already been waiting for it for seven months. (Interviewee 14, LGU)

Interviewees identify excessive bureaucracy as one of the main challenges in project preparation, noting that complex and rigid procedures often create obstacles without genuine justification. Errors such as incomplete documentation frequently lead to outright rejection of applications instead of allowing for corrections, which demotivates applicants and increases the risk of losing both funding and time. The model of permanently open calls, commonly referred to as the "fastest finger first" approach, is also criticised. In this system, priority is given to those who submit their projects the fastest after the call opens, regardless of project quality. Such an approach, they argue, favours technical readiness over the actual needs of the community, hindering a fair allocation of funds. Concerns are also raised regarding the inflexible rules of EU-funded projects, which complicate the implementation of simple infrastructure works, as thematic constraints often fail to reflect local priorities. Particularly problematic is the mandatory inclusion of elements such as green transition and digital-

isation when they are not clearly linked to the project's objectives, as this increases costs, complicates implementation, and shifts focus away from genuine local needs. Furthermore, some LGUs point to eligibility criteria that formally exclude them from applying, such as requirements related to settlement size or administrative classification, even when they align with the substantive goals of the call. This places them in an unjust and disadvantaged position.

> They set a condition that one settlement must not have over 5,000 inhabitants, and then a certain city isn't allowed to apply because, by chance, the entire city counts as one settlement over that threshold, while a larger city can apply on behalf of one of its outlying settlements. So now the larger city has an advantage because it's eligible for the call. (Interviewee 27, BC)

One of the more prominent issues highlighted by LGUs in the context of EU project implementation is the excessive bureaucratisation of the system and the lack of flexibility in administrative procedures. Interviewees emphasise that state bodies, particularly the responsible ministries, are often overly rigid and slow in managing calls and evaluating projects. While there is a clear need for high standards of audit and documentation in the implementation of EU-funded projects, the existing system frequently appears to exceed the threshold of necessary oversight, becoming an obstacle to effective implementation. "I'm quite sure that the Commission didn't impose such strict requirements. And no one in Brussels is going to care whether you used a gypsum board instead of wooden panelling on the ground floor of a protected cultural building" (Interviewee 14, LGU).

Interviewees emphasise that the administrative burden is particularly pronounced in so-called "soft" projects, which focus on working with people, organising activities, and providing services. Although these projects are financially smaller than infrastructure projects, the reporting and justification requirements are often disproportionately high. Implementers must document every step in detail: drafting minutes, taking photographs, collecting signatures, and precisely aligning invoices with planned activities. This demands intensive staff engagement, increases stress, reduces motivation, and may discourage LGUs from applying for such projects in the future. An additional issue is the application of financial corrections to EU projects, which are sometimes imposed for minor oversights such as the absence of an information board or other formal deficiencies, often placing a significant strain on LGU budgets. Particularly concerning are large-scale projects, where corrections can reach substantial amounts, forcing LGUs to resort to loans. The consequences of such corrections

go beyond short-term financial pressure, resulting in long-term burdens that limit the ability to implement future projects, thereby putting under question the sustainability of local development.

> European projects are very risky and high-stakes if you make a mistake. And here, things are set up in such a way that everything is on the edge – if you want to get something done, it's right on the edge of legality. (Interviewee 20, LGU)

Interviewees also point to serious difficulties related to construction contractors in the implementation of EU projects. Contractors often fail to meet agreed deadlines, while LGUs cannot easily extend contracts without risking financial corrections. At the same time, terminating contracts and restarting the public procurement process entails even greater financial and time-related consequences. The situation is further complicated by unresolved property and legal issues, which frequently pose insurmountable obstacles to the initiation of infrastructure projects. Many LGUs, especially those that are less developed, are forced to withdraw from applications or abandon the implementation of already approved projects due to lengthy court proceedings and the inability to resolve ownership disputes. Under such circumstances, the implementation of infrastructure projects becomes uncertain, and development opportunities remain untapped.

4.4. Political Influence

The role of politics in the process of drawing funds from the EU funds at the local level represents a complex and multi-layered challenge. Through interviews, respondents pointed to various forms of political influence, ranging from the favouring of "one's own" in the allocation of funds, privileged access to information, and informal favouritism, to systemic party-based distribution of resources and the perception of corruption. Particular emphasis is placed on the importance of political alignment between local and regional authorities, which is often perceived as a vertical structure of power that facilitates more effective project co-financing. In many cases, politics is perceived as the decisive factor in determining who succeeds and who does not, regardless of actual development needs or project quality. Actors involved in the use of EU funds are well aware that political skill is often crucial for success, and political influence is regarded as an unavoidable element in securing funding.

Several interviewees from LGUs pointed to concerning patterns in the allocation of funds that go beyond technical criteria and the applicants' ca-

pacities, with a particularly strong emphasis on the perception of politically conditioned decision-making in the distribution of financial resources. These insights suggest that political affiliation may influence decisions on the allocation of non-repayable funds and that political influence does not diminish, regardless of which political party is in power. Although official procedures are designed to prevent explicit discrimination, differences emerge in the subtleties of communication, access to information, and levels of institutional support. A key distinction is made between formal and actual support: LGUs not politically aligned with the current government often encounter a cold, procedural approach, whereas those deemed "politically favourable" are met with a more cooperative and proactive stance. Such findings further reinforce the perception that the political dimension continues to exert a strong influence on the environment in which EU funds are allocated.

> It's all politics, there's no question about it… Just look at how and why the money is distributed. That's how it is. Everyone does it that way. Every political party does it. It's not just the one currently in power… I've never experienced, when working for opposition-led LGUs, that someone outright said no to us. But I have experienced that the communication wasn't warm, but strictly formal, that things were done only because they had to be, that they were done at the last minute – absolutely, yes. (Interviewee 22, BC)

Several interviewees highlighted deeper structural problems that undermine trust in the system for allocating EU funds, with the issue of corruption standing out in particular. Some statements reflect disappointment and a moral dilemma regarding working in an environment where funds are frequently awarded to projects of questionable quality, while more deserving proposals go unfunded. Such experiences add an additional layer to the discussion on the fairness and legitimacy of the system, pointing to serious deficiencies that go beyond political preferences and reach into the ethical integrity of the entire process.

> In cities and municipalities, there are always more projects than there are funds available to finance them. And of course, when there's little money and many projects, all sorts of mechanisms come into play to redirect the funds in a certain way. (Interviewee 24, BC)

While systemic patterns of political favouritism in the allocation of EU funds are often emphasised, some insights offer a more nuanced perspective, pointing to the existence of subtler forms of political influence. Although there may not be overt discrimination or formal rejection of projects due to political unsuitability, political alignment between local,

regional, and national levels can enable additional support for certain initiatives. In such cases, there is no explicit exclusion, but some projects may be implemented more easily due to political proximity, with informal advantages manifesting as a kind of "nudge." These advantages do not stem from violations of rules, but rather from differences in access, communication, and levels of cooperation that depend on the political context. In this way, political affiliation, without direct intervention, can be transformed into a competitive advantage in the preparation and implementation of projects. Another way in which political influence favours certain projects is through privileged access to information. Rather than through explicit discrimination, advantage may be gained through early insight into call criteria or upcoming changes, allowing better preparation of documentation and alignment of project activities. This practice is nearly impossible to eliminate and creates an unequal playing field among applicants, especially in the context of lengthy and financially demanding preparation processes.

> The preparation of documentation, main construction plans, and obtaining permits is a long process, only for the call conditions to change later, forcing you to revise the entire main construction plan and everything that goes with it. I'm not someone who usually believes in conspiracy theories or anything like that, but I can't help feeling that those who had their documentation ready in exactly the right format probably had early access to key information. (Interviewee 3, LGU)

Many LGUs, particularly small and underdeveloped ones, face limited capacity to secure additional funding needed to co-finance EU projects, which often makes them dependent on financial and political support from higher administrative levels, such as regional or central government. While there are examples of good practice where higher levels of government provide additional assistance to municipalities and cities, such support is generally neither systematically structured nor sufficient to cover all additional costs, and, according to several interviewees, its availability may depend on political affiliation. Although the Ministry of Regional Development and EU Funds publishes public calls for the co-financing of EU projects at the regional and local levels on an annual basis, these mechanisms primarily provide limited financial relief rather than a comprehensive and predictable system of support. Despite political differences, some interviewees emphasise that cooperation with the other levels does take place when projects are clearly recognised as being of shared interest. In such cases, political affiliation becomes less important, and

awareness of the need for mutual coordination comes to the fore, especially in infrastructure investments such as the construction or renovation of schools, kindergartens, or transport infrastructure. Although politics can sometimes influence the pace or order of implementation, the prevailing impression is that strategically important projects are nevertheless pursued, as all stakeholders recognise their long-term value for the wider community.

5. Discussion and Conclusion

The findings of this study strongly support the theoretical assumptions outlined in the introduction, particularly those concerning the importance of local managerial capacities and institutional context for the effective absorption of EU funds. In line with the theory of multi-level governance, the results indicate that the successful implementation of cohesion policy at the local level significantly depends on the readiness and capabilities of on-the-ground practitioners. In other words, EU and national-level mandates and resource flows are only as effective as the local administrations' capacity to implement them, while horizontal dynamics, such as competition for skilled staff, further shape outcomes. Interviews conducted with representatives of LGUs and business consultants provide empirical confirmation that frequently cited administrative, institutional, and political constraints manifest concretely and significantly influence day-to-day operations.

Reflecting observations about the superficial and top-down nature of Europeanisation in newer EU member states, the findings show that institutional adaptation at the local level often remains formal rather than transformative. Although the EU's cohesion policy promotes the role of local authorities through the principles of subsidiarity and multi-level governance, there is little evidence of genuine bottom-up feedback loops to recalibrate programme design. Croatian LGUs mostly continue to face persistent challenges related to a lack of qualified personnel, limited professional expertise, and constrained access to training and specialised knowledge, particularly in project management and EU funding procedures. Particularly alarming is the trend of skilled and experienced staff transitioning to private-sector roles, a phenomenon that corroborates earlier research highlighting human capital as an essential component of administrative capacity (Rodríguez-Pose & Fratesi, 2004, p. 110). The departure of experienced personnel often results in the loss of institutional

memory, undermining the long-term ability of LGUs to manage complex projects independently.

Furthermore, the study corroborates earlier warnings regarding the fragmented and fiscally constrained structure of local governance in Croatia. The administrative system, composed of numerous small and under-resourced units, presents a significant structural barrier to participation in development initiatives. These findings reinforce concerns about the limited absorptive capacity of local governments, exacerbated by administrative burdens, demanding co-financing conditions, and insufficient financial autonomy. These structural weaknesses not only hinder the practical management of funds but also contribute to broader regional disparities (Milio, 2007). While similar challenges are observed across newer EU member states, they are particularly evident in Croatia, where the fragmented administrative structure and limited fiscal autonomy continue to constrain local governments' ability to participate effectively in EU-funded development initiatives.

Political influence also emerges as a key factor shaping local performance, echoing the observations about politicisation in the governance of EU funds. Interviewees reported frequent instances of politically motivated appointments, unequal access to information, and perceptions of favouritism in the allocation of funds, all of which weaken professional standards and reduce institutional effectiveness. Such politicisation not only undermines professional standards but also systematically weakens institutional integrity and performance, reflecting broader concerns about depoliticisation and the necessity for stronger professional norms in public administration across newer EU member states (Bachtler & McMaster, 2008; Hagemann, 2019, pp. 67–70).

The study further emphasises the critical role of human capital as both a strategic asset and a significant vulnerability for local development. Peripheral LGUs face substantial difficulties in attracting and retaining qualified professionals, exacerbating existing regional disparities. The outmigration of skilled professionals to economically and administratively stronger urban centres significantly weakens the local institutional capacity and underscores a critical policy dilemma in achieving the cohesion policy's objectives. This phenomenon aligns with the broader European experience, where peripheral regions frequently struggle with human capital retention, thereby complicating sustainable local development efforts (Iammarino, Rodríguez-Pose & Storper, 2019).

In conclusion, the findings presented in this article confirm the relevance of established theoretical frameworks and highlight four core challenges:

human capacity, financial sustainability, administrative complexity, and political influence, that continue to undermine the ability of local governments to absorb and implement EU-funded projects effectively. These challenges, rooted in Croatia's local governance structures, point to systemic shortcomings that go beyond what incremental adjustments can resolve. This study contributes to ongoing academic discussions by emphasising the urgent need for comprehensive structural reforms to ensure that local administrations possess the human, institutional, and financial capacities necessary for effective development. In the context of Croatia's highly fragmented local government system, territorial amalgamation emerges as a key precondition for strengthening local governance and building functional administrative units capable of managing complex development tasks. Addressing systemic inefficiencies through amalgamation is essential not only for enhancing institutional performance, but also for achieving the overarching objectives of EU cohesion policy and promoting balanced and sustainable regional development. The insights derived from this research provide an evidence-based foundation for improving policy design and implementation mechanisms, thereby supporting more effective coordination of EU funds and fostering a culture of strategic, transparent, and development-oriented governance.

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CHALLENGES FACED BY LOCAL GOVERNMENT UNITS IN THE USE OF EU FUNDS

Summary

This article examines the main challenges faced by local government units (LGUs) in Croatia in the process of absorbing funds from the European Union. The research is based on a thematic analysis of interviews conducted with representatives of local governments and business consultants from all Croatian regions, ensuring comprehensive territorial coverage and capturing the diversity of local governance experiences in terms of administrative capacity, levels of development, and geographical distribution. The findings are organized into thematic categories according to their frequency and significance within the research context. Four key challenges are identified: (1) limited human capacity, (2) financial sustainability, (3) administrative complexity, and (4) political influence. Limited human capacity emerges as a particularly critical issue, as many local administrations struggle to attract and retain qualified professionals with expertise in project management and EU funding procedures. Financial sustainability represents an additional obstacle, particularly for smaller and less developed municipalities that face difficulties in meeting co-financing requirements. Administrative complexity, including demanding regulatory procedures and bureaucratic requirements associated with EU funding instruments, further constrains the ability of local administrations to effectively prepare and implement projects. Finally, political influence continues to shape local decision-making processes, affecting both institutional performance and the allocation of development priorities. The results support theoretical perspectives emphasizing the importance of administrative capacity and institutional context for the effective implementation of EU cohesion policy within a multi-level governance framework. The article contributes to the ongoing debate on the need for comprehensive reform of the Croatian local government system, arguing that reducing territorial fragmentation and strengthening local institutional capacities represent key preconditions for improving the absorption of EU funds and achieving balanced regional development.

Keywords: *EU funds, local government units, absorption capacity, cohesion policy, Croatia, regional development, Europeanisation*

IZAZOVI JEDINICA LOKALNE SAMOUPRAVE U KORIŠTENJU EU FONDOVA

Sažetak

Ovaj članak istražuje glavne izazove s kojima se suočavaju jedinice lokalne samouprave (JLS) u Hrvatskoj u procesu apsorpcije sredstava iz fondova Europske unije. Istraživanje se temelji na tematskoj analizi intervjua provedenih s predstavnicima lokalnih vlasti i poslovnim konzultantima iz svih hrvatskih regija, čime je osigurana sveobuhvatna teritorijalna pokrivenost te obuhvaćena raznolikost iskustava lokalnog upravljanja u pogledu upravnih kapaciteta, razine razvoja i geografske raspodjele. Nalazi su organizirani u tematske kategorije prema njihovoj učestalosti i značaju u kontekstu istraživanja. Identificirana su četiri ključna izazova: (1) ograničeni ljudski kapaciteti, (2) financijska održivost, (3) administrativna složenost i (4) politički utjecaj. Ograničeni ljudski kapaciteti pojavljuju se kao posebno važno pitanje, jer se mnoge lokalne samouprave suočavaju s poteškoćama u privlačenju i zadržavanju kvalificiranih stručnjaka s ekspertizom u upravljanju projektima i procedurama financiranja iz fondova EU-a. Financijska održivost predstavlja dodatnu prepreku, osobito za manje i slabije razvijene gradove i općine koje imaju poteškoća s ispunjavanjem zahtjeva za sufinanciranjem. Administrativna složenost, uključujući zahtjevne regulatorne postupke i birokratske zahtjeve povezane s instrumentima financiranja EU, dodatno ograničava sposobnost lokalnih samouprava da učinkovito pripremaju i provode projekte. Konačno, politički utjecaj i dalje oblikuje procese donošenja odluka na lokalnoj razini, utječući i na institucionalnu učinkovitost i na raspodjelu razvojnih prioriteta. Rezultati podupiru teorijske pretpostavke koje naglašavaju važnost administrativnih kapaciteta i institucionalnog konteksta za učinkovitu provedbu kohezijske politike Europske unije u okviru višerazinskog upravljanja. Članak doprinosi aktualnoj raspravi o potrebi sveobuhvatne reforme sustava lokalne samouprave u Hrvatskoj, ističući da smanjenje teritorijalne fragmentacije i jačanje institucionalnih kapaciteta na lokalnoj razini predstavljaju ključne preduvjete za poboljšanje apsorpcije sredstava EU-a i postizanje uravnoteženog regionalnog razvoja.

Ključne riječi: *EU fondovi, jedinice lokalne samouprave, apsorpcijski kapacitet, kohezijska politika, Hrvatska, regionalni razvoj, europeizacija*