

OVERCOMING ADMINISTRATIVE OBSTACLES IN FINANCING CROATIAN FARMERS AND ENTREPRENEURS: THE POLICY DIMENSION OF THE EUROPEAN UNION'S FUND ABSORPTION

Marko ŠOSTAR, Hrvoje BUDIĆ, Ines ŠKOKO

Josip Juraj Strossmayer University of Osijek, Faculty of Tourism and Rural Development in Požega, 17, Vukovarska Street, Požega, E-mail: msostar@ftrr.hr, hbudic@ftrr.hr, iskoko@ftrr.hr

Corresponding author: msostar@ftrr.hr

Abstract

The research aims to analyze the EU funding for agriculture as well as the administrative obstacles of the national public bodies in using these funds for Croatian family farms/entrepreneurship and the role of policymakers in increasing the efficiency of absorbing funds from this source. Administrative barriers that appear at the national level were analyzed, with an emphasis on those that arise in procedures when applying for EU fund competitions, the financial approval process, and the criteria and conditions of the competitions themselves. The data used in the empirical analysis included 284 respondents who were surveyed through a questionnaire. The respondents were private consultants working on the preparation and implementation of projects funded from EU funds and were surveyed based on their many years of experience. Consultants from all regions in Croatia were covered to ensure more reliable results. The results show that delays in the preparation of national strategic documents significantly affect the reduction of efficiency in the use of EU funds. The most significant impact on the reduction of efficiency in the absorption of funds from EU sources is due to unreliable publication plans, prolonged project application assessments, frequent changes to competition documentation, and competition misalignment with the possibilities and needs of potential applicants. In contrast, less influence comes from unclearly defined competition conditions and the way (model) competitions are announced. The research aims to assist national authorities and provide guidelines to reduce administrative barriers, making it easier to finance projects for companies, public institutions, and other potential applicants.

Key words: administrative challenges, EU funds, absorption, policy makers, family farms

INTRODUCTION

EU funds serve as a key driver for the development of both member states and countries in the process of negotiating EU accession. The aim of these funds is to reduce regional, national, and local disparities between different geographic areas and individuals. By providing equal opportunities for all individuals, companies, and organizations that can access non-repayable grants from EU funds, the EU seeks to balance development. One of the EU's major challenges is its agricultural policy, which needs to have clear development directions and to finance actual needs on the ground. The ultimate goal in this entire process is to facilitate access to these funds by financing the development projects of organizations and individuals. However, we are aware of the

numerous obstacles at all levels in absorbing these resources.

In certain cases, political elites are not willing to decentralize the governance system and powers, leading to significant administrative barriers [44]. Digitalization is essential in reducing corruption and administrative constraints in public services, where structural changes and strategic planning play a key role [57]. The research by Schedler et al., 2019 shows that the main administrative barriers to the functioning of higher levels of public administration can be summarized as legal foundations, technical infrastructure, cost-benefit relationships, innovativeness, legitimacy, and policy coherence [46]. Public administration could take advantage of the possibilities offered by the new digital age, which would significantly ease communication and collaboration with target groups [45]. According to the research by Ng

et al., 2022, one of the main factors affecting the reduction in public administration efficiency is technical challenges and public resistance to change [41].

Marcu et al., 2020 highlight that information, transparency, implementation, and relationship with beneficiaries are key factors that public administration needs to work on to utilize funds more effectively from EU sources [34]. The European Commission encourages significant simplification of administrative barriers and prioritizes the importance of overcoming gaps and overlaps between different EU fund instruments [29]. The 2017 study by Breznitz and Ornston indicates that Poland's innovation system is hindered by various challenges, including poor governance, limited collaboration, human capital constraints, and regulatory obstacles [7]. Considering the changes that have occurred in the United Kingdom and their exit from the EU, a sharp decline in the participation of small and medium-sized enterprises in EU projects has been observed. A stable framework for participation and clear rules from the EU is needed regarding the possibilities for third countries to participate in project funding [8]. After negotiations between countries and the European Council, the focus on rule-of-law requirements is primarily aimed at corruption associated with the use of funds, rather than on fundamental rule-of-law standards [15]. In their 2019 study, Pirvu et al. conclude that there needs to be a shift in cohesion policy. They recommend moving away from traditional investments in infrastructure and social aid for underdeveloped regions, and instead focusing on innovation as well as social and environmental strategies [43]. The 2021 research by Domorenok et al. indicates that a combination of knowledge-based, political, and financial resources can effectively contribute to the development of specialized administrative capabilities. These are essential for executing integrated policy frameworks, which are encouraged by international policy agendas without the need for a centralized control mechanism [18].

In the Republic of Croatia, the inefficiency of the public system is most linked to corruption.

According to the Corruption Perceptions Index for the year 2022, the Croatia falls into category B, which means that it is doing very well in combating corruption (Transparency International, 2023). [53]. Croatia has made significant strides in reducing the avenues for corruption and limiting discretionary powers in public decision-making (OECD, 2023) [42]. Croatia is focusing on advancing digitalization in the public sector with the aim of establishing online processes and electronic services, as well as enhancing the efficiency of public administration (European Commission, 2022) [19]. Clientelism is deeply ingrained in nearly every aspect of Croatian society. It is particularly evident in public administration employment practices and in the country's territorial structure, which is divided in a way that serves the political agenda of the ruling elite [27]. In its National Reform Program, Croatia has identified one of the key challenges in attracting funds from EU sources, ranging from simplifying application procedures and project implementation to introducing an e-system for project applications (Government of Croatia, 2020) [20].

According to Iova et al., 2023, it is extremely important to invest efforts in the development of human resources and digitalization for the more effective utilization of EU funds [24].

The 2023 study by Manolache et al. demonstrates that the agricultural sector serves as a model for other domestic economic sectors in terms of European fund absorption, revealing a strong correlation between effective utilization of European Structural Funds and net national investments in agriculture [33]. In their 2023 study, Chiurciu and Văruțoiu emphasize the need to devise new funding programs for rural development, as existing ones do not cover all essential areas of development [10]. The 2022 study by Matei et al. demonstrates that European funding boosts the number of new farmers and increases agricultural entrepreneurial income, providing valuable insights for public decision-makers on the financial needs and economic significance of the agricultural sector [36]. Effective agricultural policy, when aligned with the

appropriate utilization of resources, encourages investment, and helps to shrink the budget deficit [21].

The primary benefit of EU funds lies in their nature as non-repayable financial resources, contributing directly to the economic growth of a given country [56]. Effective management and strategic planning are the cornerstones of success; there's no room for political maneuvering and self-promotion in projects and development [49]. Charasz and Vogler (2021) emphasize the long-term effect of EU funds on both local and state capacities and suggest that these funds contribute to the reduction of bureaucracy [9]. Mugambi et al. (2021) point out that energy efficiency in spending is not evenly distributed across regions in Spain, and this is directly linked to the EU funding allocation criteria [39]. Attitudes towards EU institutions can potentially reduce the number of applications for EU-funded projects, although Crepez and Hanegraaff (2022) argue that this influence is almost negligible [11]. Crescenzi et al. (2020) show that affection for the EU cannot be bought, exemplified by the UK's exit from the EU despite significant EU fund contributions to their development [12]. Crucitti et al. (2023) note that research should focus not only on the number of financial resources absorbed but also on how these resources are allocated [13]. In his study, Hagemann (2019) underscores the importance of capacities, stating that poor capacities severely impact the ability to absorb funds and reduce regional disparities [22]. In their research, Maleković et al. (2018) and Šostar et al. (2018) highlight the strong influence of EU funds on regional development in Croatia [32, 50]. The allocated funds have expedited the adaptation processes of institutions and individuals to European legislation and capacity-building, although there are visible administrative barriers that lead to partial funding losses. In the study by Bańkowski et al. (2022), administrative obstacles are also noted as a bottleneck in the absorption of EU funds [3]. The fact that more projects don't necessarily equate to higher economic growth for a specific region should be considered; it's

crucial to properly allocate EU funds to areas that contribute most to growth [16].

Human resources are a vital asset for any country's success, particularly in the planning and execution of regional policies, focusing on EU funds [17, 55]. Studies by Lutringer (2023) and Van Wolleghem (2022) identify the barriers to the optimal absorption of EU fund resources, pointing to factors such as time, accounting mechanisms, administrative and financial capabilities, as well as the intrinsic nature of the funds themselves [30, 54]. Kersan-Škabić and Tijanić (2017) suggest that the key to effective fund absorption lies in investing in human capital, decentralization, investment frameworks, and infrastructure development [26]. Medve-Bálint and Šćepanović (2020) note that a significant portion of EU funds is absorbed by foreign companies, which then repatriate the capital [37]. Multiple studies have established a link between the quality of public administration and the capacity for absorbing EU-funded projects [6, 51]. Mendez and Bachtler (2022) argue that regional governance has no impact on the administrative efficiency of EU funds [38]. In contrast, Baschieri (2021) highlights how Poland's evolving approach to EU funds over time has been supported by institutional capacities and effective management, resulting in a high level of fund absorption [5]. According to a study by Jagódka and Snarske (2023), all regions in Poland have focused on human capital and innovation, significantly enhancing the effectiveness of EU funds [25]. Murzyn (2018) observes a notable increase in smart growth in Polish regions due to the utilization of EU funds [40]. Marcu et al. (2020) conducted a study in Romania, emphasizing initial capacity shortcomings when accessing EU funding due to a lack of expertise, though the situation improved over time [35]. This improvement was attributed to increased knowledge, experience, transparency, and advancements in information and communication systems. The rapid formation of a new region in Hungary in 2020 (Budapest and Pest County region) led to unforeseen changes that directly affected the absorption rates of EU funds

[47]. Moreover, the role of national governments is significant in the absorption of EU funds, with a focus on human resource investment and quality project development [4, 2].

According to Šostar (2021b), the capacities required for attracting and utilizing EU funds are divided into three categories: administrative, financial, and macroeconomic. The administrative capacity mainly involves both the system and individual stakeholders' ability to perform tasks related to EU fund management [48].

Țigănașu et al. (2018) show that high-quality institutional governance positively impacts the absorption rate of EU funds [52]. Aivazidou et al. (2020) suggest that less successful local governments should shift their strategic focus to strengthening administrative capacities rather than solely focusing on increasing fund absorption [1]. Given the limitations of capacities, Madeira et al. (2021) emphasizes the importance of following a smart specialization strategy [31]. Research by Darvas et al. (2019) explores the importance of curbing corruption within a country to facilitate easier access to EU funds and to ensure that these resources are allocated appropriately [14].

Lădaru and colleagues (2018) highlight disparities in the operational programs that issue calls for EU funding [28]. These disparities manifest as varying levels of efficiency in absorbing funds, suggesting flawed planning at higher levels, often misaligned with the actual needs on the ground.

Incaltarau and associates (2020) present an intriguing study that underscores the role of government in reducing corruption to improve the absorption of EU funds, which has a direct impact on the regional development of specific areas [23].

In this context, the aim of this research is to analyze the administrative limitations of national authorities (decision-makers) that restrict the utilization of EU funds in the agriculture and entrepreneurship sectors.

MATERIALS AND METHODS

In order to set up this research, seven key variables have been identified that limit and reduce efficiency in using these funds: delays in developing national strategic documents, unreliable tender publication plans, unclearly defined tender conditions, the manner of tender publication as a "continuously open call," lengthy evaluation of project applications, frequent changes to tender documentation, and misalignment of tenders with the capabilities and needs of potential applicants.

For the purposes of the research, hypotheses related to the identified variables have been set and presented in Table 1.

Table 1. Hypothesis of the study

H1	All administrative limitations equally affect the reduction of efficiency in using EU funds
H2	Delays in the development of national strategic documents significantly affect the reduction of efficiency in using EU funds
H3	Unreliable tender publication plans significantly affect the reduction of efficiency in using EU funds
H4	Unclearly defined tender conditions significantly affect the reduction of efficiency in using EU funds
H5	The manner of tender publication as a "continuously open call" significantly affects the reduction of efficiency in using EU funds
H6	Lengthy evaluation of project applications significantly affects the reduction of efficiency in using EU funds
H7	Frequent changes to tender documentation significantly affect the reduction of efficiency in using EU funds
H8	Misalignment of tenders with the capabilities and needs of potential applicants significantly affects the reduction of efficiency in using EU funds

Source: Author's hypothesis.

Materials and methods used for accepting/rejecting the hypotheses were based on the study of existing data and scientific literature in the field of EU funds absorption and the limitations that occur in this process, as well as survey methods through a questionnaire. The questionnaire was conducted on 284 respondents. The respondents were private consultants who work on the preparation and implementation of projects funded by EU funds, and their attitudes were examined based on long-term

experience. Consultants from all counties in Croatia were included to make the results more reliable, and they were selected randomly by researching websites of development agencies, entrepreneurial incubators, private consulting firms, and project departments of local and regional governments from all regions in Croatia. The questionnaire was conducted in 2023 via the respondents' email. A total of 400 emails were sent out, and 284 respondents replied. The obtained results were analyzed, and the normality of the distribution was tested using the Kolmogorov-Smirnov and Shapiro-Wilk tests, as well as the Spearman correlation

coefficient, to examine the relationships between the observed variables.

RESULTS AND DISCUSSIONS

In the analysis of the obtained data, we can see the results of the set hypotheses.

Looking at the data for the question regarding how delays in the development of national strategic documents by employees in public bodies responsible for the preparation and implementation of EU policies affect the reduction of efficiency in using EU funds, it can be observed that the arithmetic mean is 4.20, with a standard deviation of 1.01 (Table 2).

Table 2. Arithmetic mean and standard deviation of the posed questions

		N	%	\bar{x}	Sd
Delays in the development of national strategic documents by employees in public bodies responsible for the preparation and implementation of EU policies affect the reduction of efficiency in using EU funds	I completely disagree	7	2.5%		
	I disagree	21	7.4%		
	Neither disagree nor agree	18	6.3%		
	I agree	101	35.6%		
	I completely agree	137	48.2%		
	Total	284	100.0%	4.20	1.01
Unreliable tender publication plans affect the reduction of efficiency in using EU funds	I completely disagree	20	7.0%		
	I disagree	17	6.0%		
	Neither disagree nor agree	13	4.6%		
	I agree	89	31.3%		
	I completely agree	145	51.1%		
	Total	284	100.0%	4.13	1.19
Unclearly defined tender conditions affect the reduction of efficiency in using EU funds	I completely disagree	99	34.9%		
	I disagree	94	33.1%		
	Neither disagree nor agree	17	6.0%		
	I agree	43	15.1%		
	I completely agree	31	10.9%		
	Total	284	100.0%	2.34	1.37

Source: Author's own calculations based on the current research.

For the question about how unreliable tender publication plans affect the reduction of efficiency in using EU funds, the arithmetic mean is 4.13, with a standard deviation of 1.19.

For the question regarding how unclearly defined tender conditions affect the reduction of efficiency in using EU funds, the arithmetic mean is 2.34, with a standard deviation of 1.37 (Table 2).

Examining the data for the question regarding how published tenders in the form of "permanently open calls" affect the reduction of efficiency in using EU funds, it can be observed that the arithmetic mean is 2.22, with a standard deviation of 1.23. For the

question about how the lengthy evaluation of project applications affects the reduction of efficiency in using EU funds, the arithmetic mean is 4.31, with a standard deviation of 0.96.

For the question regarding how frequent changes in tender documentation affect the reduction of efficiency in using EU funds, the arithmetic mean is 4.00, with a standard deviation of 1.24.

For the question about how the misalignment of tenders with the capabilities and needs of potential applicants affects the reduction of efficiency in using EU funds, the arithmetic mean is 4.20, with a standard deviation of 0.92 (Table 3).

Table 3. Arithmetic mean and standard deviation of the posed questions

		N	%	\bar{x}	Sd
Published tenders in the form of "permanently open calls" affect the reduction of efficiency in using EU funds	I completely disagree	105	37.0%		
	I disagree	87	30.6%		
	Neither disagree nor agree	27	9.5%		
	I agree	55	19.4%		
	I completely agree	10	3.5%		
	Total	284	100.0%	2.22	1.23
Lengthy evaluation of project applications affects the reduction of efficiency in using EU funds	I completely disagree	9	3.2%		
	I disagree	10	3.5%		
	Neither disagree nor agree	17	6.0%		
	I agree	97	34.2%		
	I completely agree	151	53.2%		
	Total	284	100.0%	4.31	.96
Frequent changes in tender documentation affect the reduction of efficiency in using EU funds	I completely disagree	24	8.5%		
	I disagree	20	7.0%		
	Neither disagree nor agree	13	4.6%		
	I agree	101	35.6%		
	I completely agree	126	44.4%		
	Total	284	100.0%	4.00	1.24
The misalignment of tenders with the capabilities and needs of potential applicants affects the reduction of efficiency in using EU funds	I completely disagree	8	2.8%		
	I disagree	11	3.9%		
	Neither disagree nor agree	17	6.0%		
	I agree	129	45.4%		
	I completely agree	119	41.9%		
	Total	284	100.0%	4.20	.92

Source: Author's own calculations based on the current research.

In the following, we present the testing of normality using the Kolmogorov-Smirnov and Shapiro-Wilk tests to determine how the observed factors in the study are distributed. Based on this, it will be decided whether parametric or non-parametric tests will be applied. From the provided significance levels in Table 4, it can be observed how the significance levels of the Kolmogorov-Smirnov and Shapiro-Wilk tests are

distributed. Specifically, if the significance for a particular category is greater than 0.05 ($p > 0.05$), it indicates a normal distribution. If the significance is less than 0.05, the distribution is different from normal. Since the significance level for all observed variables is not greater than 0.05, it can be said that the mentioned distributions do not follow a normal distribution in all observed categories.

Table 4. Testing the normality of distribution

	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Delays in the development of national strategic documents by employees in public bodies responsible for the preparation and implementation of EU policies affect the reduction of efficiency in using EU funds	.268	284	.000	.748	284	.000
Unreliable tender publication plans affect the reduction of efficiency in using EU funds	.279	284	.000	.714	284	.000
Unclearly defined tender conditions affect the reduction of efficiency in using EU funds	.278	284	.000	.817	284	.000
Published tenders in the form of "permanently open calls" affect the reduction of efficiency in using EU funds	.246	284	.000	.827	284	.000
Lengthy evaluation of project applications affects the reduction of efficiency in using EU funds	.296	284	.000	.704	284	.000
Frequent changes in tender documentation affect the reduction of efficiency in using EU funds	.298	284	.000	.745	284	.000
The misalignment of tenders with the capabilities and needs of potential applicants affects the reduction of efficiency in using EU funds	.289	284	.000	.741	284	.000

a. Lilliefors Significance Correction

Source: Author's own calculations based on the current research.

To better examine the relationships between the observed variables, Spearman's correlation coefficient was used. The value of this test ranges within the interval $-1 \leq r \leq +1$, where a negative sign indicates negative (inverse) correlation, and a positive sign indicates positive correlation. The higher the value of Spearman's correlation coefficient, the stronger (more significant) the correlation between the variables. From Table 5, it can be observed that very weak correlations were recorded only between the question of delays in the development of national strategic

documents by employees in public bodies responsible for the preparation and implementation of EU policies affecting the efficiency of using EU funds and frequent changes in tender documentation affecting the efficiency of using EU funds ($r=0.135$, $p<0.05$), and unreliable plans for publishing tenders affecting the efficiency of using EU funds and published tenders in the form of "permanently open calls" affecting the efficiency of using EU funds ($r=-0.118$, $p<0.05$).

Table 5. Spearman's correlation coefficient

		1	2	3	4	5	6	7
Delays in the development of national strategic documents by employees in public bodies responsible for the preparation and implementation of EU policies affect the reduction of efficiency in using EU funds	R	1.000	.057	.054	.038	-.010	.135*	.050
	P	.	.342	.369	.522	.868	.023	.400
	N	284	284	284	284	284	284	284
Unreliable tender publication plans affect the reduction of efficiency in using EU funds	R	.057	1.000	.004	-.118*	.072	.006	.051
	P	.342	.	.952	.046	.226	.914	.391
	N	284	284	284	284	284	284	284
Unclearly defined tender conditions affect the reduction of efficiency in using EU funds	R	.054	.004	1.000	-.010	.075	-.026	.029
	P	.369	.952	.	.863	.209	.667	.624
	N	284	284	284	284	284	284	284
Published tenders in the form of "permanently open calls" affect the reduction of efficiency in using EU funds	R	.038	-.118*	-.010	1.000	.018	.072	-.005
	P	.522	.046	.863	.	.761	.226	.940
	N	284	284	284	284	284	284	284
Lengthy evaluation of project applications affects the reduction of efficiency in using EU funds	R	-.010	.072	.075	.018	1.000	-.042	.114
	P	.868	.226	.209	.761	.	.480	.055
	N	284	284	284	284	284	284	284
Frequent changes in tender documentation affect the reduction of efficiency in using EU funds	R	.135*	.006	-.026	.072	-.042	1.000	-.017
	P	.023	.914	.667	.226	.480	.	.775
	N	284	284	284	284	284	284	284
The misalignment of tenders with the capabilities and needs of potential applicants affects the reduction of efficiency in using EU funds	R	.050	.051	.029	-.005	.114	-.017	1.000
	P	.400	.391	.624	.940	.055	.775	.
	N	284	284	284	284	284	284	284

*. Correlation is significant at the 0.05 level (2-tailed).

Source: Author's own calculations based on the current research.

Even though the research results do not show a significant relationship between variables, the analysis of the survey questionnaire in Tables 2 and 3 indicates that certain variables have a direct impact on the application and absorption of EU fund resources. Based on this, hypotheses H1: All administrative limitations equally affect the reduction of efficiency in using EU funds; H4: Unclearly defined tender conditions significantly affect the reduction of efficiency in using EU funds; and H5: The manner of tender publication as a "continuously open call" significantly affects the reduction of efficiency in using EU funds, are **REJECTED** and are not supported by the

obtained results. Furthermore, hypotheses H2: Delays in the development of national strategic documents significantly affect the reduction of efficiency in using EU funds; H3: Unreliable tender publication plans significantly affect the reduction of efficiency in using EU funds; H6: Lengthy evaluation of project applications significantly affects the reduction of efficiency in using EU funds; H7: Frequent changes to tender documentation significantly affect the reduction of efficiency in using EU funds; and H8: Misalignment of tenders with the capabilities and needs of potential applicants significantly affects the reduction of efficiency in using EU funds, are

ACCEPTED and have an impact on the project applications by potential applicants, in the sense that they agree that these variables limit them.

CONCLUSIONS

EU funds are one of the main drivers of regional development and the reduction of inequalities between and within countries. Non-repayable financial resources from the European Union finance development projects in the fields of agriculture, entrepreneurship, and tourism with the aim of stimulating economic activities, macroeconomic and microeconomic stability, as well as tangible benefits for public and private organizations and individuals. Opportunities for various competitions encompass the possibility of financing projects according to the actual needs and development priorities of each country. Like every system has its administrative limitations, it is evident that in the Republic of Croatia there are various obstacles that limit the absorption and use of EU funds, thereby directly affecting the rural and regional development of a particular region.

The set hypotheses, to a greater or lesser extent, prove the stated claims, but they do not have an equal impact on the absorption of EU funds and an individual's decision to apply for a project. A greater impact is evident in the delays in the adoption of strategic documents at higher levels, which limits the public sector in project applications. Furthermore, the announcement of calls for funding of certain projects is not in line with the annual plan of the body publishing the call. This leads to financial and timing planning issues for the applicants. If a project application does occur, the long time it takes for the project to be evaluated, approved, and contracted is demotivating. The project becomes outdated after a prolonged period due to daily changes in technology development and progress. It should also be noted that there's a visible issue with frequent changes to the call documentation. Specifically, during the period when the call is open for applicants, the tender

documentation and conditions are known to change several times, leading to project planning problems. Project applicants often apply for a project, and afterward, the documentation and conditions change. There is often also a problem of mismatch between the actual needs on the ground and what is considered an acceptable investment in a project.

Alternatively, the documentation or project application system is too complicated, deterring potential applicants.

We can conclude that there are many administrative challenges in financing projects from EU funds in the Republic of Croatia.

State authorities should take into account the conclusions of this study and simplify the entire project application system to facilitate potential applicants in realizing their projects.

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