

## **Difficulties and Challenges in Implementation Process of EU Projects in Croatia**

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### **Abstract**

After the process of application to different funds, and upon the approval of the project, many institutions and organizations encounter unexpected situations of implementation difficulties. Starting with the fact that those institutions and organizations are full of ideas for implementing their goals and objectives, and the only factor standing between them and their results is the lack of funds, gain of those funds seems as a full green light for accomplishing what they imagined and worked on. But after the notice of approved funding, they are stepping into a complicated web of problems they often do not expect and face situations which make it impossible to implement their planned activities. Even though the funds are approved, beneficiaries will soon begin to realize that the access to those funds is far from reach. Most of activities will again depend of the financial resources of the organization on its own, which will put enormous risk on the implementation itself. Financial difficulties are the ones that are always felt the most, but other problems that will appear suddenly during the preparation of activities will show to be also very hard to manage, such as institutional, legislation and project problems. Each group of problems will demand full attention of the manager and participation and cooperation of a wider group of subjects connected to the implementation process depending on the nature of the problem. Article will categorize the problematics and explore the experiences of Croatian project managers coping with problems in their work according to statistical results gathered through an on-line survey. The research was performed in June and July 2016 and reached a span of 50 Croatian project managers.

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**Keywords:** Implementation problematics, EU projects, Croatia, project management

## **Introduction**

European funds are a great resource and support element for both urban and rural development through projects. Even though Croatia is growing its number of funds provided for projects from the European Union, we often neglect the story behind the projects implementation, giving our full focus to the numbers and monetary weight of a project. While our application qualities are improving from one programme to another, giving us more experienced future beneficiaries each day, project managers are experiencing troubles in implementation which source from the very foundation of our European integration. Implementation management is often put aside and shadowed by the process of applying for funds. When those funds are provided the focus automatically falls from the project as if it was already successfully finished. Those funds are yet to be used and directed towards their objective, and their value and efficiency will be approved only and exclusively by the evaluation of the accomplished project result. Project managers will during the implementation period come across many problems, starting with their own institutional procedure and spreading on to every entity that will in any way be included by the project. A great deal of problems will only depend of the managers capabilities and his strategy and risk control, but some of them are a general issue on a national level and demand serious corrections from the bodies uncharged. In order to define that segment of problematic, a research was conducted to provide division and definition of those problems. The results of the research showed that project managers in Croatia often encounter same issues, and also, the most effecting issues on the result of the project will show to be out of their management influence.

## **Division of implementation problematic according to project management experiences**

Strategy and tactics are both essential for successful project implementation, but differently so at various stages in the project life cycle. Strategic issues are most important at the beginning of the project.

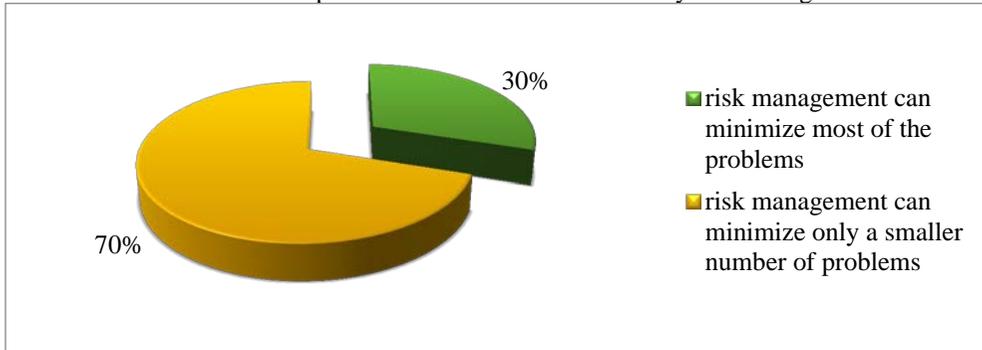
Tactical issues become more important towards the end. Strategy is not static and often changes in the dynamic corporation, making continuous monitoring essential. Nevertheless, a successful project manager must be able to transition between strategic and tactical considerations as the project moves forward. The successful manager must be versatile and able to adapt to these changing circumstances.<sup>124</sup>

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<sup>124</sup> Pinto, J. K. and Slevin, D. P.; Critical Success Factors in Effective Project Implementation, p.186-187

With good tactics and quality strategy for approaching risks, the manager can tackle a lot of problems that will appear during the implementation. Some of them he will successfully solve, but some will also be out of his influence zone and will require involvement of higher channels to be solved.

Chart 1 - Ratio of problems that can be influenced by risk management



Source: research by the authors

According to the research of implementation problematics done in June and July of 2016, through questioning 50 project managers in Croatia, the number of problems that can be influenced by good risk management is not high, 70% of managers consider that risk management can minimize only a smaller number of problems (chart 1).

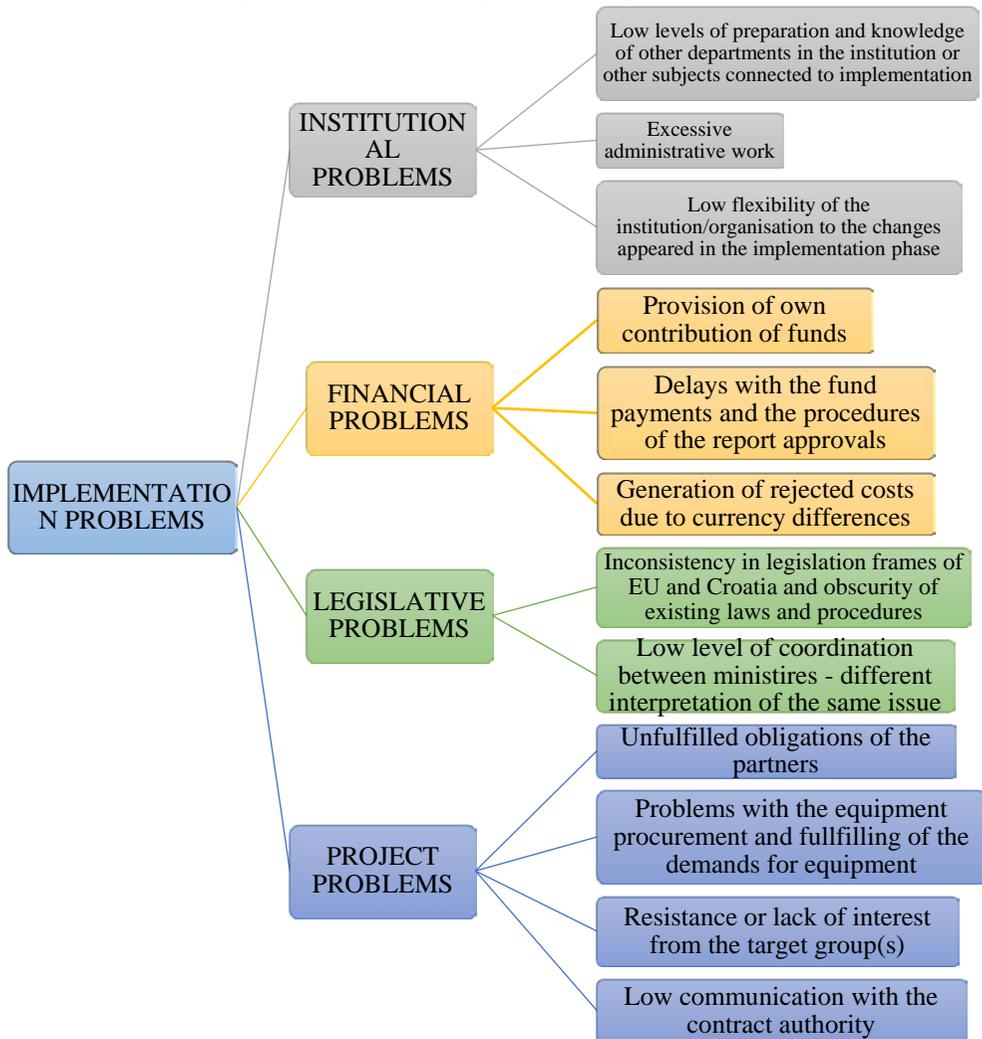
This information points out that a large number of problems during implementation will be completely out of control of the manager. The imposing risk of that affects the entire process of implementation and puts under question the project in its foundation causing time and money loss that not all institutions or organizations will be able to handle with. Also, when we speak of projects, we often speak of national and European sources of funding. Import difference between these two groups will be procedures asked from the beneficiary. While national funded projects will mostly demand national rules, EU will be specific in its unification of procedures and synchronization with the EU procedures. Croatia, being still a young member, has a disadvantage in that synchronization process. While adapted significantly to the EU demands, a lot of blind spots were left behind for implementation managers to stumble upon. The problematic of this is visible from the analysis of the research where 80% of questioned managers defined EU projects as more problematic than national ones.

In whatever way funding is managed, all of the EU investments must be managed according to a very specific set of guidelines. These guidelines are commonly referred to as 'PRAG'<sup>125</sup> and it is crucial that beneficiaries

<sup>125</sup> Practical Guide to Contract Procedures for EU External Actions

have an understanding of the basic principles on which the guidelines are based and know how to use them as a reference source.<sup>126</sup> Procedures of the EU are still not infused into our procedures and this discrepancy causes problems on several levels. The levels of problematics can be divided into four segments of problematic in implementation, institutional ones, financial, legislative and project problems (Figure 1). Each of the groups has its own domino effect and even though many problems will somehow eventually be solved, its effect will shape following activities and by that also the result. This domino effect was also recognized by 92% of the managers that participated in the survey.

Figure 1 - Division of implementation problematics

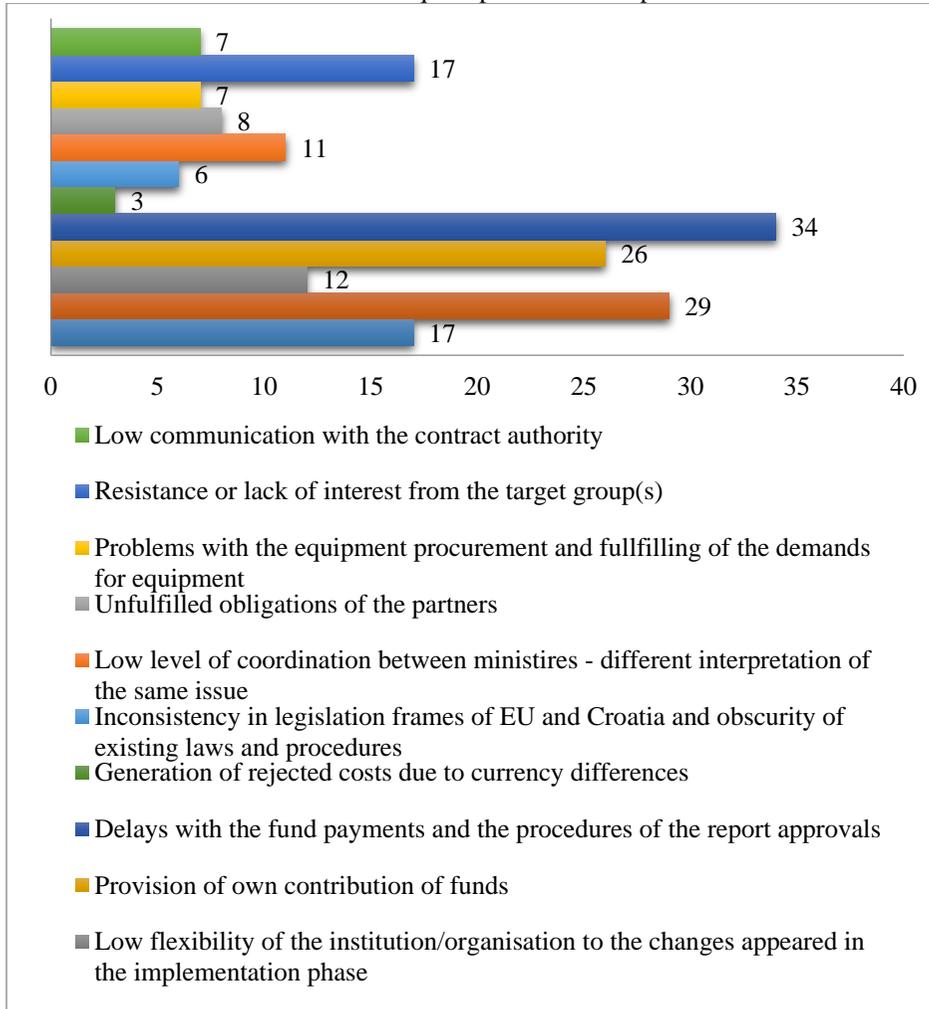


Source: illustration by the authors

<sup>126</sup> TACSO; Developing and Managing EU-Funded Projects, p.17

Each problem will have its own sector or area where it will be encountered more than elsewhere. In the survey, the managers were asked to point out 4 of the most frequent problems they have encountered during implementation of projects. The result of the research shows that managers most often have issues with delays of the fund payments and procedures of the report approvals (34 out of 50 managers, 68%), excessive administrative work (29 out of 50 managers, 58%) and provision of own contribution of funds (26 out of 50 managers, 52%).

Chart 2 - Most frequent problems in implementation



Source: research by the authors

If we sum all the votes on the problems in implementation, and assign the votes to their group by division in figure 1, we can observe the problematics by its source:

Figure 2 - Problems by groups



Source: research by the authors

As it can be seen from Figure 2, the most votes were given by project managers for financial problems, followed by institutional problems, while project and legislative problems had fewer votes. This result points out the flaws and inconsistencies of the both sides of the process in the implementation, while financial problems are caused by contract authorities, the institutional ones show the lack of preparation from the side of the beneficiaries. Both high problematics groups are the ones that can influence and damage the implementation process and the results the most.

### **Institutional problems**

Depending of the type of the institution or organization, every beneficiary will encounter specific problems evolving from the operational function of the institution itself. Governmental bodies will often be faced with problems due to their division into separate departments. In this structure, implementation process will be spread over a range of departments, each covering its field of action, such as finances, law, PR etc. Even though it may seem that division of work will be faster and put less pressure on the manager, it is not quite true. The manager will in this case be forced to learn and process all of the procedures of the institutions which are often wide and into unnecessary depth that the project itself does not demand. An ambitious level of integration is concerned with creating a culture of learning, stakeholder participation and continuous improvement of performance in order to realize external benefits and to contribute to development. To realize this ambition, focus of the management system has to be on the synergy between customer-based quality, product oriented environmental management as well as corporate social responsibility.<sup>127</sup>

Manager will also be at risk of entirely losing control and overview of the documentation and the way it was processed, and again, some procedures normal for the institution will be completely unacceptable to the project contract authority which will have demand of their own according to

<sup>127</sup> Jørgensen, T.H.; Towards more sustainable management systems: through life cycle management and integration, p.1072

European laws and procedures. What will happen is that the administration over one document will duplicate so all the procedures would be satisfied, and exactly that effect is why the research showed that managers consider excessive administrative work 2<sup>nd</sup> most common problem.

Another problem connected to this structure is the need that appears for every subject working on the project documentation and procedures to be familiar with the EU laws and procedures, which is rarely the case. In governmental bodies, departments are obligated to follow their own practice, and are not familiar or educated for implementation of EU demanded procedure. The financial process in EU projects is very specific and has strict rules for approval of costs, procurement procedure, administration and document filing. These procedures point out a need for not only the manager to be educated and experienced with those procedures, but that all the department who will eventually be involved into the process to also have knowledge of it too. This problem will also occur with the suppliers, partners etc. Their low understanding and knowledge of these procedures can easily endanger the implementation and the approval of costs connected to it. Governmental bodies system is also not flexible or adaptable to EU processes. While the institution has to follow its own budget through the year, including in it the project budget that will change from activity to activity and from report to report, the adaptation and synchronization of those two budgets is nearly impossible taking into consideration that both approval of reallocations in quartal reports and the rebalances and changes of the institution's yearly budget have their own separate deadlines, fluctuations and rules.

### **Financial problems**

Ensuring that adequate time and resources are committed to project identification and formulation is critical to supporting the design and effective implementation of relevant and feasible projects.<sup>128</sup> The main problem of every beneficiary for the European funds is the percentage of own contribution of funds. Listed as number 3 on our table of votes from the manager's survey, this problem will be not only encountered in implementation, but also during application for the funds. It is often that within a project it is obligatory from the beneficiary to prepare, plan and later spend minimum 20% of the project value from their own funds. For non-profit, or public body institution or organization, these 20% can be determine if the project will be applied at all. Ensuring that kind of fund for spending is a problem on its own, having no profit to cumulate the money from, and when we take in consideration, that most beneficiaries' of project funding

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<sup>128</sup> European Commission; Project Cycle Management Guidelines, p.24

will apply in a year 5 to even 50 projects, not knowing if any or most of them will be approved, the money reserved for all of them to be financed by partial own contribution starts to become an extremely large amount. Planning and ensuring own contribution fund is a reason why many good ideas will not even be applied for.

Another financial problem in implementation of projects is often the delay in the payment of approved funding. This difficulty appears because the implementation period begins by signing of the funding contract, which also marks the beginning of the activities. But, the pre-initial funding that is needed to start the implementation is not received for a certain period of time. This means that the beneficiary will either wait to receive the funds and be in delay with activities from the start, or will try to cover the costs of implementation from its own resources, which are often very low, which logically created the need for funding itself. Not only the initial funding is problematic, but also, the procedure of approval of reports, which is mandatory for reclaim of funds, is often in delay. The managers burdened with such situation often implement their projects blindly, not knowing if their previous costs or reallocations proposed have been approved at all. The new system of project funding is also changing. While in programme periods before 2016 the system applied a payment of pre-funding, now the payments are being done specifically according to the first report claim amount. This means that project needs to be implemented from beneficiaries' own contributions in order for them to be refunded after the implementation period for report. This kind of system demand a sort of a beginners investment for the beneficiary, which is often very hard to ensure, especially for the non-profit organizations and governmental bodies who have no profit to put aside for this "investment" for the implementation.

Financial problems in EU project also have another costs imposed to the beneficiaries expenditure list, the currency difference. Many times it happens that the currency set by the contract cannot be applied throughout the duration of the project. The employment of the staff connected to the project as well as some starting costs such as promotion are often mandatory to do before the currency is set by the authority. On each payment another currency is set, which cannot be foreseen which signing certain contracts within the project, such as rents, work contracts etc. This cumulates additional cost for the beneficiary because those generated differences of currency will not be accepted in reports. For projects that last for 20 months and more, that currency difference that maybe at first glance does not seem harmful can over such long period of time, or under high influences of the monetary changes create a problematic and unnecessary cost for the beneficiary, again harming the organizations with no profit to cover such unexpected costs the most.

## **Legislation problems**

Even though Croatia is now a member of the European Union, with adapted laws and legislation system, we have to admit that many of the laws will again or still need to be questioned and transformed in order to meet the requirements set up by the project implementation. The system operates, yes. But the question we come across as managers behind expenses to make, activities to implement, and all that in accordance to EU implementation package we get by signing the contract is how good does it operate? The answer is of course, not good enough. Maybe in everyday life, the country will have no problem with its laws; maybe the system will flow normally. But in implementation, we will encounter lines within our law which cannot be applied for EU procedures within projects. We will find that the labor procedures of our law have nothing to say for the fact that project manager cannot use vacation days when the laws says so, because he will not like most employees be able to leave the project unattended for weeks, but will have to use his days when activities and his Gantt diagram allows him to. Also, that manager will sign a contract with the expiration date same as on the project. After the project ends, the manager will most often work outside of his contract to finish the activities and submit the final report, and the contract authority will expect him to do so. Travels, accommodations, per diems and daily allowances, will be the nightmare of every manager working on a EU project. The national law will have one name for those expenses, and EU another, the state will have taxes on those costs, and EU project will say nothing of it. The databases will have no forms for travel order of a person who is not an employee of the beneficiary, and still, the institution is sending that person to a trip within the project. A participant of the project is an unknown term in our systems, a mystery within our laws and a problem within our implementation. As long as we do not adapt our legislation to this we will stumble upon every step trying to define something that in our system still does not exist.

The Croatian ministries reflect the same discrepancy in double interpretation of our laws. If consulted, one ministry will interpret a certain part of the law in a way that correspond its field of coverage. That same part of the law, if consulted with another ministry will be differently defined by it. If we question the interpretation of a law, according to the specific issue, we cannot call that law well defined or applicable. Its obscurity and nebulosity will cause serious violation due to misunderstanding and will put in question all the work done behind it.

## **Project problems**

Problems caused by implementation itself are maybe the most specific group of all. In this field the manager will encounter various

difficulties, starting from the surroundings he will work with. First of all, those will sometimes be partners. 16% of managers state the unfulfilled obligations of the partner as one of the main problems. It often happens that beneficiaries with lack of experience get included as partners in projects leaving all the responsibility and hard work to their leading partner. This even though, a well designed strategy to cumulate new beneficiaries and users of funds and good principle for spread of knowledge, will also often burden the leading manager into doing all the crucial work. The partnership is supposed to be well distributed and with a strong leader, but the problems appear when partners do not perform their part of the contract. Especially in cases where partnerships are dislocated, even international, this will cause a significant problem. The manager has to keep control and take care of the flow of activities, but he cannot be in several places in the same time, and also cannot implement activities on his own. It is very important that the partners can lean on him and get feedback and instructions on certain matters, but also, it is important that the implementation does not fall on one person because the result cannot be fulfilled in such manner.

Other than the partners, another resistance can come from the target group or groups itself. Soft project mostly aim to raising awareness of specific groups. Even though the entire concept of the project will be in their favor it often happens that people just do not recognize their benefits within the activities. Such lack of interest can lead to unfulfilling of the result itself. If we cannot attract participants into the project we will have no one to implement activities for. The objective will fail and the entire process can be meaningless and waste of time. Approach to the target group is often very important, and also, managers with experience always recommend to do research on interest prior to the application of the project itself.

Connected to all problems stated above, but also many others, communication with the contract authority can easily be a helping hand for all of them, but vice versa also a problem on its own. In implementation it is always important to contact authority and seek for guidance. We rely on our authority project managers to point us in the right direction, or just to advise where to seek for information. The problem appears when we sometimes discover that our contact in authority is not very helpful. It often happens that on our specific question we will get in return nothing more than a fragment of our contract. This will draw a line between contract authority and implementation body and later cause inconsistencies due to nothing more than just pointing the guilt on someone else. When a mistake is made, no one wants to be the person that approver or performed the wrong doing action. But many of mistakes could have and can be prevented with simple communication. There are small letters in every contract and changes within the channels where the project manager cannot easily acquire information.

This is where his contact in contract authority takes his place. That person can and should inform the manager of as much information possible in order to synchronize the actions and documentation in order for both sides to be clear and performed well. The lack of that guidance will always be obvious in a project and its flaws will affect the implementation.

During implementation, a large number of activities of the project manager and the partner will include procurements. EU public procurement policy is a key instrument in establishing the single market and in achieving smart, sustainable and inclusive growth, according to the Europe 2020 strategy, while at the same time ensuring the most efficient use of public funds. Improving the efficiency of public spending and achieving value for money are central objectives for government. Rules have been set up at various levels of government to ensure the best possible use of public funds where public purchasing takes place.<sup>129</sup>

For the 2007-2013 programming period, 349 billion euro was allocated in the area of cohesion policy through the European Regional Development Fund (ERDF), the Cohesion Fund (CF) and the European Social Fund (ESF). A significant part of this money, particularly for the ERDF and the CF, is spent through public procurement. Almost half of all projects in relation to these three funds audited by the Court over the 2009-2013 period involved one or several tenders. Failure to comply with public procurement rules has been a perennial and significant source of error. Serious errors resulted in a lack, or complete absence, of fair competition and/or in the award of contracts to those who were not the best bidders. The audit found that the Commission and Member States have started to address the problem, but there is still a long way to go in terms of analyzing the problem and implementing actions. The Commission has begun to put a range of actions in place since 2010. Legislative actions included the revision of the public procurement directives and the inclusion in partnership agreements of specific conditions for public procurement systems that must be fulfilled by Member States by the end of 2016 at the latest. The Commission also established, in 2013, an internal technical working group and drew up an internal action plan. However, most of the actions in the plan have not yet been fully implemented. Member States only started recently to take comprehensive actions to prevent errors from occurring.<sup>130</sup>

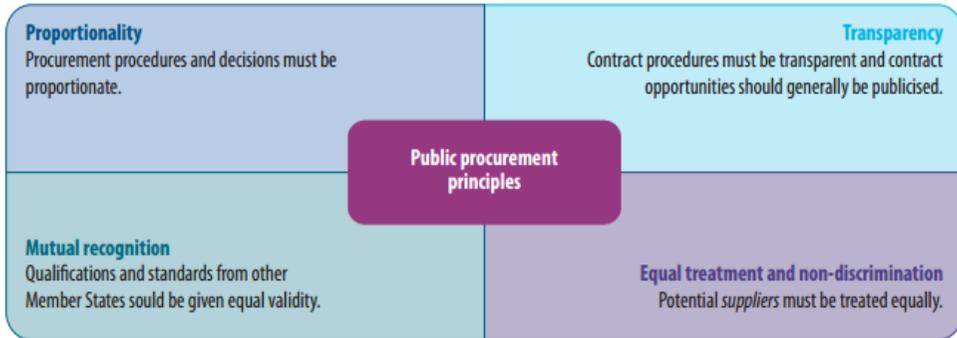
Among other things, EU public procurement rules aim to ensure that the principles and fundamental freedoms in the Treaty on the Functioning of the European Union (TFEU) are observed. This would, in turn, increase competition and cross-border trading, resulting in better value for money for

<sup>129</sup> EUROPE 2020; A strategy for smart, sustainable and inclusive growth

<sup>130</sup> European Court of Auditors; Efforts to address problems with public procurement in EU cohesion expenditure should be intensified, p.8

public authorities, while increasing productivity in the supply industries and improving participation in and access to such markets by SMEs. In short, the rules exist to support the single market, encourage competition and promote value for money.

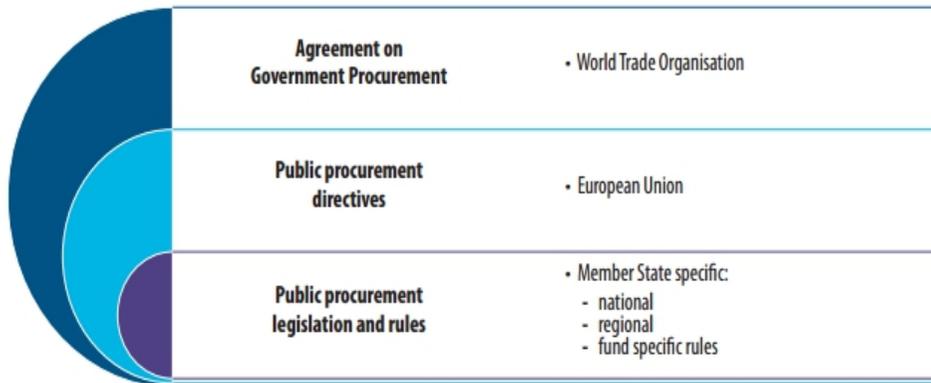
Figure 3 - Principles of public procurement



Source: European Court of Auditors; Efforts to address problems with public procurement in EU cohesion expenditure should be intensified, Special report no.10, Luxembourg, 2015, p.11

According to the special report of the European Court of Auditors, an error occurs when EU and/or national public procurement rules were not complied with. Experiences in Croatia will say that, implementing projects, the problem with procurement is very often to encounter due to legislative problems. The procurement laws and procedures in Croatia are not adapted to those of the European Union, and while they all follow the same objective, the amounts that separate one type of procurement from the other are significantly different. Another problem appears when we take in consideration that public sector has its own rule books and procedures based on the Croatian law, but still, always specific depending of the institution itself. As we can see on figure 2, Governance of public procurement is consisted out of three levels. The problems in project implementation that we mentioned above appear in two places. First of all, in consistency between the bottom two levels, EU and national law, and second of all, within the third level, where we find different procedure specifications in national, regional and specific institutional requirements.

Figure 4 - Governance of public procurement



Source: European Court of Auditors; Efforts to address problems with public procurement in EU cohesion expenditure should be intensified, Special report no.10, Luxembourg, 2015, p.12

Procurement process on its own will during implementation challenge the manager in another way aside from the legislation, and that is through the origin of equipment. The EU projects always demand that all equipment procured from the financial sources of the project have EU origin. The preparation level of Croatian supplier for this rule is still not properly adapted. The manager will during his procurement meet suppliers who are completely unfamiliar with this type of procurement. Their stock are often in lack of European made products, or do not issue statements of origin and other necessary documentation that the manager will request with his equipment. Very often that equipment will be crucial for implementation of certain activities in the project, and when the procurement procedure is either unsuccessful with finding the equipment that fills the term, or prolonged the implementation will also suffer, being either disabled or in delay.

Comprehensive analysis at both Member State level and Commission level has been precluded by a lack of coherent data. There are signs, however, that data on public procurement errors are starting to be collected, or are planned to be collected, in a systematic way. However, analysis of errors is still limited. The Commission has not yet developed a robust, comprehensive database of all irregularities, including those arising in public procurement.

## Conclusion

European funds are a resource of development possibilities. But we often forget that development is not a process founded on monetary value, but quality element. Even though development is almost impossible to accomplish without investments in financial terms, its successfulness will

mostly depend of other elements, attention to detail and adaption to needs of the specific area and its citizens, long-term value and sustainability. In order to develop through our projects, we need to constantly take effect on the problematic that we encountered along the way and what is most important, cooperate. A problem of an individual can become a lesson for the entire group of beneficiaries in such way making a chain of exchange of good practices and eliminating as well as minimizing many problems and supporting the outreach of the risk management. Programmes of 'smart cities' have already recognized the value and possibility in the experiences and partnerships for common objectives. In order to define and solve each problem it is important to also identify its path, from the surfacing of the problem to its escalation. That way, we give each other the possibility to predict difficulty and affect it before it affects the result of the project. Forming official data and analysis the problematic can help in sourcing and pointing out the problem to the body that is able to control it and make necessary step to address the problem. Concerning that according to the research, 76% of project managers considers that project implementing problematic is not being monitored or addressed, it is clear that new steps need to be made to act on problematics in implementation in Croatia.

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