

# ***Integrated Rural Development, and the Reflexive Agency - theory and practice in a Hungarian pilot programme***

*XI World Congress of Rural Sociology, Trondheim, Norway, 2004*

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## **Introduction**

### **The central and the local systems for rural development<sup>1</sup>**

From an economic point of view, the main aim of Europeanisation is to create a unified market. This process, through diminishing national and local protections, opens up backward rural areas for global competition, in which they have weak resources and tend to fail. Consequently, they can easily lose much of their remaining resources that can jeopardise their future development possibilities. At the same time, this could also endanger the existence of those ecological, cultural and community values, which have been maintained in rural areas, entailing a significant loss for the whole society. Therefore, in parallel with the ongoing process of Europeanisation, intervention is needed to avoid or lessen negative effects on peripheral regions. This intervention nowadays is often called *rural development* by policy makers and it is done through: setting new rules for protection (replacing traditional domestic protection mechanisms); redistribution of resources through aid, agricultural subsidies and development policies; and providing assistance for local actors to unlock local resources.

However, to design and undertake effective central intervention and accomplish the desired protection of rural values is very difficult, for a variety of reasons. The applied approach for this paper concerns the working mechanisms and philosophy of the two basic rural development systems – central and local – and the functioning or lacking co-operation between them.

The ***central administrative system*** of rural development is based on fundamentally top-down interventions of the political centre. It comprises such elements as: European and domestic policies; centrally redistributed resources; institutional networks; skills, technical and procedural knowledge of various level bureaucrats; strategic development plans; central rules and regulations; representation of high level interest groups and NGOs, etc. It has a formalised and *institutionalised* character. It is based on written rules, established procedures and is controlled by bureaucratic institutions. It uses external resources for intervention, usually works with a very narrow flow of information, with

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<sup>1</sup> See a more detailed analysis of this topic in Nemes 2004.

high transaction costs and aims at quantifiable results. At the same time, it can have a large scope and embrace higher level or longer term strategic objectives, which are above short term economic rationality. It is dependent on and driven by the modernist technological regime, and a central development logic - in other words by the ruling policy paradigm (Van der Ploeg and Renting 2000, Brunori and Rossi 2000). Its overarching aim is to serve the interests of *the centre*, providing access to local economies and creating a reasonably balanced and 'peaceful' environment for economic development.

The *local heuristic system* of rural development is based on essentially endogenous, bottom-up processes. It comprises such elements as: local economic, political and social actors; local development plans; social networks and kinship relations; local authorities, innovative individuals, development associations and partnerships as well as the development skills and experiences of these local actors. Although it builds upon local resources, rural values and synergistic effects of multiple activities, it often needs external finance and encouragement (financial resources, technical assistance, mediation, expert knowledge, etc.). It is usually based on deep and responsive knowledge to local matters, very wide information flows, and an often loose network of public sector and civilian organisations of a certain locality. Institutionalisation and formalisation is usually low. This type of development tries to give flexible responses for internal and external challenges and possibilities in order to protect and improve local life and values, keeping benefits mainly for the locality. The resulting local development systems, in compliance with varied circumstances, can be very diverse or specific and difficult to transfer to other localities. The overall logic of the local development system is rooted in the 'new rural development paradigm' (Van der Ploeg et al. 2000).

In an ideal world the central and local systems of rural development would work together in the framework of an *integrated rural development system* (Nemes 2004), understood as a particular setup of central and local institutions (administration, knowledge, information systems, social networks etc.), working in coherence, sharing responsibilities and resources on a balanced way and so being able to realise the ideas of integrated rural development theory and effectively helping local development through central resources. The central system would tackle long term, large scale strategic problems and would deliver and control central aid to help the development of the local system. The local system would also have functional institutions which could communicate with the centre. It could absorb and – on an appropriate and accountable way – deliver central aid to the beneficiaries and could help to reconfigure local values, unlocking them as local development resources.

Nevertheless, in reality, the harmonic co-operation of the two systems hardly ever exists. Local systems often do not have well-developed institutions, cannot fulfil the strict administrative requirements of the centre, therefore cannot receive significant support which would help to develop the local system itself. To accomplish integrated rural development, the local development system has to reach a certain level of institutionalisation. Once it has advanced institutions, they can help to access central resources; explore and defend local interests; or can offer a channel for the central system to provide aid. Nevertheless, local development institutions can already be considered as 'process type results' of previous rural development themselves. They often have to be newly created, or largely developed to fulfil central requirements, which is difficult

without external help. On the other hand, for organic development, aiming at structural changes, local institutions should progress through bottom-up, participative processes, which cannot be driven or closely controlled from the outside. Therefore, it is very difficult to find an entry point in this cycle and to initiate the process.

### **The reflexive practitioner and the reflexive agency**

Amongst EU rural policies the LEADER programme stands out as the one which has achieved some success in this field (Fischler 1997, Ray, 1996, 1997/1,2, 1998, Curtin et al 1996, Mernagh and Commins 1997 Shortall and Shucksmith 1998). Adding to the understanding of this success, Ray (1999 and 2001), introduces the concept of the 'reflexive practitioner'. He argues that the approach and working style of project workers, employed by LEADER LAGs (local action groups) significantly contributed to the success of the programme. LEADER was an experimental programme, with a flexible design, embracing diversity and local initiatives. Even though, certain 'translation' of central procedures was needed, especially at the local level, where "objectives of central intervention could sometimes be regarded as alien or disruptive" (Ray 2001:61). Development workers, acting as reflexive practitioners, helped to "square the idealism of local participation with institutional orthodoxy" (ib.:65). According to Ray, they are intermediary mediators between local individuals (businesses), the EU 'officialdom' and local, regional players. They are active agents who reflect on local circumstances, represent and spread values of EU rhetoric on endogenous development and democracy; prefer local participation and process type aims to measurable ones; and are more concerned about the targeted people than about the policy. Reflexive practitioners therefore, could fill the gap between certain individuals and the officialdom under the LEADER programme. Nevertheless, there are some important preconditions to this. First of all, LEADER was an exceptionally flexible programme, with comparably hospitable central procedural settings and low bureaucratic requirements for local development activities. The political environment was supportive, information was relatively easy to collect and distribute and local development institutions (and the *local development system*) had already reached a certain level of advancement to be able to participate.

However, if integrated rural development is to become a core policy, spreading to the most disadvantaged areas (including Eastern Member States), than capacities of reflexive practitioners alone might become insufficient for mediating between central and local systems. Nobody can realistically expect core policies to be as flexible, experimental and 'integration friendly' as was the LEADER programme. At the same time, backward rural regions, with little or no experience of EU bureaucracy, might not have appropriate formal institutions and administrative capacity to deal with standard procedures of policies. I argue that, *reflexive agencies* - similar to the concept of reflexive practitioners, but acting on higher level - could prove to be particularly useful in creating a hospitable environment for integration. This paper analyses the work and the evolution of such a *reflexive agency* in the framework of setting up the regional institutions in a Hungarian region - South-Transdanubia - supported by a PHARE pilot development programme. There are several important dimensions to explore. Some of them concern the development and the mediation activities of the Agency on various levels; others the implementation of an experimental EU funded rural development

programme under Hungarian circumstances; yet others the formulation of a regional level political and institutional context for integrated rural development. These dimensions are interconnected, having multiple interests and hidden agendas influenced by politics and the personalities of the human actors participating in them.

## **Rural development and the reflexive agency in South-Transdanubia**

### **The development of regional structures<sup>2</sup>**

The region is situated on the southwest of Hungary, comprising three counties: Baranya, Somogy and Tolna. It has an extremely scattered settlement system (28 urban settlements and 625 villages) and a low density and ageing population. (Pannon Egyetem 1999). The region has rather weak resources for competing in the global economy, including low productivity, a lack of capital investment and its traditional economic structure. The collapse of Hungarian agriculture and the mining industry in the early 1990s had a devastating effect. The region, therefore, experienced many difficulties during the 1990s, nevertheless, its rich natural, economic and cultural diversity provided a good resources for integrated rural development, such as: its very characteristic rural nature; rich potential resources for local development; great internal diversity within the regional boundaries; the built environment of towns and villages; cultural traditions, folklore, local cuisines, arts and crafts, with special regard to the ethnic variety of the region; thermal springs and natural waters (lakes and rivers) providing possibilities for water sports and eco-tourism. As a result of its scattered settlement system and its severe development problems, this region became one of the pioneers nationally in setting up voluntary village-associations from the late 1980s. By the mid 1990s these associations covered the entire region, albeit with significant differences between counties.

Regional development structures also started to develop relatively early. The relative negligence of the region by central development policies and the Balkan wars drew the south-western counties together in the early 1990s. Thus, the call of the Act on Regional Policy and Physical Planning (XXI/1996) for the bottom-up establishment of regional level institutions was welcomed and the South-Transdanubian Regional Development Council (DDRFT)<sup>3</sup> was the first to be established in the country on the 20<sup>th</sup> February 1997. The process of institution building and the development of regional identity were given momentum with the establishment of the South-Transdanubian Regional Development Agency (henceforth the Agency) on the 1<sup>st</sup> July 1998. Besides the management of the opening PHARE pilot programmes and the provision of the administrative needs of DDRFT, the co-ordination of regional programming and the implementation of the decisions of the Regional Development Council became the responsibility of this new institution. Such an institution and the fact that the Regional Development Council had growing responsibilities and resources to distribute, gave a considerable momentum to the development of regional structure and identity. However,

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<sup>2</sup> The research on the work of the Agency was undertaken in 1998-2000, with a qualitative methodology, such as: interviews, structured conversations and participant observation.

<sup>3</sup> The Hungarian name is Dél-dunántúli Regionális Fejlesztési Tanács frequently abbreviated as DDRFT. In the following the South-transdanubian Regional Development Council will be referred to as 'DDRFT'.

with its growing importance, DDRFT and the debates on development strategies became an arena of party politics and rivalry between the counties, cities and personalities involved.

Pécs is the largest city of the area and a natural multi-functional centre, having good resources for development. Being the worst hit by industrial decline in the 1990s, it could logically have expected significant development resources. Realising the potential possibility Pécs took a leading role at the beginning of the regional development process. The Agency was established, and most meetings and important events were held there, and, as a result, Pécs was in a good strategic position for regional development when central aid finally arrived. The 1998 general and local elections brought some important changes in the regional political balance. The main winner was the right wing coalition. While the political leaders of Tolna and Somogy belonged to the conservatives, as a result of the local elections the main leaders of Baranya (and Pécs) belonged to the opposition, the socialists, who had previously lost the general election. These changes increased the tension in the arena of regional politics and significantly weakened the position of Baranya (and Pécs) in the Development Council. The main rivalry within the Council was the two main cities of the region - Pécs (the county town of Baranya) and Kaposvár<sup>4</sup> (the county town of Somogy) and between their respective mayors who had different political orientations and different visions about the future of the region.

In 1999, the modification of the 1996 Regional Development Act reinforced the politicisation of regional structures. From then on central government, dominated by right wing political forces at that time, became an absolute majority in the DDRFT. During the summer of that year, the rivals of Pécs seized their opportunity. The first step was changing the priorities of the regional development concept that were being finalised at the time. In spite of all previous harmonisation (see below) and the consensus achieved by experts, the Council did not accept the programme without significant amendments. As a result, the new motorway will not be routed near to Pécs; and investments to build a regional conference and business centre will be undertaken in Kaposvár. As the second step, in 2000 the restructured DDRFT appointed Kaposvár as the primary centre of the region and the headquarters of the Regional Development Agency. The regional centre of the SAPARD Paying Agency was also established in Kaposvár. The third and final step was to change the directorate of DDRFT. The former rule of the rotation of the presidency was set aside and a permanent president (the leader of county Tolna) was elected, preventing the future re-emergence of the previous status quo.

### **The PHARE 1996/1997 pilot programmes – constructing rural development**

The 1995-99 PHARE Multi-annual Indicative Programme (MIP) allocated € 35 *million* to support the creation of regional development structures and policies in Hungary. One of the main objectives was the realisation of two pilot development programmes, to test the institutional system in a ‘live experiment’. For this, the EU PHARE Regional Pilot

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<sup>4</sup> Pécs’s main traditional competitor is Kaposvár, the second largest city of the region. It has an agricultural university, processing and light industry and significant cultural and economic traditions. The mayor of the city was one of the main figures of the main conservative party, which gave him considerable political influence. He claimed that Pécs had an unfair weight in regional development and Kaposvár should become at least an ‘associated centre’, and have more significant share from central development resources.

Action Fund was set up and South-Transdanubia was chosen as one of the locations for the two subsequent pilot development programmes.

For the first phase, the PHARE 1996 budget offered € 4 million to South-Transdanubia with only a loose guideline for implementation<sup>5</sup>. It was the shared responsibility of the Ministry of Environment and Regional Development (MERD) and the Hungarian Regional Development Council to set the objectives and work out the detailed implementation of the subsequent programmes. Details had to be agreed by Brussels and, concerning this, operational contracts for both programmes had to be signed before allocating any EU resources<sup>6</sup>. The final details of implementation (setting particular objectives and preferences adapting the central guideline to the regional strategy) were given by the Regional Development Council, which was also responsible for implementation and financial management. The decision-making procedure evaluating applications, following the EU's advice, was meant to be an interactive process. During this, after choosing the potentially winning projects, Regional Development Councils were supposed to negotiate with the applicants, harmonise their plans and formulate some large, integrated project packages. These were thought to be more effective and easier to administer than many small projects. The DDRFT and launched the competition for applications in July 1998. In spite of the short deadline, the programme raised significant interest in the region. Altogether 72 applications arrived, almost five times over-subscribing the programme's budget. The DDRFT selected the 35 winning projects speedily, on 18 October, and the Agency started to negotiate with successful applicants. According to the guideline, four major project groups were identified to formulate the four large, complex, regional sub-programmes. During winter and spring 1999, the Agency made preliminary contracts with the applicants. Tender documentation, with the help of the Agency and PHARE experts, started to be prepared.

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<sup>5</sup> For example: pilot areas had to be appointed; money had to be channelled through the new regional development institutions, established by the 1996 Act; the programme had to apply the philosophy and the basic principles of the Structural Funds (partnership, participation, subsidiarity, additionality, etc.); and the administration of the funds had to comply with the rules of the general PHARE procedure.

<sup>6</sup> The procedure was the following. Brussels made an offer in the multi-annual indicative budget, concerning all PHARE resources to be allocated in Hungary. This was followed by National Framework Contracts, separately for every year, between Brussels and the Hungarian government, fixing the main rules and the directions of resource allocation. After this, sectoral ministries had to work out the different programme sections. All the details of implementation had to be agreed first by EU Delegation in Budapest, then by the relevant DG of the EU Commission. This was followed by a contract between the competent Hungarian ministry and the EU Delegation. Only this contract could open the way for the money transfer. In the case of the HU9606 programme, the National Framework Contract was made in spring 1998. This fixed the allocated amount for South-Transdanubia and the main directions of the programme. After this, the Regional Development PHARE Office worked out the details for implementation including the format of the contracts to be made with the beneficiaries. The launch of the programme was based on this document. However, the EU did not accept it until the following year. The procedure was repeated for HU9705 again, with considerable delay. This caused problems for the implementation of both programmes (see the analysis below).

However, by that time the operational contract between Budapest and Brussels had not been signed, meaning that implementation details were not accepted by the EU<sup>7</sup>. Consequently, there were no payments coming yet and it was uncertain if the preliminary contracts were going to be finalised and if the whole procedure would be accepted at all. Finally, the operational contract was signed only in July 1999 more than a year after the actual launch of the programme. Compared to the expectations on to which preliminary contracts had been made with the beneficiaries, two major changes concerning implementation occurred in the final version: the idea of combining small projects into big complex sub-programmes was dropped; and it was not possible to support profit oriented projects. As a result, much of the preparation of the previous year (contracts, tenders) was lost. The deadline to sign the modified contracts with the beneficiaries was very tight. However, with some extension from the EU, it was completed in September. This left less than a year for the realisation of the projects (to prepare the tenders, to agree with the contractors, to buy and build everything and to do the accounting and monitoring), which were due to finish in August 2000. Finally, PHARE gave extensions again. By the summer of 2001 all projects had started and by the following year much of the project money, some HUF 2 billion (EUR 8 million), was successfully spent.

The next round of the programme (HU9705) was somewhat different. The program money grew significantly with the domestic share South-Transdanubia received EUR 8 million (HUF 1.7 billion). Besides continuing the development of the general resource base of the region, the main objective this time was to test a spatially concentrated rural development programme, based on principles of the Structural Funds. To achieve this, using HUF 1.1 billion, a complex rural development programme was designed in a small peripheral rural area, running along the border area of the three counties. The rural development section had 'five windows', supporting the development and marketing of new rural products (HUF 175 million); rural tourism (HUF 250 million); new forms of co-operation (HUF 250 million); afforestation (HUF 125 million); and innovative community development (HUF 125 million).

The programme was launched on 4 March 1999, leaving five weeks to prepare the applications. It raised even greater interest in the region. Altogether 169 applications were handed in, 6.5 times oversubscribing the available resources. The DDRFT made its decision on the first of June and consultations with the beneficiaries and the preparation for contracting commenced. However, preliminary contracts or tender documents were not made this time. The reason for this was that neither the first phase nor the second phase operational contracts had yet been signed and the procedures and implementation details, which were going to be required by Brussels, were still not clear. The required operational contract for this year was not signed until spring 2000. Contracts with the beneficiaries were made in June and the preparation for tenders could only begin by then, leaving only a few months for the realisation of the projects until the scheduled end of the programme in December 2000. However, Brussels gave a further extension. In Summer 2001, the tendering was still proceeding and hardly any money had been spent under the programme. By the beginning of 2003 the programme was practically complete, except

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<sup>7</sup> There were several reasons for the delay including mistrust and repeated communication failures between officials in Budapest and Brussels; significant changes in the Hungarian administration; insufficient information flows; etc.

for the evaluation. Some HUF 2 billion (EUR 8 million) was successfully spent altogether.

### **The evolution of the Agency**

Setting up a regional development agency was one of the main prerequisites of the PHARE pilot action programmes. At the same time, a well working agency, serving as a solid institutional base for regional development, was also thought to be one of the main outcomes of the programme. In South-Transdanubia the Agency was established at the time of launching the first phase of the programme, and it grew together with the tasks required by the PHARE Regional Pilot Action Fund. For the establishment of the Agency, Baranya County offered premises, some financial resources and had its own candidate to become the director. Their candidate, a middle age lady (referred to below as the Director), had been working in different areas of rural regional development since 1983. Amongst others she was managing the late 1980s' rural regeneration programme for the county. Then, from 1990 she was responsible for helping the voluntary village associations within the county government office, then led the Baranya County Development Agency. She only had a few weeks to find colleagues and establish an office before the deadline of the first round of the PHARE programme. Although she obviously had many old contacts, she tried to find open minded, even if inexperienced, young people with language skills and the ability to learn. Therefore, besides a secretary, two young men, just graduated from the department of economics at the University of Pécs, were chosen as the first project managers. In November a young woman, one of the Director's former colleagues joined the Agency. This was the core team when I first met them in December 1998.

With the developing PHARE programmes, regional programming and the more frequent meetings of DDRFT, this team soon turned out to be insufficient to fulfil the growing tasks. Several extensions (project managers, an accountant and a secretary) were needed during the following year. The employment strategy of the director remained the same, she was looking for young professionals, just leaving university or doing postgraduate studies in regional development or related areas. Their background ranged from economics, law, art and languages, to sociology and engineering<sup>8</sup>. Thus, the Agency was rapidly expanding, the expansion was not without problems. In the early days, steering and control was solely in the hands of the Director. The staff was inexperienced, issues were relatively simple and not too numerous. The whole office was in a learning stage, everybody was dealing with all sorts of issues and there was no need for an institutionalised form of information exchange or supervision yet<sup>9</sup>. A year later, after

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<sup>8</sup> The average age of the employees of the Agency was well under 30 years, which is highly unusual for a public institution in Hungary. The working style was also very different from usual bureaucratic agencies. Most people had unbound working hours, which could mean free days or mornings when they were needed (going to university for example), but very long working days in peak times (before deadlines or Council meetings).

<sup>9</sup> My first task in November 1998 was to deputise for the secretary of the Agency for a couple of days. I was picking up the phone, sorting post and faxes and receiving and guiding visitors. I gathered two important impressions that time. One of them was the huge diversity of people who called and the variety of issues they made inquiries about. The other one was that almost every phone call and inquiry arrived for the director. Half a year later, when I was the secretary again for a few days, there was a striking difference



several expansions, the Agency reached a size, when it could no longer be operated in this way. Issues became complex, the Director had to spend a significant part of her time away and there were simply too many people in the office to be controlled in the old informal way. A reorganisation of tasks and information flows was needed and finally accomplished; however, it took time and caused some hitches in the work.

Besides organisational issues, another recurring problem was to obtain sufficient resources to finance the work of the Agency. The initial capital, provided by DDRFT, was HUF 4 million; however, this amount had to remain untouched. The yearly budget, provided by MERD for the expenses of the Agency was HUF 800,000. That was less than the salary of a single project manager. Some expenses were provided by DDRFT and the three participating counties. However, most of the facilities and the running costs had to be obtained by the Agency itself. One way of doing this was to charge the beneficiaries of the (EU and domestic) regional development programmes and this represented a significant part of the Agency's budget. They also received payments from DDRFT for different tasks, such as the co-ordination of regional programming. As the Agency was originally established as a public utility company<sup>10</sup>, it could also do consultancy work, giving professional advice for potential applicants, for example. Taking part in the co-ordination of internationally funded programmes, such as the PHARE Cross Border Co-operation Programme (CBC) or the EU INTERREG Programme, brought additional financial resources. Therefore, though the Agency was initially founded and funded by DDRFT, it could (and had to) rely upon a number of different sources of finance afterwards. This subsequently became very important for establishing and maintaining a relatively independent status within the uncertain environment of changing political and institutional circumstances.

The year 1999 brought external threats and uncertainty for the Agency. Both PHARE programmes were launched and preliminary contracts had been made with the beneficiaries of the first round. Some of them had already started to spend their own money on the projects and were originally promised to get the first payments from PHARE six months before. At the same time, none of the required operational contracts between MARD and the Brussels Delegation had been signed and a chance for agreement was not even in view yet. Without this, the programme could not start; however, a strict deadline for spending the money had previously been set by Brussels. Therefore, at this time the PHARE Regional Pilot Action Fund, which was the main source of legitimacy for the Agency's creation, was quite likely to become a failure. This could have meant disillusionment and a complete loss of public trust for the Agency and its employees. Year 2000 brought further challenges. As a result of previous changes to the regional development legislation, DDRFT was significantly amended, its leader was changed and the headquarters of the regional development agency was relocated from Pécs to Kaposvár. The latter decision, according to the opinion of many regional actors, could have threatened the very existence of the Agency and the accomplishment of a range of

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in the latter. Project leaders, beneficiaries, sometimes even calls from MARD or the central PHARE office were usually not asking for the Director, but for the relevant project manager.

<sup>10</sup> Its status was somewhat similar to quasi non-governmental organisations in Britain. It was organisationally independent from DDRFT, however, most of its premises, facilities, and commissions came from this organisation.

ongoing programmes. However, it was clear that realistically such a decision could not be practically accomplished. The two cities are some 70 km from each other, with poor road and train connections making commuting almost impossible. The Agency and its employees were deeply rooted in the area of Pécs and were relatively independent from the DDRFT. They could not be threatened with cutting off their resources or by being dismissed<sup>11</sup>. At the same time their accumulated experience, expertise, understanding and connections could not be replaced overnight. Nobody else could ensure the accomplishment of PHARE Regional Pilot Action Fund and the Regional Development Council could not afford to risk a failure. Therefore, since the Agency did not want to move and could not be replaced, the status quo remained in spite of DDRFT's political decision. Based on a verbal agreement, the headquarters of the Agency stayed in Pécs, and small branch-offices were opened in the two other county capitals, as described above.

As the above narrative shows, DDRFT and the Agency, at an early stage of their evolution became a battlefield for party politics and for development resources, between various geographic interests. This endangered not only the very existence of the Agency and the livelihood of its staff, but also the implementation of the two PHARE pilot programmes and the process of regionalisation altogether. Nevertheless, the Agency employing its social, political and professional capital and relying on its financial independence could successfully resist the attacks. As a result of a verbal agreement, the Regional Development Agency (having some 20 employees and running a number of programmes at the time of the institutional reorganisation in 1999) remained in Pécs with small branch offices established in Kaposvár and Szekszárd. Its role was renegotiated and its situation reinforced. The Agency remained a major actor and asset for regional development, and could continue working without a major interruption. Nevertheless, to guarantee the maintenance of the status quo and to secure the undisturbed work of the Agency became important additional aims in lobbying for better circumstances for regional development in general. Thus, only three years after its establishment, the Agency had more than thirty employees in three cities, became an important actor in regional development and was carrying out a range of different activities.

### **The regional development (political) arena – horizontal mediation**

The first area of mediation activities of the Agency was in the field of regional politics. The South-Transdanubian Regional Development Council (DDRFT) is the sole public body representing the regional level. Therefore, this establishment is the main arena for the harmonisation of conflicting political and economic interests within the region. The Agency as the bureaucratic background institution of the Development Council had a significant effect on its work and decisions. The Agency did all the preparation work for the council meetings and the decision making process. It prepared all the documentation and the proceedings, provided expertise and information and was responsible for the

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<sup>11</sup> When the future was uncertain for a while, the leaders of the Agency were considering becoming a fully independent foundation or commercial consultancy in the field of regional, rural development and spatial planning. They were in a very strong position, having special knowledge, expertise, connections and a booming market environment. Therefore they were quite confident in negotiating with regional political interests.

implementation of the Development Council's resolutions. As her general strategy, the Agency's director tried to avoid having arguments and disputes within the meetings of the Development Council. Under the fragile political balance of the region, this strategy usually proved to be fruitful. In practice, the process was very similar most of the time. The main stakeholders in DDRFT were the leaders of the three County Councils. They had great political influence and represented the different geographic interests of the region. Therefore, if they agreed on something, it usually went through the regional decision making process without major problems. On the other hand, if they did not agree about an initiative beforehand, then even simple practical questions could become politicised during the public discussion resulting in conflict and stalemate. The crucial requirement therefore was to iron out disagreements beforehand.

A good example of this sort of mediation between regional political interests through lobbying and the use of special expertise and bureaucratic machinery would be the decision making process in the second round of the PHARE Regional Pilot Action Fund (HU9705). After receiving the applications in April 1999, they had to be prepared for the selection process. Considering the short deadline (there was only six weeks until the decisive meeting of DDRFT) and the amount of the applications, this was a very difficult task<sup>12</sup>. In the previous round of the programme the Agency did not manage to achieve a smooth decision. Members of DDRFT questioned the preparation and the proposed final order of the projects. The politicised discussion became a battlefield for different regional interests. In the second round everything went more smoothly. The information was so vast and there was so much work involved in the preparation for the decision making that, with the words of the Director "nobody dared to question the final order of the projects". Besides this, the experts considered a somewhat more equal geographic distribution of the resources and the Director also did some investigation and lobbying amongst regional stakeholders before the decision-making meeting.

Nevertheless, even the most careful preparation could fail on the obstacles of regional politics and differing interests. An example for this could be the voting of the Regional Development Programme in June 1999. The preparation of the programme took one year and involved a wide variety of experts in addition to economic and political actors within the region and in the government. The harmonisation of the Programme went through a very wide social dialogue, organised by the Agency. First, topic-by-topic, every initiative was discussed with the relevant social and economic institutions - some 150 organisations altogether - throughout the region. Representatives of county councils and central government departments in DDRFT were also canvassed for their opinions. After

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<sup>12</sup> Eight copies of 169 applications (many of them several hundred pages) were received, which practically flooded the office with tonnes of paper. They were difficult to handle even physically. All of them had to be processed with the most important data entered into a database. Cross tables and other analysis had to be produced to facilitate decision-making. Besides, everything had to be filed and registered to make the process transparent and accountable. The experts had to be appointed and accepted by DDRFT (this was done through fax-voting) and the Agency had to inform them and send them all of the applications and other documentation. There were three different expert committees one for each sub-programme. They first sent their scores by fax, which were checked and compared by the Agency. In case of very marked differences the scores were sent back to the experts to double-check. Then they had several meetings to discuss the results and finally made an agreement ranking the applications. This was put forward to DDRFT for decision.

finishing the first draft territorial forums were held in every county and sectoral ones concerning every priority topic separately at the regional level. These latter ones were open to any interested parties and were well received by the public. On average, some 50 representatives from different sectoral and territorial interests attended these meetings and contributed to the debate. The Programme therefore represented a very wide consensus in the region. Nevertheless, as a result of changing political circumstances and the sharpening rivalry between Pécs and Kaposvár, the Regional Development Council only accepted the Programme on the second voting, with significant amendments (see above).

### **The local development arena – vertical mediation**

The second area of mediation activities of the Agency was in the local development arena, during the PHARE pilot programmes. The design of these programmes was exceptionally subsidiary, leaving space for domestic and regional initiatives; but their financial control remained strict. According to the detailed PHARE procedures and deadlines in contracting, tendering and the control of payments, there was no space for subsidiarity. Under PHARE all contracts, tenders and payments had to be agreed by Brussels or the EU Delegation. In the past, PHARE usually targeted a few large projects, therefore only a small number of contracts had to be supervised. However, under these pilot programmes there were a large number of small value projects, which were difficult to handle with the usual bureaucratic procedures. Similarly, the usual strict deadlines for contracts and payments should have been kept under the programme. However, as a result of the delays and the complicated tenders and other bureaucratic procedures built into the system, this proved to be almost impossible.

Consequently, mediation activities could be divided into two periods and two main areas. The first period, lasting until the contract was signed with the beneficiaries, could be called the preparation phase. It consisted of the subsidiary element of the programme design, help provided to potential beneficiaries in preparing their applications and contracts and high level lobbying, in order to create feasible circumstances to start the programmes. The ultimate aims were to have the best possible projects, complying with PHARE (EU) requirements but interpreting these requirements as much as possible to suit local circumstances. In other words, the Agency tried to accommodate local reality and opportunities to extra-local conditions. The second period started after signing the contracts. It could be called implementation phase and it was still proceeding at the time of writing this case study. This phase consists of preparing and doing the tenders and helping with different aspects of implementation and quality control of the projects. On this occasion an operational contract between MARD and the EU had already been signed fixing the implementation rules and there was not much space left for creative interpretation of extra-local conditions. Therefore, the main aim was to help localities to fulfil the often rather strict EU deadlines and requirements. The first phase of mediation was significantly different for the two subsequent pilot programmes. However, the second phase was fairly similar concerning the Agency's mediation activities.

#### ***The preparation phase***

In the first phase (PHARE 1996), the programme design was made by the central PHARE Regional Development Office and the DDRFT. The Agency was only

established at the launch of the application phase; therefore it could not influence it. Even so, in the second phase (PHARE 1997) the Agency made a significant contribution to the design of the application form and the procedures of the programme. The preparation started in November 1998 and concerned mainly the rural development section of the programme. Based on the previous experiences, a Hungarian PHARE expert, with the help of the Agency, prepared a preliminary design and application form for the programme. This was circulated amongst potential applicants (local authorities, development associations, businesses, NGOs, etc.). Then open workshops were organised in each of the rural development pilot areas to get feedback and estimate demands and possible innovations. These workshops raised substantial interest and made a significant contribution to the programme design: programme windows and eligible activities were modified and amounts moved between different programme areas.

Some elements of the bureaucratic procedures and the design of the application form were also changed based on the recommendations of the Agency. All this was intended to synchronise the PHARE Pilot Programme with the demands of local development. The Agency sought to build local needs into the programme design and to simplify and localise bureaucratic procedures. They were lobbying to be eligible to sign the contracts with beneficiaries getting less than € 50,000 without the counter-signature of the EU Delegation. This demand for subsidiarity matched the wishes of the EU and was fulfilled. The change benefited everybody. It saved a lot of work for the EU Delegation and saved time for the beneficiaries and the Agency. However, it also meant taking bigger risks for the Agency. For the second round of the programme two more changes were initiated: profit-oriented organisations became eligible for support and the procedures for projects with several beneficiaries were somewhat simplified.

Another area of mediation during this phase was the Agency's contribution to the preparation of the applications. During the five weeks period between the launch and the deadline for the applications, potential applicants inundate the Agency with all sorts of practical questions. The Agency was very supportive, in order to have as many good applications as possible. They gave advice on project design, how to form partnerships or to meet the required own share of the budget. They even suggested ways to overcome the strict financial rules of PHARE. Many examples could be highlighted including the following. An organisation that intended to develop human resources amongst frontier guards in South-Transdanubia planned a project to organise language courses for them. However, this would have involved paying wages to the teachers, costs of which were not eligible under the PHARE programme. The solution, suggested by the Agency, was to apply for funding the development of a curriculum specialised for border guards using new multi-media or distant education techniques. Then the trial of the educational material could be the course itself. This, as a contracted service, was eligible for PHARE support.

The great interest stimulated by the PHARE 1997 programme, the generally good quality of applications and the fact that the three sub-programmes were equally over-subscribed suggest that the first phase of the mediation work was successful. The preparation for the rural development sub-programme was especially effective. The wide social dialogue with potential beneficiaries had a range of positive results. One was a great publicity of the programme, ensuring that every interested party became informed in detail about the

possibility much before the official launch of the programme. Thus, they had sufficient time to find innovative ideas, develop them into well-defined projects, set up legal partnerships and prepare documentation and planning necessary for the application. On the other hand, potential beneficiaries could make an influence on the programme design. This, though desirable, is not typical in the policy practice. Usually policy-makers, bureaucrats and experts design the programme and eligibility criteria and applicants simply try to fulfil the requirements. Then, money is sometimes offered for ‘fashionable but less important’ objectives, while significant needs of local people may remain unfulfilled.

The PHARE programme well suited the demands of the targeted localities and the emerging system of voluntary development associations. It worked as a catalyst, raised a lot of enthusiasm and co-operation, and mobilised human and financial resources in the pilot areas. Resulting from the programme design, applications for the rural development measures typically arrived from partnerships of small and medium size enterprises, new-type co-operatives, schools, civil organisations and/or local authorities. In some cases the applying partnerships were longstanding co-operations – including local development organisations with their own professionals - using the PHARE resources only to support a part of their strategic development programme. Having previous experiences, such partnerships usually needed less assistance from the Agency to make and manage an application. However, other partnerships were set up for this particular programme, had no experience and needed enhanced assistance to develop a successful application. Later on, however, some of these stuck together, developed their own organisation and became important actors in the local system of rural development.

A good example of this is a partnership of a new agricultural co-operative, two local authorities and an agricultural college. The partnership and the co-operative were set-up for the PHARE programme. The main aim was to strengthen co-operation amongst local fruit producers, to reinforce human resources and to increase the locally added value of production. The project received EUR 274,693 support, but the total value of the investment was almost 100,000 more, covered from local financial resources. The results were: a cold store (290 square metre), fruit processing machinery, a course on fruit production for local producers, consumer research and a strategic marketing plan. The project was very successful. It managed to bring the production, processing and marketing of a high value local agricultural product into a common framework, raising the value of production by some 50% and providing livelihood for a number of local people. It also reinforced local networks and co-operation, showing the way of possible development for other groupings and innovations in the area. This development was built on local natural and human resources: advantageous natural circumstances for fruit production; the knowledge, financial resources, social networks and co-operation of local producers; administrative capacity and land area and some money, provided by the two local authorities; and the knowledge base of a local agricultural college. However, without the significant external aid of PHARE, they would have never been able to undertake the essential financial investments to build the cold storage. Similarly, without the practical help of the Agency in setting up the partnership, designing the application and the tender documentation and giving account about the investment, the partnership would not have had the chance to fulfil the EU requirements and undertake the project.

During the preparation phase serious difficulties occurred in connection with contracts, tenders and deadlines. Without the mediation efforts and the administrative capacity of the Agency these could even defeat the realisation of the programme and the expenditure of the PHARE money. As I stated above, in the spring of 1999, the Agency signed preliminary contracts with the proposed beneficiaries of the HU9606 programme. The reason for this was that, formally, all the resources offered under this programme had to be spent by September that year<sup>13</sup>. Given the complicated tendering procedure of PHARE, this left a very tight deadline for the realisation of the projects. Therefore, they wanted to have everything ready by the time the operational contract between MARD and the EU Delegation was signed, which gave the programme the official green light. At that time, the implementation and eligibility rules and the final form of the contracts were not certain yet. The Agency applied those interim rules and used that contract form, which was suggested by MARD and the Central PHARE Regional Development Office and informally agreed by the EU Delegation. According to these and the original programme design they grouped similar applications creating large complex projects, many of which contained profit-oriented participants.

However, when the operational contract was finally signed in July 1999, supporting profit-oriented participants was not eligible and supporting large projects with several beneficiaries turned out to be impossible. Besides this, the proposed contract form was completely changed and because of shifting exchange rates the amounts were not right any more. All this emerged only a couple of weeks before the deadline, which was set for the spending of the programme's budget. Although there seemed to be hardly any chance to save the situation, the Agency tried everything to make it happen. They reconstructed all the contracts taking the large projects apart, back to their original separate stage. Where the project partnership was led by a profit oriented organisation (a business), but there were other, non-profit participants, they persuaded the beneficiaries to change the leadership, so the project could be eligible for support<sup>14</sup>. All this was completed before the deadline and handed in to the Central PHARE Regional Development Office. Then, as a result of some lobbying, the EU gave two alleviations, which made the start of the programme possible. The deadline for spending the money was extended until the end of September and signing the contracts with the beneficiaries was accepted as the spending

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<sup>13</sup> According to the standard PHARE procedure, signing the contract with the beneficiaries did not actually mean that the money was spent. For this, the beneficiaries had to complete the tendering procedure, to choose the builders and other sub-contractors and to sign the contracts with them.

<sup>14</sup> Another way was to establish joint Public Utility Companies. Even if the participants were profit-oriented, the joint company, at least de jure, was non-profit, therefore eligible for support. In the case of MÁV (Hungarian Railway Company) none of the solutions worked, however, they requested (and were given) a special exception from the EU Delegation. In two other cases none of these solutions could have worked (in these there were many small profit oriented beneficiaries). With the agreement of the EU Delegations these projects were transposed to the second round of the programme (HU9705), and instead three projects (with single, non-profit beneficiaries) were brought into the first round.

of the money<sup>15</sup>. In this way, the requirements could be fulfilled and by the deadline the whole amount of the EU support was contracted and saved for development<sup>16</sup>.

### ***The implementation phase***

The main mediation activity of this phase was helping beneficiaries to carry out the tendering for the projects, complying with the standard PHARE tender procedure. This was a highly complicated system, which contained more than 40 different thresholds. In general, first the tender documentations had to be prepared, specifying the needed products, buildings, services or other activities. Then the tender had to be advertised, offers evaluated and a shortlist drawn up. Thirdly tender negotiations had to be organised with the participation of the beneficiaries, a PHARE expert and the representatives of the Agency, the Central PHARE Office and the EU Delegation. However, exact procedures differed depending on the value and the type of the individual spending. Plans and technical details had to comply both with Hungarian and EU standards. Under € 50,000 it was enough to advertise the tender locally. In fact, beneficiaries could create a shortlist themselves, choosing the invited businesses for the tender negotiations. This often meant having hardly any competition on the negotiations, which strictly speaking was against the PHARE objectives. Nevertheless, it helped local businesses to get commissions serving synergic effects, which was an ambition of the programme. Above € 300,000 tenders had to be advertised internationally, on the Internet, and only a few companies, short-listed by the EU, were eligible to give offers.

At the beginning, the Agency had no experience with the tendering and even the small (under € 50,000) tenders had to be prepared by the central PHARE experts and confirmed at least by the Central PHARE Office. This made everything extremely complicated. Beneficiaries knew their case (what they wanted to buy) but did not know the PHARE tender rules. They had to negotiate with a PHARE expert in Budapest, who was responsible for the preparation but who had no knowledge of local issues. The third party of the triangle was the Agency, trying to connect the two others and clearing up the misunderstandings. Finally, it proved to be less time-consuming and more effective for the Agency to prepare tender documentation on behalf of the beneficiaries. In the case of service contracts the tender documentation had to be written in English. The translation work was also done by the Agency though financed by the Central PHARE Office. Later, especially for the second round of the programme, the procedure became somewhat simpler. The Agency, beneficiaries and experts were all more experienced. This allied to a good lobbying strategy, encouraged a greater atmosphere of trust, resulting in the EU slackening the rules. From then, only the high value tenders (above € 100,000) had to be counter-signed by the EU Delegation, the smaller ones could be approved by the Central PHARE Office or the Agency (under € 50,000). This made everything much easier and quicker for the smaller projects. Large tenders that had to be approved by the EU

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<sup>15</sup> In fact, to go through the tendering procedure, which was the original requirement, required more than another year.

<sup>16</sup> However, all this did not go so smooth, there were mistakes and failures. One example follows as: In the EU Delegation, because of the shift of the exchange rates the financial tables did not sum up, some money was missing. The last minute solution was that they randomly choose a project and reduced its budget with HUF 7.5 million.



Delegation were subject to many months delay because of the long and complicated procedure. Though, some 25-30 small tenders were also rejected for the first time, mainly because there were not enough quality offers or they did not fulfil the formal requirements of PHARE. Reasons for this were manifold: because of the delay, inflation and price changes the available money was no longer sufficient, or the technical specification was not up to date enough; local businesses were inexperienced in the PHARE procedure and they could not fulfil the requirements or were simply frightened (or did not bother) to apply for the tenders. Nevertheless, with some help even these tenders went through at the second attempt.

After completing the tender procedure, beneficiaries could start to purchase goods and services or construct buildings. Then they could bring their receipts in to the Agency every three months for reimbursement. This was not a simple administrative task to fulfil. There were a number of problems with the receipts, partly because of the inexperience of the beneficiaries, partly because they did not spend the resources in the 'exact official way'. This does not mean that they stole anything or did not spend the money on the project, but sometimes they just could not adhere to all the rules. On several occasions, for example, the beneficiaries did not have the required own share of the programme's budget to start with. The reason for this could be either that they did not have the resources themselves, or that it was often impossible to harmonise the expected domestic support with the PHARE funding because of the delay of the latter. They could get away with this during the preparation<sup>17</sup>; however, it was to become a problem when completing the project, since that money was missing from the budget. Hypothetically, a possible way out of the situation could have been to make a deal with the sub-contractors. They could have asked for receipts with slightly larger amounts than the true value of the purchased goods or services. Then sharing the margin with the sub-contractors provided a profit, which could have stood for the missing amount. Otherwise, applying with the same project to several sources and reimbursing the same costs more than once would have been another possibility, giving potential scope for filling the gaps in the budget. These techniques were risky business and they required forward planning and had a chance for failure.

Besides the implementation of the PHARE pilot programmes, the Agency had a range of other activities to help local development in the region. They gave advice and provided consultancy services for SMEs and local development associations. For example, they helped to set up legal partnerships, making contracts and other types of documentation, such as business plans. They organised various workshops and conferences helping regional and local actors with up to date information<sup>18</sup>. They also organised regional

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<sup>17</sup> There were several techniques to disguise this deficiency. At the beginning of the programme only a bank certificate was needed to prove the existence of the money. This could be acquired through borrowing some money and putting it in an account for just a couple of days. In a particular micro-region, for example, the same few hundred thousand Forints went around the local bank branches to serve as the own share for several applications being prepared in that area.

<sup>18</sup> I participated in two of these. The first was a one-day international conference on regionalisation and regional development. Amongst the speakers there were representatives of EU regions and the European Commission and domestic and international experts of the topic. The conference raised considerable interest. Consultant companies came from all over the country and local authorities, businesses, representatives of micro-regions and development associations and other stakeholders from the region were

forums every three months to follow up the latest developments in the preparation for the SAPARD Programme. This information was also published and circulated amongst regional actors. They provided information and advice to SAPARD micro-regions for writing their strategic and operational programmes, attempting the harmonisation of these with each other and with the regional development programme of South-Transdanubia. With the support of the PHARE Regional Pilot Fund, they organised a free educational programme for local development actors called “Supporting local community initiatives”. Through all of these activities the Agency became a significant actor, the ‘mover and shaker’ of development activities, throughout the region. It extended well beyond its original field of action and in spite of the often quite difficult circumstances; it became a thriving institution of the South-Transdanubian development arena.

### **Some conclusions – mediation and reflexivity**

We argue that the PHARE pilot programmes were successful; however, they could not have succeeded without the effective contribution of the Agency. At the same time, the establishment of the Agency was exactly due to, and a prerequisite of, the programmes. However, the importance of the Agency went far beyond the implementation of the PHARE programmes and in this way, fulfilled the original intention of the designers of the PHARE programme to contribute to the development of an effective regional institutional system in Hungary. This section tries to analyse what conditions enabled the Agency to carry out its tasks successfully. Three rationales will be used to support the argument, concerning: the design of the PHARE Pilot Programme; the philosophy and working style of the Agency; and its special situation within the regional development structure of South-Transdanubia.

Within the given circumstances of an EU funded aid scheme, the policy transfer in the case of PHARE Pilot Programme can be characterised by an exceptionally soft, experimental nature. It was offered by the EU to establish and reinforce institutions and procedures in domestic legislation, and the money came with only very loose guidelines on how it should be spent. The main aim – and the main action – therefore, was to transfer the development philosophy; the resulting institutions and procedures were subsequently allowed to be built organically, giving sufficient room for local adaptations. The whole programme had a certain quality of a pilot policy, somewhat similar to the LEADER I. The EU – opposed to later pre-accession policies, like SAPARD – did not intend to change existing outdated domestic institutions trying to make them comply with EU rules. Instead, they supported the establishment of a brand new regional development institutional system complying with EU requirements. Some of the resulting institutions, the Central PHARE Office, for example, were the most advanced sections of the Hungarian state bureaucracy in the mid to late 1990s, surpassing any ministries or domestic policies. PHARE did not intend to decentralise the administration and monitoring from the EU; therefore official control of finances and implementation remained in Brussels. On the other hand, they did not try to implement the policy through

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also present. The other one was a two days workshop, given by Irish experts from the Shannon Regional Development Agency. They came in the framework of a twinning project, subsidised by the EU, and talked about their long experience in rural, regional development and in dealing with EU development funds and legislation. The workshop was free and it was attended by many rural development actors.

a single, centralised domestic level bureaucracy, but supported the institutionalisation of rural, regional development at the lower levels too.

The Agency was significantly different from the ordinary public bureaucratic institutions of the Hungarian system. Although most of its work was connected to state and EU policies, the Agency was not part of the standard bureaucratic hierarchy, but rather part of a developing parallel institutional system, based on EU rhetoric and the values of territorially integrated development. It was a quasi-autonomous non-governmental organisation (QUANGO) enjoying reasonable financial independence, and therefore, it could not be simply 'ordered' to follow a certain direction by political forces. This became particularly important when political changes could have jeopardised the work of the Agency and the success of the PHARE Pilot Programme at the same time. The Agency, leaning on its financial and organisational independence could successfully resist political attacks and ensured the continuation of the development process.

The philosophy of its work had three sources. It reflected the EU rhetoric on endogenous rural development, on which the PHARE Regional Pilot Fund was based. Another important source was the 1996 Act on Regional Development, which deliberately was harmonised with the rhetoric of the EU Structural Funds. The third source was a more personal one, coming from the professional background and the personality of the leader of the Agency. The Director used to be a 'reflexive practitioner' herself committed to help rural localities and having a great influence on the work of the Agency and the implementation of the PHARE programmes. Improvements in the field of programming, partnerships, and co-operation; and a significant change in thinking about development in general were considered to be the main achievements. Its Director and staff were committed to the idea of integrated rural development and to the people they served. Without their work the rural development part of the PHARE Pilot Programme could hardly have been a success. The Agency created significant added value to the development process. To achieve this it needed a high level of freedom, and it also needed to take risk and responsibility.

The Agency's relationship to 'risk', in general, was probably a main factor that distinguished the Agency from 'more official' development institutions (the SAPARD Agency, for example). One of the main characteristics of the presently formulated EU assisted development institutions is risk evasion. However, they often have significant influence on the make up and the implementation of political decisions, they hardly take the responsibility for policy failures. Bureaucracies, using their expertise and positional power, usually try to avoid taking risks. They pass it on to elected bodies, to beneficiaries or to lower level bureaucratic institutions. According to my exploration, the Agency followed a different strategy behaving roughly in the opposite way. It took part in the design of the PHARE pilot programme and advocated it to all regional actors. It had to face many conflicts and take many risks during preparation and implementation. Furthermore, there was a chance that the Agency itself might break down, if the policy failed for some reason. Even so, the Agency did not try to avoid taking responsibility. Lobbying for more freedom to sign contracts and tenders without involving the EU delegation, or treating regulations in a flexible way meant taking more risks and responsibility. However, these were essential for the successful implementation of the programmes and also were key characteristics of the working strategy of the Agency.

The implementation of the PHARE Pilot Programme required professional skills and expertise, complying with EU standards, which the targeted localities usually did not have. The Agency acted as an intermediary in this, not simply implementing the programme, but behaving as an active agent and effectively filling the gap between the central and the local development system. They managed to translate EU requirements making them realisable for the beneficiaries, and vice versa, needs and interests of the localities explaining them to *the centre* in an acceptable manner. To achieve all this, the Agency not only applied unique bureaucratic skills and procedural expertise, but constantly reflected on constraints and possibilities, and behaved as – what could be called – a *'reflexive agency'*. There were several reasons why the Agency could manage this. First, this institution was on the right level of the development structure. It had enough power and influence to lobby on a political level and to achieve somewhat better or more feasible conditions for the programme on the local level. It also had enough financial and human resources to keep up to date, getting information and understanding central trends and political issues. At the same time, the Agency was close enough to the local level to have a knowledge and understanding of local matters and development networks. They knew what requirements the applicants were likely to be able to fulfil (even if with their sufficient help) and what would be an impossible burden for them. Through the programme design and the preparation of the applications, the Director and her staff had personal contacts with the local actors involved in the proposed projects. Secondly, the staff of the Agency was very committed to the success. It was a new developing institution, with young enthusiastic personnel. The failure of the PHARE Pilot Programmes could have meant the loss of their jobs and the defeat of the cause they had been working for far more than a year by then. They had to prove that their work was indispensable for the region; therefore they did everything they could to achieve success and to reinforce their position.

The PHARE pilot programme, concerning its design and implementation, approximates to the integrated system. Central resources, arriving from the EU budget, supported institutional development (DDRFT and the Agency) at a reasonably local level. Also, flexible rules ensured a high level of subsidiarity for the exact design and implementation of the programme. Resources were then distributed and channelled from the regional level to some pilot areas ensuring a high geographic concentration of development aid. The Agency was standing between the central system (EU and domestic bureaucracy) and the local system (village associations, partnerships, co-operatives, etc.), mediating and harmonising interests and conditions. Through this vertical mediation the local system influenced the design of the programme and could retain some of its influence throughout the programme. As a result, information, tacit knowledge, social networks and innovative ideas could be utilised in the development process and local development resources could be unlocked. As a result, not only the programme money was successfully spent but similarly to the LEADER Programme considerable local financial resources also became involved and a significant added value was generated for the development process.

Nevertheless, the programme did not fulfil some of the other 'requirements' of integrated rural development. Firstly, it did not support coherent integrated local development programmes, but 'only' complex projects. Applications had to demonstrate their link with regional and local development strategies; however, they were still separate projects.

Consequently, the programme might have missed possibilities for promoting synergic effects. On the other hand, instead of a properly working and institutionalised local development system, many tasks were fulfilled by the Agency. This could work in a pilot scheme with limited resources and duration; however, it is difficult to imagine this model succeeding in the long run. The working style of the Agency was extremely dependent on the circumstances and especially on the approach of its Director. These conditions can change with time. Additionally, such a rapidly growing organisation is likely to lose its initial flexibility and be subject to increasing bureaucratisation, which can undermine its role as an effective mediator in rural development matters. One could say that, the Agency was a transitional institution, initiating the development process and greatly helping the institutionalisation of the local heuristic system of rural development in the region. However, in the long run it had a different role, converted itself into a more bureaucratic institution, sticking to the regional level, and its initial role was taken up by the reinforced local heuristic system of rural development.

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