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Canada and Hungary Partners in Transition

Canada 

CANADA and HUNGARY

Partners in Transition

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The Nagykata Story

When Communism collapsed and the Russians pulled out of Hungary, the 13,000 residents of Nagykata did not know whether to celebrate or cry. Although elated to be free of a foreign yoke, they quickly learned that freedom carried a heavy price: when the main employer in town, a telephone factory, closed down, unemployment soared to 25 percent. The local authorities, accustomed to merely executing the orders of the central government, had no experience in dealing with such a massive economic crisis.



Enter Tibor Frank and the Canadian Urban Institute (CUI), a Toronto-based group that shares expertise in municipal government with partners around the world. Mr. Frank, who immigrated from Hungary in the 1980s, worked on land-development issues for an economic research group in Toronto. “I saw those guys in Eastern Europe would need our help,” he said. “Local government just did not exist in the Communist era.”

It took time and a great deal of perseverance on his part, but he eventually succeeded in attracting funding from the Government of Canada and the support of CUI to train local authorities in Eastern Europe to operate in a democratic country with a market-based economy.

Volunteers from Canadian municipalities worked with Mayor Katalin Bodrogi, a former schoolteacher, to help the town develop a strategic plan that would attract both public support and foreign investment.

“We trained the mayor on how to negotiate with foreign investors,” said Mr. Frank. When Japanese electronics manufacturer Clarion came looking for a base in Hungary, the mayor offered the old telephone factory for free and made classroom space available in the afternoon to train Clarion workers. It was a winning strategy. The Japanese firm invested US\$20 million, creating Clarion Hungary Electronics Ltd., which builds audio systems for cars and employs about 900 people. Nagykata is now developing thermal baths and a tourism program based on a nearby wildlife reserve. In 2002 it won a best practices award from the United Nations for urban planning, job creation, and investment development.

The Canadian Program

The CUI program was one of 238 projects worth C\$30 million funded by the Government of Canada between 1989 and 2002. The projects touched virtually every aspect of Hungarian society, from pension reform for the elderly to business opportunities for youth. Education and institution building emerged as two central themes. But Canadian funds also supported such diverse ventures as a radio station for Roma people, management training for small businesses, and advice on nuclear waste disposal.

With Hungary poised to join the European Union in 2004, the Canadian program is being wound down and officials at the Canadian International Development Agency (CIDA) are taking stock. Did they do the right things in Hungary? Which projects were hits? Which ones were misses? And can the lessons learned help Canada and Hungary as they forge new partnerships in the future? For Ingrid Knutson, director of the Graduating Countries Program in CIDA’s Central and Eastern Europe (CEE) Branch, one question is paramount: “Did we make a difference?”

Hungary’s Recent Past

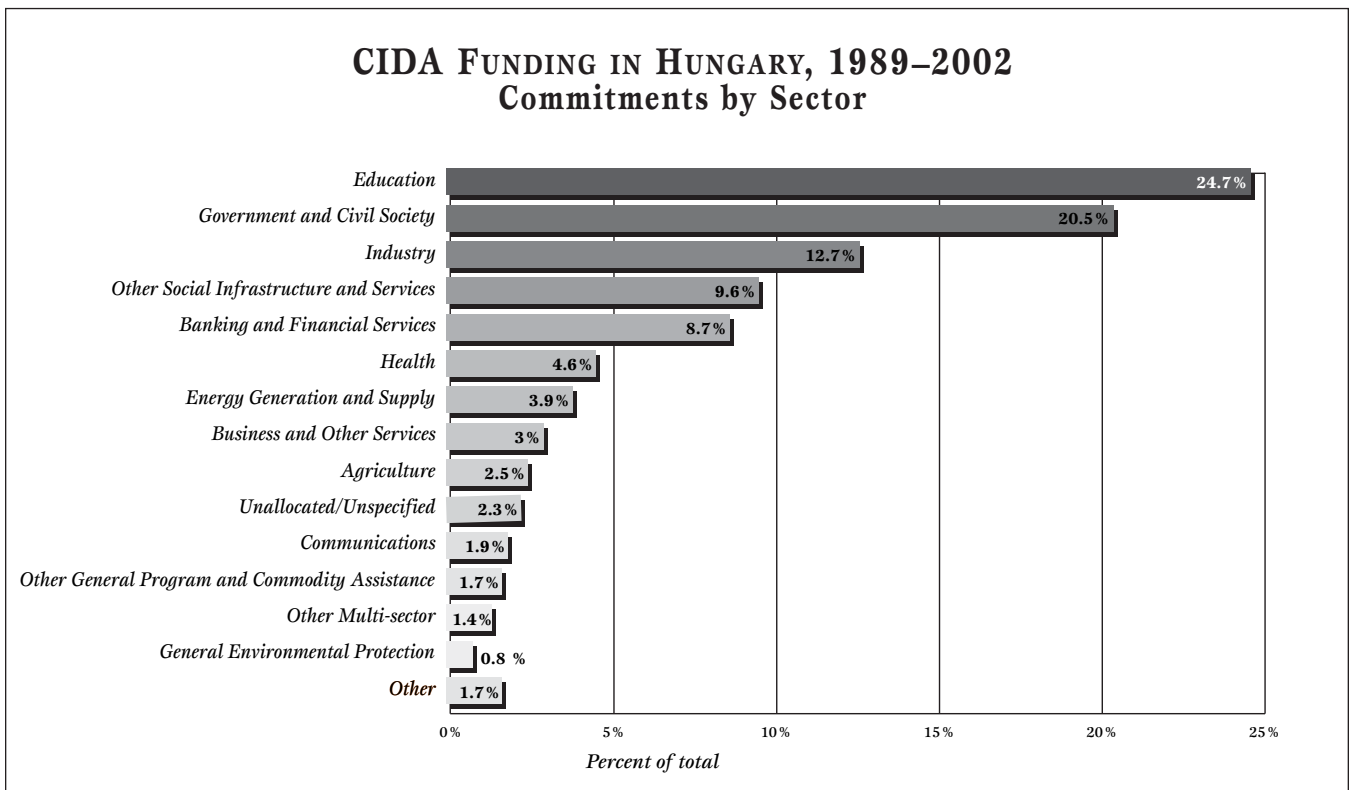
In order to answer that question, it is necessary to understand the situation in Hungary in 1989, the year the Canadian government started its bilateral

assistance program. The fall of the Berlin Wall that year made it appear as if Communism imploded overnight. In fact, it had been eroding steadily in Hungary for several decades as authorities tried to wrest their country free of Soviet control. In 1956, Hungarians revolted against Moscow and announced they were leaving the Warsaw Pact, the military alliance as a Soviet countermeasure to NATO. That revolution was crushed by the Soviets; but in 1968, Hungary began liberalizing its economy, bringing in what was then dubbed “goulash Communism.” In the early 1980s, Karl Marx University in Budapest decided to teach modern economics and political science, introducing a new generation of scholars to the free-market ideology of Western politicians such as Margaret Thatcher. In 1982, the Hungarian government announced Hungarians would be free to travel to the West. To earn the hard currency they needed, they developed a domestic tourism industry. This East-West interchange opened Hungary further to the wider world. Later in the decade, the Hungarian

government began negotiations with the Soviets to exit the Warsaw Pact and Comecom, the common market of communist countries. Internally, the government was encouraging the privatization of small businesses by introducing the necessary legislation. “They were rushing to liberalize when I went there in 1988,” recalled Derek Fraser, Canadian ambassador to Hungary from 1988 to 1993. This was not without its problems. “The Russians weren’t entirely happy,” he said. “I remember one KGB agent warning me that the Russians wouldn’t allow them to go too far.” But in the end, the Soviet Union disintegrated, leaving the Hungarians free to choose their own path.

Canada Wanted to Help

Canada decided immediately that it wanted to help, not just through international institutions it supported such as the World Bank and the International Monetary Fund, but also through direct bilateral funding. “Virtually no nation possesses the web of



intense personal connections to Eastern and Central Europe which we have in Canada,” declared Joe Clark, then Canadian Secretary of State for External Affairs. “That gives us a special interest and a special capacity in helping those societies become prosperous and free.” With the pace of change moving faster than anyone had anticipated, officials in Mr. Clark’s department scrambled to find ways Canada could offer assistance. A task force was set up within the department with a twofold mandate: help Hungary rebuild its social and economic institutions to function in a market economy, and increase trade and investment links between Hungary and Canada. The decision was made not to provide social assistance, as this was thought to be within the capability and purview of the Hungarians themselves. The task force sent a mission to Hungary made up of Canadians with expertise in government and business. The group arrived in the spring of 1990, hard on the heels of the country’s first democratic election.

Zoltan Lehel, who was working as a part-time translator in the Canadian embassy in Budapest at the time, in addition to his full-time job as head of the Canada desk at the Hungarian Ministry of Industry and Trade, smoothed the way. “I was given a small office at the embassy, with a secretary, computer, and telephone line,” he said. “I set up meetings with people in the new Hungarian government, asking them how Canada could help them change to a market economy.” Mr. Lehel said the meetings were slightly schizophrenic. He remembered one Hungarian bureaucrat, who only months before had boasted of the merits of the planned economy, now talking enthusiastically about the market economy. “It was a dramatic and traumatic experience. All the institutions and systems were changing overnight. We were making history.”

The Role of Hungarian Canadians

Some of the most ardent supporters of bilateral assistance were among the 38,000 Hungarians who came to Canada the year following the 1956 revolution. Predominantly young and well-educated, they made

an enormous contribution to their new country. One celebrated story from that time involved the 200 students and 20 faculty members from the forestry school in Sopron, Hungary, who came en masse in 1957. They travelled across the country to a rapturous welcome, and formed the Sopron division of the Faculty of Forestry at the University of British Columbia. Other refugees and their offspring rose to senior positions in business and government. The late financier Andrew Sarlos used his financial success to support the reform movement in Hungary throughout the 1980s. He would play a key role in attracting foreign investment to the new, democratic Hungary. Ivan Fellegi, head of Statistics Canada, would work with his Hungarian counterpart to strengthen the Central Statistics Office in his homeland. Arpad Abonyi, who was born in Hungary but grew up in Canada, would lend his investment expertise to the Blue Ribbon Commission, which in 1990 laid out an agenda for the new government’s first 100 days. He would later help rewrite Hungary’s investment laws and advise the government on how to attract major foreign investors. Antal Deutsch, a professor at Montréal’s McGill University, would help revamp the Soviet-era pension system. There were countless others, both old and new immigrants to Canada, such as Mr. Frank of the CUI, who seized the chance to go back and help. Their facility with the language and culture were definite advantages, as was their personal connection to the country. “They brought profound dedication to their work,” recalled Mr. Fraser.

However, it was not necessary to be of Hungarian descent to make a difference. Diane Martel of Développement international Desjardins Inc. won plaudits for learning to speak Hungarian, considered a difficult language to master, in order to do a better job of strengthening the Hungarian Savings Cooperative Network. This project, among the first to get up and running, was designed to give farmers access to cheap credit. In the Communist era, farmers could deposit, but not borrow, from their savings banks. This had the effect of draining money from the countryside. But in order to reform agriculture, farmers needed to invest in new machinery and equipment. And for that, they needed to borrow.

With her Hungarian partners, Ms. Martel helped set up farm savings cooperatives, similar to credit unions in Canada. As with many other projects, addressing one need—reforming the financial system—also helped with another: agricultural reform. The same could be said of the CUI projects, which were designed to strengthen local government but also helped attract foreign investment, and the work done by Statistics Canada with its Hungarian partner, which helped make statistics more reliable, thereby helping the government and investors make more informed decisions.

Hectic Early Days

Canadian assistance to Hungary in those early years grew rapidly in terms of the number of projects approved. Starting with one large project worth \$5.3 million in 1989,¹ the program grew to 29 projects worth \$5.7 million in 1993, and then to 24 projects worth \$6.2 million in 1995. This was the peak year of the program, and it was already clear there had been some problems in its design. An evaluation of the Canadian effort made in 2003 by Duska-Anema Development Associates of Vancouver noted that the rapid launch of the program left little time for reflection on the Canadian side. Unlike other countries that deliver assistance, such as the United States and Switzerland, Canada did not develop a strategy for Hungary that exploited Canada's comparative advantage. The Auditor General of Canada, whose office reviewed parts of the program in 1994, said much the same thing in his report: the program lacked focus. This did not mean that the projects were not worthwhile, merely that they did not fit into an overall framework designed to address the strategic interests of both Canada and Hungary. When CIDA took over the program from the then Department of External Affairs in 1995, it attempted to be more strategic in the remaining years of the program.

Europe: The Ultimate Objective

Hungary had one guiding principle in mind almost from the start: membership in the European Community (since renamed the European Union (EU)). Whatever assistance was offered had to help Hungary achieve this ultimate objective. Peter Szegvari, an advisor to Hungary's prime minister, was a member of the steering committee that helped set Hungarian priorities from the beginning. His job was to coordinate the bilateral assistance programs of various countries and make sure they all contributed to Hungary's eligibility for EU membership. Canada was not the only country offering assistance at the time: the United States had a bilateral program, as did Italy, Switzerland, and the United Kingdom. The European Community was offering help separate from its member countries, and so were multilateral institutions such as the World Bank, the International Monetary Fund, and, after it was created in 1991, the European Bank for Reconstruction and Development.

"The first need that was emphasized by the government was that projects had to help us in the accession to the European Union," said Mr. Szegvari. While governments have changed several times since those first elections in 1990, Hungary has remained steadfast in its European ambitions. It signed an association agreement with the European Community in 1991,

Hungary's Road to Europe

- | | |
|-------------|-------------------------------------|
| 1991 | Association agreement signed |
| 1992 | Government announces membership bid |
| 1994 | Formal application made |
| 1999 | Hungary joins NATO |
| 2004 | Hungary becomes a member of the EU |

¹ Note: While a financial commitment of \$5.3 million was made for agricultural credits, this project never materialized.

applied for membership in 1994, and is set to become a member in 2004 along with nine other countries. Achieving this goal was no easy feat.

Aspiring members have to assure the 15-member EU that they have stable political institutions that guarantee democracy, human rights, and the rule of law. They have to have functioning market economies. And they must have the capacity to implement the common law of the EU, known as the *acquis communautaire*. Through its assistance program, Canada tried to help Hungary address these priorities.

Education – A Key Focus

About 20 percent of Canadian funding went into education, with most of the projects focused on developing a free-market economy. While Hungary

was renowned for the quality of its education—at one time it had more Nobel Prize winners per capita than any other nation—the system had gaps. Through its many projects that spanned much of the program period, the Association of Canadian Community Colleges addressed many of these gaps.

DID YOU KNOW?

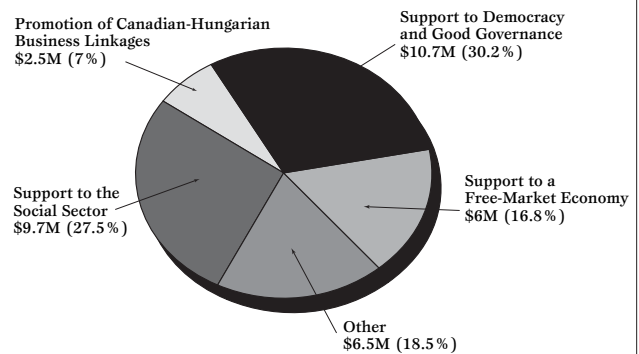
Approximately \$7 million was committed to the education sector since 1990, representing about 20 percent of total program commitments.

The International Management Centre in Budapest, founded by York University in Toronto with the financial support of financiers Andrew Sarlos and George Soros, focused on training students for careers in a market economy. More than 700 students have since graduated from the school, which is now part of the Central European University. Less of a success was a project backed by St. Lawrence College in southern Ontario to establish paralegal training at colleges in Eger and Gyor. While well attended by enthusiastic students, the course did not fit well with the reality of the Hungarian legal system and the interests of the colleges involved. The organizers were unable to attain accreditation from the Hungarian ministry of education, a necessary step to ensuring the program would continue after the Canadian supporters left.

Teacher's College In Eger

With the fall of Communism, the requirement to learn Russian in Hungary was no longer paramount, leaving many Russian-language teachers without jobs. As part of a long series of education-related projects in Hungary, CIDA funded an initiative, in cooperation with the Association of Canadian Community Colleges and the Teacher's College in Eger, Hungary, to retrain some of these teachers to teach English as a foreign language. This tailor-made program gave the teachers an opportunity to further develop and practice their English-language skills, enlarge their understanding of various teaching methodologies, and participate in a summer immersion program at Sheridan College in the Toronto region. A number of the teachers have done extremely well in their new careers as English-language instructors. In fact, some of them now hold key positions in the language departments of schools and universities.

SECTORAL COMMITMENTS TO HUNGARY* 1990–2001



* Excludes CIDA commitments to the World Bank (\$12.2M) and European Bank for Reconstruction and Development (\$26.7M).

Helping the Private Sector

Canadian contributions were also devoted to helping businesses get established, expand, or just manage themselves better. Hungarian entrepreneurs had

responded with great gusto to the new opportunities available to them. By 1995, the country of 10 million had 1 million registered organizations. Many were sole proprietorships that needed advice on how to survive in their new, market-oriented world. One

B-Kert: Growing Plants, Growing Businesses



Private sector development is essential for sustainable economic growth: it is the engine of national development. Starting up new domestic businesses or improving existing ones leads to income generation, employment creation, tax revenues, technology transfer, access to international markets, competitiveness for improved productivity, and an ability to attract foreign investment. Designed by CIDA in collaboration with Canadian Executive Service Organization (CESO), the Business Bridges project sought to expand private sector development in Hungary. Links between Canadian and Hungarian businessmen and businesswomen were set up to

facilitate knowledge exchange that was hoped to eventually lead to joint ventures, import/export arrangements, licensing agreements, and distribution deals.

When CESO's resident representative first met Bela Kazsuk, he was a dynamic entrepreneur employing 42 people, and his three garden centres in Budapest were brisk with business. But success did not come without a price, as Bela regularly worked 18-hour days, seven days a week. "I have three kids, and was starting my days at 5:30 already thinking about work, and going to bed between midnight and 2 a.m. still thinking about work. And 99 percent of the time, I dreamt about work as well," said Bela.

Today, Bela's operations have shrunk to just one single garden centre with only eight employees. And Bela is still smiling. With the help of a CESO advisor nicknamed "Uncle Marci" by the Kazsuk family, Bela received constructive business and management advice to streamline his business and improve productivity. Bela made the decision to focus on the least labour intensive, and potentially most productive, operations while redefining the roles and responsibilities of his employees. It was not long before there was a tenfold increase in sales and a 10–20 percent growth in net profit. The garden centre now has an international trade section that imports and exports on both retail and wholesale levels. The centre exploits a competitive advantage by growing seedlings in Hungary and exporting them for accelerated growth to Holland and Italy, where climate, soil conditions, and technology favour growth. Once they are grown to size, the plants are imported back to Hungary to be sold. Bela is now dreaming of a bigger import-export firm to work on a more global scale. As for the CESO advisor, he remains "Uncle Marci" to the Kazsuk family and keeps in regular contact.

source of this advice was a Canadian Executive Service Organization (CESO) program that sent retired executives from Canada to Hungary and placed them with individual organizations.

Mr. Lehel, the former embassy translator, moved to this program, matching advisors with Hungarian enterprises. Over a 10-year period, he brought 250 Canadians to Hungary. Because these efforts were made one on one, it is difficult to measure the impact of the program. But former Canadian ambassador Derek Fraser has no doubt that the impact was immense. "CESO is not always given the credit it deserves," he said.

Another form of private sector support was direct funding to companies. One of the success stories in this area was Zenon Environmental Inc., which makes water filtration equipment. The company was started in Canada by Dr. Andrew Benedek, who immigrated after the Hungarian revolution. When Hungary opened up to private enterprise, Dr. Benedek decided it would be a good stepping stone to the European market. "Hungarians are extremely well trained," said Allard Westra,

Zenon's manager of project finance. "There is a lot of emphasis on science." The operation began in the mid-1990s, but by the end of the decade, the company could see it needed to expand. CIDA funding helped train Hungarian staff in Canada and Canadian staff in Hungary. "CIDA involvement allows companies to do more," said Mr. Westra. The \$40-million operation now employs two hundred people, all Hungarians.

Investment Needed

Even with Hungarian Canadians such as Dr. Benedek setting up shop in Hungary, the country needed to find work for the thousands of Hungarians who lost their jobs when Soviet-era enterprises were privatized or closed their doors. Arpad Abonyi played a vital role in this. Born in Budapest but raised in Canada, he had a career in investment finance and was working for Investment Canada when the Berlin Wall came down. He was invited to join the Blue Ribbon Commission, an initiative of some academics from the University of Indiana, where Mr. Abonyi had done his graduate work. He wrote the section on investment in the

Zenon Environmental

The establishment of the state-of-the-art Zenon water purification plant in Hungary is one of the most successful examples of Canadian business linkages and technology transfer in Hungary. The Zenon plant, which reached full capacity in February 2003, has hired close to two hundred Hungarian employees, surpassing initial expectations. The company plans on increasing this by 50 percent for 2004. Funding from CIDA helped to train researchers and managers for the research and development arm of the company in such areas as manufacturing processes, product design and development, information systems, plant management, bid preparation and marketing, and equipment servicing and systems maintenance.



commission's report and was a member of the Canadian task force group that visited Hungary in 1990. The Hungarian government asked him to write an investment strategy for them, which he did, before becoming one of their investment advisors. Mr. Abonyi said Hungary's well-educated workforce was attractive to foreign investors such as Nokia, which set up an electronics assembly plant, and automobile companies such as Suzuki, Audi, General Motors, and Ford. "The Audi Roadster is made in Hungary and shipped all over the world," said Mr. Abonyi. "It's a high-quality car." Despite these signs of success, Mr. Abonyi said Hungary still needs time to make the transition to a full-fledged market economy. "You can't change people's approach to the economy, politics, and society in a decade," he said. "It will take twenty to thirty years to turn them around."

A Cautionary Tale

Not all of the investments supported by Canadian funds were success stories. Earl's Restaurant, which operates a chain of restaurants in western Canada, witnessed first-hand how old attitudes cannot be changed overnight. The company spent \$3 million setting up a restaurant in Budapest, only to have it fail because of rampant fraud among employees. Canada had contributed \$75,000 to staff training. The experience raised a warning flag about problems with corruption in new democracies and caused Canadian officials to re-evaluate how they handled private sector projects.

Building Institutions

The news was better in the important area of institution building, which falls under the broad heading of supporting democracy and good governance. These projects included exchange programs in which Hungarian lawyers, auditors, parks managers, and other officials were brought to Canada for training. They also included efforts to strengthen the Central Statistics Office and reform the pension system. In some

ways, the distinction between building institutions and helping create a vibrant private sector is artificial, because neither can function without the other.

Emil Kemeny described himself as "the lucky man" from the Hungarian auditing department who was invited to spend a year in Canada to study Canadian auditing methods in 1992. His education—he has a degree in mechanical engineering and a degree in economics—and his facility with English made him a natural choice. Mr. Kemeny said he found the Canadian and Hungarian approaches to auditing were similar, although he did pick up on a new method being used in Canada called performance, or value-for-money, audits. When he returned to Hungary, he put a similar system in place. He is now Assistant Auditor General in Hungary, with sixty people working for him on value-for-money audits. They produce about thirty reports per year for Hungary's parliament. The exchange began and ended with Mr. Kemeny, and he speculated that a decision was made by Canada to spend money in areas in which Hungarians were more in need of assistance. He came away from the experience not just with more expertise in his field, but with an abiding love of Canada. "It is one of two countries in the world where I would move if I had to leave my country—the other being Sweden," he said. "Canada is organized not for the powerful, but for the people."

The people of Hungary were the ultimate beneficiaries of another exercise in institution building backed by Canadian funds. Antal Deutsch, a McGill University professor, first became involved in the reform of the Hungarian pension system through a project backed by the Harvard Institute for International Development, an arm of Harvard University. When Harvard pulled out, preferring to concentrate its efforts in other countries, Professor Deutsch stayed on and applied for Canadian funding. Hungary desperately needed to switch from the old Soviet-era system in which women retired at 55 and men at 60. The aging system could not sustain 3 million retirees

Sustainability and Partnership: The Statistics Training Project

Governments use the valuable information gained from statistics on a broad range of issues to make informed and strategic decisions about the future. Statistical information is used to design, evaluate, and improve specific programs and policies, and is used to measure the evolution of our society, economy, and environment. For example, statistics may be used to analyze economic performance; develop fiscal, monetary, and foreign-exchange policies; assess the cost-effectiveness of health care and education programs; or monitor the justice system's effectiveness.

"Objective statistical information is vital to an open and democratic society. It provides a solid foundation for informed decisions by elected representatives, businesses, unions, and non-profit organizations, as well as individual Canadians."

– Ivan Fellegi, Chief Statistician of Canada

When the Canadian government began its international assistance program in Hungary, it was decided that statistics was one of the areas in which the country could benefit from Canadian know-how. In order to meet the requirements of a market economy, it was clear that Hungary would need a modern statistical system that could increase the knowledge and understanding of the Hungarian economy and society, and the quality of research, and lead to improved economic and social policies.

A series of projects was subsequently designed and implemented by Statistics Canada and the Hungarian Central Statistics Office (HCSO). The underlying objective of these projects was to assist the HCSO in compiling accurate statistics that would provide the Hungary's government with a reliable and regular measure of the economy's production of goods and services. Work consisted primarily of policy advice, technical assistance in specific statistical programs, institutional capacity building, and human resources development. To this day, Statistics Canada maintains vital links with the HCSO.

in a country of 10 million. Professor Deutsch was part of the Hungarian team that rewrote the pension legislation, moving the retirement age up in stages to 62 by 2008. The team also created pension savings accounts similar to those available to Canadians either individually or through their employers. One major challenge the team faced was the widespread public distrust of banks and financial institutions.

"They thought they would go bankrupt or people would steal the money," said Professor Deutsch. "It took a major effort to persuade people that this was on the up and up." The Hungarian government has since changed some elements of the original pension reform plan, but Professor Deutsch was hopeful that it would be set back on course in the future.

At the Heart of Things: The Cardiovascular Health Project



Cardiovascular disease is the leading cause of death and disability in Hungary, accounting for more than half of all deaths—a rate second only to that of Russia when compared worldwide. Unlike countries in North America and Western Europe where cardiovascular disease rates have declined by more than 60 percent over the past thirty years, Hungary's rates are still rising and life expectancy has continued to fall steadily over the past twenty years. Recognizing this acute problem, CIDA, in cooperation with the Ottawa Heart Institute and the Hungarian Institute of Cardiology, designed a project to assist Hungary in the reform of its health care system through the transfer of Canadian technology and expertise in cardiovascular health promotion, prevention, treatment, and rehabilitation via telehealth technology.

Telehealth technology involves using interactive video and audio equipment to link two or more hospitals or medical clinics. The relatively inexpensive technology allows doctors to interact with their colleagues far away in another city or country. The electronic linkages are used for joint medical rounds and consultations, diagnosis, medical education, health administration, and community outreach.

By accelerating the rate of knowledge and technology transfer on cardiovascular health care issues, the most up-to-date techniques for cardiovascular health promotion, prevention, treatment and rehabilitation can be employed, thereby reducing health care costs.

The Cardiovascular Health care project involved establishing an electronic tele-linkage between the Ottawa Heart Institute and the Hungarian Institute of Cardiology, allowing Canadian cardiologists to share their expertise and knowledge with their Hungarian colleagues. According to Dr. George Fodor, Chief Cardiologist at the Ottawa Heart Institute, Project Director, and a Hungarian-Canadian, the main advantage of this project was in the field of postgraduate medical education in which junior doctors in Hungary had the opportunity to learn from the top cardiac specialists in Canada and interact with them on a regular basis. In addition, new Canadian blood-pressure-measuring technology was introduced to major health centers in Hungary, and Hungarian cardiac surgeons had the opportunity to learn about artificial-heart development. Policy advice for health promotion also took place on tobacco control, nutrition policy, hypertension guidelines, and lipid guidelines.

The scope for future cooperation is extensive not only in the areas of technology transfer and education, but also in defining a long-term strategy to better the health lifestyles of the Hungarian population, from nutrition and exercise to the consequences of smoking. Additionally, plans are underway to make Hungary an important hub from which further knowledge and information-based initiatives in Central and Eastern Europe may be undertaken.

The 20th District of Budapest: A Success in Municipal Development

In the early 1990s, Hungary, like many other countries in Central and Eastern Europe, faced numerous challenges in making the transition to democracy and a market-based economy. New decentralization legislation left thousands of municipalities with new responsibilities, including urban planning and development, economic development, and environmental management. With little expertise in the field of municipal management and with scarce financial and human resources, local governments were faced with a major challenge.



“After eliminating the centralized governance system in Hungary, the main challenges were creating the legal and economic frameworks of the independent municipalities, preparing their vision, changing the mindsets to a more strategic thinking, and boldly implementing projects despite the fact that the central government was changing priorities frequently.”

– Laszlo Habis, former Deputy Mayor of Eger

In order to address this problem, the World Bank launched its Sub-National Development Program (SNDP), which provided policy analysis and advice, city assistance programming, and financing of specific municipal development programs and projects. With funding from CIDA, the Canadian Urban Institute (CUI) worked under the World Bank umbrella to help implement the SNDP. Specifically, CUI’s role was to support the establishment of a strong framework for fiscal federalism and sub-national autonomy, leading to the development of an open and diversified municipal credit market. As part of this program of assistance, practical technical assistance was provided to two demonstration towns, including the 20th district of Budapest.

The 20th district of Budapest has made significant progress with the help of the CUI. Using recommendations made for an investment promotion strategy, the city has made significant progress in local economic development. It is now making more appropriate decisions on spending and has committed itself to implementing the recommendations made for financial management as well as for information management.

The municipal development projects have had a lasting impact not only in the 20th district of Budapest but also in several other towns and cities across Hungary. The national government drafted new legislation to implement many of the recommendations made by the SNDP, and an urban management course has been integrated into the curriculum of the Budapest University of Economics. The various projects have contributed substantially to a greater knowledge of modern fiscal practices among the various municipalities of Hungary, and these cities now regularly consult with one another and exchange information. In fact, Hungary has now become such an expert in municipal development that it is now ready to provide technical assistance itself to other countries in transition.

Helping Those in Need

In big and small ways, Canadian-financed projects in education, private sector support, and institution building were aimed at helping Hungary get ready to join the EU. There is one other group of projects worth mentioning: the small grants disbursed through the Canada Fund for Local Initiatives (CFLI).

Although the Canadian government decided at the start not to become involved in social assistance, it became clear that some groups were hit harder than others in the rapid years of transition. Minorities such as the Roma, women, and the poor were having a hard time coping. Through the CFLI, the Canadian embassy in Budapest was able to identify projects specifically targeted at helping these key groups. While the sums were not large—a total of \$710,000 was spent on 160 projects between

1993 and 2001—the CFLI filled a hole that was not addressed elsewhere in the Canadian program. A country's ability to uphold human rights is one of the measures looked at by the EU when assessing membership applications.

DID YOU KNOW?

The CFLI finances small projects that provide technical, economic, educational, cultural, or social development assistance to local populations. Specific groups targeted include the Roma minority, handicapped people, the poor and homeless, as well as organizations working on women's issues, drug abuse prevention, and HIV/AIDS. From its inception in 1993 to the year 2001, the program has disbursed a total of \$710,000 for 160 small projects of less than \$10,000 each.

Creating Stars: Theatre Performances by Handicapped Children



With the help of the World Bank, the Dutch embassy, and a Canada Fund for Local Initiatives (CFLI) grant, the Baltazar Theatre Foundation has put together a permanent theatrical group of mentally handicapped children and youth in Hungary. In addition to choreographing special performances, the children and youth learn about theatre, music, and dance. The group travels all over the country for their performances, which are often advertised in local and national newspapers and on television. Not only do the participants gain an extraordinary sense of

personal triumph and success, but they are also teaching the public a valuable lesson about people with disabilities and their acceptance in society. The CFLI grant contributed to buying training materials and supplies and to defraying some of the travelling costs of the group.

DID YOU KNOW?

The Baltazar Theatre is the only professional theatre company in Hungary with disabled actors and actresses. Visit the website and see for yourself:

www.szhaz.hu/baltazar

Rehabilitation Farm: Helping Drug-Addicted Youth

The Hungarian-based Pax Vobis Foundation runs a program to help young adults by providing advice, assistance, jobs, and specific training on how to run a household and manage their finances. Additionally, the foundation runs a special program for youth recovering from drug addictions. The foundation bought a rehabilitation farm where these youth, who are in danger of relapse, can concentrate on getting better while learning valuable skills such as carpentry, animal rearing, and farming. With the support of a



Canada Fund for Local Initiatives grant and the British Know How Fund, a new goat barn was built and goat-producing equipment purchased. As a result of this project, the number of goats increased to a hundred and the number of pigs doubled. Milk and milk products are being produced and the farm is already self-sustaining. According to the youth, the farm allows them to recover from their addiction in a peaceful and quiet environment while learning valuable work and life skills.

DID YOU KNOW?

Some of the graduates of the Rehabilitation Farm have already purchased their own farms in the area.

Fast Fact: Roma Minority Community Centre in Nagykanizsa

The Janos Bogdan Roma Minority Community Centre operating in Nagykanizsa is helping local Roma children succeed in school. Children between the ages of 7 and 18 attend weekend tutoring sessions, receiving one-on-one tutoring in any subject they need help with. As a result of this program, the children have not only improved their grades, but some have won awards at school in academic competitions. A CFLI grant offered support to the program by providing nutritional meals for the children and by covering some of the tutoring fees.

One Relationship Ends, Another Begins

In 1997, the Canadian government announced what it called the “graduation strategy for Hungary.” It had decided that this particular bilateral assistance program would largely end when Hungary became a full-fledged member of the EU. The evaluation of the program done by Duska-Anema Development Associates suggested the announcement was premature and badly worded. It took the wind out of the sails of existing and potential beneficiaries. Nevertheless, the deadline held and the program is due to end on schedule.

However, this does not signal the end of the bilateral relationship. Canada and Hungary will work together to deliver aid to third-party countries through the Official Development Assistance for Central Europe program. “It will be like CIDA,” said Peter Szegvari, who is helping set up this new unit in the Hungarian ministry of foreign affairs. “We are trying to combine Canadian knowledge and skills with Hungarian ones.” The establishment of this office is symbolic in that it marks Hungary’s transition from recipient to donor country. And it may well open the door to future collaboration between Canadian and Hungarian groups in other countries.

The Lessons Learned

Representatives of both governments said they learned valuable lessons from their joint effort to bring Hungary back into the Western fold. Speaking for CIDA, CIDA’s Ingrid Knutson said Canada has learned the importance of developing a country strategy early in the process to ensure that projects meet the strategic needs of both Canada and the recipient country. “As a Branch, we have for some time been increasing the portion of our programming that takes a proactive approach,” she said, referring to CIDA’s Central and Eastern Europe Branch. The Canadians also learned that a vibrant private sector needs a firm institutional foundation. Regulations

must be in place, laws must be passed, and government structures must be built if the private sector is to flourish. It is not enough just to encourage the formation of new enterprises. The CIDA private sector joint venture program, called Renaissance, struggled to use aid funds in promoting Canadian trade and investment under these circumstances.

Finally, Hungary’s experience with transition highlighted the need for partners to help those most badly impacted by the changes, often the groups least able to fend for themselves. The role that Hungarian civil society played in addressing the social impact of transition was important, and CIDA came to appreciate this only later. Hungary’s overriding goal to accede to the EU made the political determination to change and reform possible and this made the work of CIDA and its partners immeasurably easier.

For Hungary’s part, Mr. Szegvari said the important lesson was that true partnership was key to the success of any project. Hungary was not a developing country when Communism collapsed: it had a well-educated populace and a well-developed social structure. As such, it worked best with countries that treated Hungarians as equals. This sentiment was echoed by Tibor Frank of the Canadian Urban Institute, whose project in Nagykata was such a success. “Humility,” said Mr. Frank, when asked what important lesson he learned. “Deep inside, I truly know that that’s the secret of our success. You find the right people, the right champions, and then you make them the owner of the program. As long as they comply with our main principles—transparency, democracy, accountability—we help them to achieve what they want. That’s why we call it assistance, right?”