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HUNGARY

The Transition Challenge



**Evaluation of CIDA program:
1990- 2002**

Performance Review Branch

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Management Response

This report correctly captures the essence of the full evaluation report. We accept the findings of the report which have been thoroughly discussed with the evaluators, Performance Review Branch and our own staff. The evaluation balances delicately the arguments in favour and against Canadian responsive programming which was the hallmark of this program, particularly in the early years and has come to be associated, wrongly, with all of Central and Eastern Europe Branch even today.

There has been considerable debate in the CEE Branch about the relative merits and timing of responsive versus proactive/directive programming and within the Agency about supply versus demand driven approaches to programming. The Hungary program demonstrates that in a country that was largely isolated from Western cooperation and interaction, where a substantial diaspora in Canada remained passionately committed to their previous homeland, it was an effective approach to tap that community in the delivery of a responsive program. We took that initial advantage and ran with it too long. As the decade proceeded and knowledge of each other expanded, the evaluators argued that a more directive approach from CIDA that built on the Canadian comparative advantage would have been yet more advantageous. Some opportunities were missed. This lesson learned has already been internalized and acted upon in the rest of CEE Branch for some time now.

Next steps

In the chapter on international assistance in Canada and the World (1995) the

government committed to "share more widely the results of evaluations and lessons learned to better inform the public, as well as Canadian, multilateral and bilateral partners, and to improve development programming".

Hungary is the first CEE country and second CIDA country program evaluation. It is the first in a series of 4 evaluations covering 7 countries. Once completed in the fall it is our intention to engage a professional writer/journalist to produce a publication for CIDA to distribute that encompasses the full GRADUATION STORY for the 7 accession countries expected to join the EU in 2004. It is our hope that this story will be distributed widely to OGDs, MPs, the international development community and especially our partners in Canada and abroad. To be credible the Story will have to provide more than mental pabulum. It will have to recognize our shortcomings too and what we learned as a result. We are interested to report to the diaspora communities in Canada and their media outlets. Heritage Canada has been contacted to assist us in this endeavour. There should be considerable opportunity in the next year for the Minister to publicly identify diaspora stars that merit recognition by the Agency.

In addition, preliminary discussions with Canadian academics in both East European and international development schools indicates there may be interest in developing case study curriculum to bring the lessons learned from these various country program evaluations to the attention of students and scholars.

Abbreviations and Acronyms

ACCC	Association of Canadian Community Colleges
CCAF	Canadian Comprehensive Auditing Foundation
CCHT	College of Commerce, Hospitality and Tourism
CESO	Canadian Executive Service Organization
CEU	Central European University
CFLI	Canada Fund for Local Initiatives
CPB	Canadian Partnership Branch
CSDF	Civil Society Development Foundation
CUI	Canadian Urban Institute
CWY	Canada World Youth
DACUM	Developing A Curriculum
DFAIT	Department of Foreign Affairs and International Trade
ELTE	Eotvos Lorand University of Budapest
ERAK	Eastern Hungary Retraining Centre
ESL	English as a Second Language
EU	European Union
E/WEE	East-West Enterprise Exchange
FAS	Irish Training Services
HCSO	Hungarian Central Statistics Office
HRD	Human Resource Development
ILO	International Labour Office
IMC	International Management Centre
ISO	International Organization for Standardization
KAP	Dutch equivalent of Canada Fund for Local Initiatives
LEA	Local Enterprise Agency
MOL	Ministry of Labour
MTO	Mobile Technology Office
NGI	Non Government Institution
NIS	Newly Independent States
NIVE	National Institute for Vocational Education
ODACE	Official Development Assistance for Central Europe
OKJ	National Training Register
PHARE	Transition Support Project by the European Union
PLAR	Prior Learning Assessment and Recognition
PPR	Project Performance Review
PSD	Private Sector Development
PTP	Partnership for Tomorrow Project
REE	Renaissance Eastern Europe
RLDC	Regional Labour Development Centre
SIAST	Saskatchewan Institute of Applied Science and Technology
SME	Small and Medium-sized Enterprises
TOT	Training of Trainers
T/VTSRP	Technical Vocational Training System Reform Project
UNHCR	United Nations High Commission for Refugees.

1.0 Introduction

The Central and Eastern European Branch (CEE), of CIDA requested this evaluation to capture the results of its contribution to Hungary's transition to a market economy, pluralistic society and eventual membership in the European Union (EU). This analysis is the first in a series of assessments of countries in Central and Northern Europe that will soon join the EU. The objectives of the review are to: document the results, identify lessons, further learning about countries in transition and build capacity to conduct future evaluations within CEE and CIDA. The CEE Branch is using this evaluation as a model for upcoming reviews in Poland, the Czech and Slovak Republics and the Baltic States. Consequently the evaluation plan, all questionnaires and methods of data analysis have been shared with CEE evaluation teams for adaptation to each country's needs.

2.0 Methodology

The special challenge of this evaluation has been to gauge the relevance and results of a multi-faceted program encompassing over two hundred projects, straddling twelve years, in an environment that has undergone phenomenal change. The assessment included documentary analysis, file review, development of questionnaires, field interviews in both Canada and Hungary as well as a private sector focus group in Budapest.

Due to the substantial investment in education and training initiatives, a separate study on, "Canada's impact on Education and Training in Hungary" was commissioned.

When dealing with a multitude of projects (i.e. a program), the traditional evaluation process based on an evaluation matrix for each separate project had to be re-configured to be at once more time efficient and more encompassing in scope. For this purpose a rating system has been adopted, consistent with international practice. The rating system assigns values on a scale of three: 1=less than satisfactory; 2=satisfactory; and 3=more than satisfactory. The scale is used to rate all projects or set of projects on the basis of a number of indicators which are outlined in each section.

The rating system has its own inherent logic. The evaluation progresses logically from the identification of issues, to a definition of indicators, to a qualitative judgement on such indicators for each project, to wrapping up of all rated indicators into an overall results rating for each project. By looking at the final results ratings of each individual project, one can arrive at an overall rating for the program. Qualitative judgements always retain some degree of subjectivity. In order to minimize the subjective element, the approach contains an important degree of verification. Often respondents were asked to provide their own opinion on ratings. These opinions were verified through follow-up interviews, discussions with other stakeholders, and file reviews, eventually leading to a rating considered to be fair. One evaluation team rated the entire sample.

3.0 Context and Background

At the end of the 1980s, the Hungarian government exerted a strong control over the economy through central planning, price controls, subsidies and import restrictions. The country ended

the decade with a stagnant economy, a large current account deficit and falling international reserves. In order to avoid a foreign exchange crisis, a stabilization program was introduced. This included tax increases, expenditure cuts, tighter monetary policy and a devaluation of the currency.

In 1990 the first democratic elections were held marking the beginning of a new era in domestic politics. Policies were adopted leading to liberalized foreign trade rules, reduction of subsidies, removal of restrictions on labour markets, privatization of state enterprises and the facilitation of private sector growth. The vision guiding all Hungarian governments, regardless of political orientation, was to become part of multilateral and regional organizations. Successive governments focused on satisfying accession requirements as defined in the Copenhagen criteria. Progress was carefully monitored and adjustments in strategy were implemented when necessary. In spite of some difficult years in the mid 1990s, when exports collapsed and imports skyrocketed, achievements have been impressive. Hungary joined NATO in 1999 and is expected to become a member of the EU in 2004.

The greatest challenge was and continues to be in the social area. Although absolute poverty in Hungary is relatively low, observers have reported the emergence of a permanent underclass of long term poor heavily concentrated in the Roma ethnic minority. A World Bank study estimated that by 1997, 7.5 percent of the population were long term poor, with 50 percent among the Roma.

Education and healthcare still require substantial improvements. The WHO has reported that people in Hungary are in worse health than anywhere else in Central Europe. Per capita healthcare spending is amongst the lowest in the region and cardiovascular diseases are responsible for 50 percent of deaths (second highest in the world after Russia).

In 1990 a commission of experts tabled a Blue Ribbon Commission report with the Hungarian government, which outlined key strategies and priority issues, which needed to be addressed in the first 100 days of governance.

3.1 The Canadian Response

It was recognized at a very early stage that Canada could play a unique role in the transformation of Central and East European societies. In 1990 the Secretary of State for External Affairs, the Right Honourable Joe Clark, remarked, "Virtually no nation possesses the web of intense personal connections to Eastern and Central Europe which we have in Canada. That gives us a special interest and a special capacity in helping those societies become prosperous and free".

The fundamental strategy of Canadian cooperation was based on the provision of advice; expertise; technical assistance to managers and decision-makers; and the encouragement of sustainable private sector partnerships. From the beginning, a responsive programming methodology was adopted and proposals were approved within the context of the Blue Ribbon Commission's recommendations, broad foreign policy principles and technical considerations. The initiatives largely depended on

Canadian partners and the respective Canadian embassy in the region.

Initially a Task Force within DFAIT administered the program. A client-driven strategy based on partnerships with Canadian organizations responded to proposals from non-governmental organizations, professional associations, academia, labour groups, the voluntary sector as well as other federal, provincial and municipal governments. A two-track approach was developed: financing socio-economic restructuring to assist in the transition to a market economy; and support for trade/investment to increase Canadian private sector opportunities in the region.

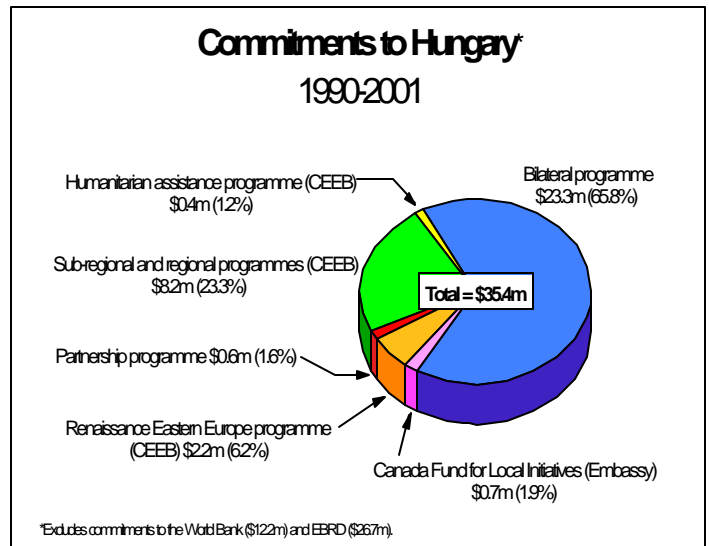
In 1995 the administration of the cooperation program was transferred to CIDA. After intensive analysis, CIDA issued a *Regional Framework: Canada's Cooperation Program with CEE/NIS Countries in Transition (1997)*, which confirmed that the program's objectives would remain focused on:

- Supporting the transition to market economies;
- Facilitating Canadian trade and investment links with the region; and,
- Encouraging good governance, democracy and adherence to international norms.

The *Framework* built on the previous principles of partnership, responsiveness, flexibility and cost sharing as well as emphasising direct links between Canadian organizations and their respective counterparts. It focused on policy advice, capacity building, human resource development and technology transfer.

3.2 Program Profile

The total allocated for programming in Hungary is \$35.4 million divided between 238 projects. As can be seen in Figure 1, about 66% of the overall program consists of bilateral technical cooperation activities; these are designed and implemented by partnerships of various types. The partnerships include combinations of private, government and non-government organizations, matched to achieve jointly planned objectives.



Another 23% of total commitments have gone to multi-country projects, again through various types of partnership arrangements. Technically, sub-regional projects are funded out of the bilateral program budget, whereas the regional program has its own budget. Two humanitarian assistance projects took place in Hungary, representing about 1% of the total. The Renaissance Eastern Europe program, represents a little more than 6% of the total. Modelled after CIDA-INC, it contributes to viability studies and enterprise-specific training to promote Canadian private investment in Hungary. The small but useful Canada Fund for Local Initiatives is administered by the Canadian Embassy in Hungary and represents close to 2%

of the total. A small partnership program administered by CIDA's Partnership Branch and representing less than 2% of the total, deals primarily with youth exchange programs.

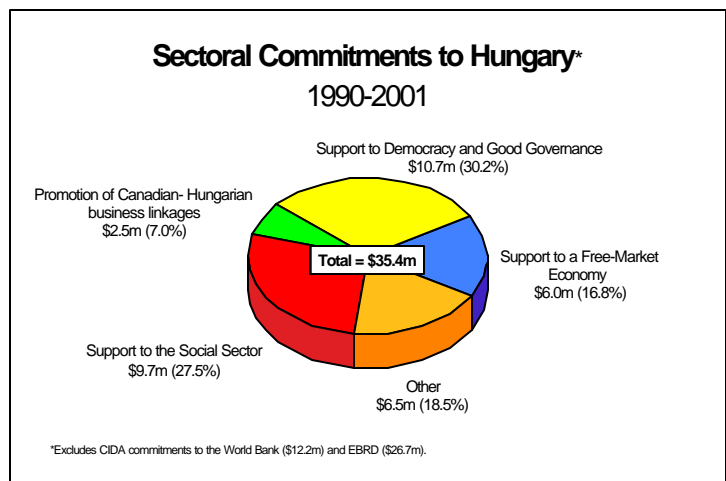
3.3 Sector Profile

The three objectives of Canada's program of assistance to Hungary provide a very rudimentary sector breakdown of the portfolio of projects, namely: (1) those supporting transition to a market economy; (2) those facilitating Canadian trade and investment links with Hungary; (3) and those encouraging good governance and democracy. The official DFAIT/CIDA database does not contain a persuasive sector categorization of individual projects. The distribution of spending across these three categories is represented in the chart below, together with a fourth category for social sector expenditures. Projects dealing with health or education, as well as the CFLI's contributions to civil society have been extracted and exhibited separately to highlight these sectors of the portfolio. **Most education projects facilitated the move towards a free market economy.**

Support to democracy and good governance is \$10.7 million (64 projects), or 30.2% of total. Included in this category are a large number of smaller projects, such as staff training for the Ministry of Justice, travel expenditures for attendance at conferences, a limited training program for a selected individual at Hungary's Central Audit Office, a training program for lawyers, and a limited parks management training program. The main expenditures, however, went to more substantial projects often involving multiple phases. Examples are the

bilateral project sets associated with enhancing the operations of the Central Statistics Office of Hungary, strategic planning for municipal autonomy, and pension reform culminating in new legislation. Also included are regional projects devoted to justice reform with respect to minority issues and to public sector reform.

Projects in support of a free market economy amounted to \$6 million (61 projects), or 16.8. % of the total. Key projects in this category included a series of investment promotion activities designed to inform prospective investors; a series of training projects designed to support entrepreneurship; a large series of projects designed to provide short term senior advisors on SME management and strategy; training and seminars covering stock exchange operations; a two-phased project to strengthen policies and practices of Hungary's network of savings cooperatives; a management training support project; advisory assistance to the banking sector; a youth exchange programs designed to introduce the concept of entrepreneurship to young people; and a number of smaller activities.



The promotion of Hungarian-Canadian business linkages amounted to \$2.5 million (55 projects), or 7.0 % of total. Most of the expenditures were made under CIDA’s Renaissance Eastern Europe program, under which subsidies are provided to Canadian business for joint venture feasibility studies and enterprise-specific training. A total of 55 projects were implemented under REE since 1990, amounting to \$2.2 million. A separate Business Bridge project provided another \$300,000 for the same purpose of linking Canadian and Hungarian businesses.

Support to the social sector \$9.7 million (39 projects) or 27.5% of the whole comprised a number of health projects and education projects, as well as support to NGOs. **Education activities, the largest part in this group, included a variety of endeavours ranging from curriculum development and reform to labour retraining activities. Education and training was very much in support of a free market economy, and only marginally and indirectly to helping the losers in transition.** With respect to health projects, support focused especially on a regional immunization project, a large Health Management Training project and a project designed to support Hungary’s cardiovascular health services. Support to small NGOs was provided by the CFLI, funded by CIDA but administered by the Canadian Embassy in Budapest.

The last category, “Other” (6.5 million, or 18.5% of total) consists primarily of four areas: humanitarian assistance (two projects amounting to some \$.4 million), three phases of a nuclear waste disposal project amounting to \$.8 million, a number of youth exchange programs and \$3.75 million to ODACE (this

commitment will be disbursed between 2001/02 and 2005/06. To date \$262,785.00 has been disbursed).

4.0 Evaluation Findings and Observations

4.1 Program Relevance

The concept of relevance itself needs some thought. Relevance is judged not only in terms of transition requirements, but also in terms of (1) what Canada can best provide; (2) how Canada's traditional image and preoccupations can be met; and (3) how there can be a mutual advantage in partnerships.

RELEVANCE

Rating	Number of projects or sets of projects*	Indicators of Relevance
1 – less than satisfactory	2	✓ Consistent with CIDA and CEEB policy objectives
2 – Satisfactory	4	✓ Directly linked with specific elements of reform agenda
3 – More than satisfactory	28	✓ Critical mass in key priority areas
Weighted Average	2.8	✓ Timeliness in terms of transition needs

*Note: Projects in several phases were rated as a set, not individually

The main bilateral program, together with the multi-country program and selected CPB sample projects, were **of direct relevance** to the transition requirements of Hungary. It is true that the parameters of relevance were very widely set since "support to a free market economy" and " support to democracy and good governance" are very accommodating concepts in this respect. Yet, in spite of such scepticism, it can be said that much of the program addressed important areas of reform. The

danger of a responsive approach is that projects may be scattered in many directions and a clear focus could be difficult to find. Even though there was some scattering of projects especially in the early days (an almost inevitable consequence of rapid program establishment and build-up), and there were too many projects of a small size, we nevertheless noticed a move towards a focus in specific areas. Examples are a series of follow-up projects in areas such as pension reform, support to small businesses, strengthening of the Central Statistics Office, support to municipal self-sufficiency, foreign investment promotion, support to Hungary's Savings Cooperative Network, and education and training. Most of these projects turned out to be highly satisfactory and have earned Canada a good reputation. These success stories tend to make a critical examination of relevance somewhat redundant. Yet, the dynamics behind the achievement of direct relevance are telling. With respect to Canada's comparative advantages, it is clear that many of the successful projects were a reflection of well-established Canadian capacity, combined with competent and eager partners.

But it is also clear that opportunities were missed. For example, a very promising relationship between Canada's Auditor General's Office and the Hungarian State Audit Office came to an abrupt and premature end after only one trainee had come to Canada.

**Canadian Comprehensive Auditing Foundation
International Audit Fellowship Program**

The objective was to strengthen the methodological processes of the State Audit Office of Hungary. During a meeting between the Auditor General of Canada and his Hungarian counterpart, it was decided to send a candidate from the Hungarian State Audit Office to Canada for training. The training occurred approximately 10 years ago and included an executive development program, participation in a hands-on audit of Via Rail and the adaptation of value for money audits to the Hungarian context. The individual became the equivalent of an Assistant Auditor General, responsible for value for money audits. He has also been directly involved in the privatization of some 85% of the State owned corporations in Hungary. In this work he has been able to apply the methodologies learned in Canada.

This success story demonstrates that a carefully focused program for a highly competent individual can be effective. Unfortunately the training was a one-shot deal. No other Hungarians came to Canada despite numerous proposals for additional support. A long-term relationship between the two partners never materialized. Both the U.S and the U.K. seized this niche with multi-year programs adapted to CEE conditions.

A relationship between Environment Canada Parks Services and the Hungarian National Authority for Nature Conservation came to a similarly abrupt end after one exchange had taken place (two trainees subsequently ended up in very high positions in areas for which they had trained in Canada, still wondering why the program had been stopped).

Encouragement of partnerships on the basis of at least a potential mutual exchange of skills, know-how and other cooperative action can be observed in the relationship between Statistics Canada and the Hungarian Central Statistics Office. A conscious effort to encourage that type of relationship elsewhere is difficult to find. The fledgling partnership established between the Ottawa Heart Institute and the Hungarian Cardiovascular Institute had scope in that direction, but their first

successful project together has now come to an end even though there is interesting potential for mutual collaboration on artificial heart development.

With respect to Canada's traditional image in development cooperation, one could have anticipated a stronger emphasis on the social sector dealing with the losers in transition. Rapid transition of a society creates losers and winners, and the trickle down theory simply does not hold. The World Bank has identified a permanent layer of the very poor (7.5% of the population) as a direct result of transition, half of which are Roma. While the CFLI tried to address this problem, there were no bilateral projects designed for it, except for one or two small projects providing legal advice and training related to the Roma. Some education projects were indirectly concerned with social issues, but they mainly dealt with private sector concerns. Similarly, the number one health problem in Hungary, cardiovascular disease, which causes 50% of deaths in the nation and represents a significant drain on the economy, only received attention in one project near the end of the decade.

With less single minded focus on responsive programming and a slight shift towards a more directive approach, traditional Canadian concerns with the social sector, especially as affected by rapid transition, might have received more attention.

4.2 Results

The results were analyzed on 3 major indicators: Outputs delivered as planned; outcome level results (apparent or

imminent); and, new spin-off results or unexpected results.

RESULTS

Rating	Number of projects or sets of projects*	Indicators of Results
1 – less than satisfactory	5	✓ Outputs delivered according to plan
2 – Satisfactory	12	
3 – More than satisfactory	17	
Weighted Average	2.4	

*Note: Projects in several phases were rated as set, not individually

The results of the program were very encouraging, with a majority of projects reviewed being more than satisfactory. A few projects fell short of the mark but retained certain redeeming qualities. These projects suffered generally from a lack of sustainability, e.g. failure to have a course accredited within an institution. Many projects were considered satisfactory in spite of the fact that they may have failed to attain all objectives. For example, the performance of a consultant may have been questionable without unduly distracting from the overall impact. Projects were rated more than satisfactory when it was clear that all objectives were met, and effects were sustainable.

Some examples of positive results are: a series of projects managed by the Association of Canadian Community Colleges whose adult education model was adopted nationally, the municipal development projects by the Canadian Urban Institute, the statistics projects implemented by Statistics Canada and the pension reform projects that culminated in appropriate legislation. We also wish to highlight the successful

Strengthening the Hungarian Savings Cooperatives Network project, whose non-Hungarian resident manager became fluent in the language. The project delivered numerous tangible results, including integration of the cooperatives, the creation of a deposit insurance fund, and the implementation of financial analysis software. On an outcome level, the establishment of internal control mechanisms throughout the network of cooperatives contributed to the incorporation of this principle in a law on financial institutions.

**Association of Canadian Community Colleges
Technical Vocational Training System Reform
Project (T/VTSRP)**

The goal of this 4.5-year project was to contribute to the development of a high quality, comprehensive post-secondary technical/vocational education system. Activities were based on previously delivered and well-received methods of curriculum development (DACUM) and principles of adult education, including methods for credit transfer and the application of prior learning assessment and recognition (PLAR). In 1998, there were 8 post-secondary institutions, and an additional one in 1999, that received approval and accreditation to offer the new 2-year post-secondary skills training programs. Data supplied by the Ministry of Education show that by the end of 2000, there were a total of 32 accredited 2-year programmes offered in 22 colleges and successes of T/VTSRP were instrumental in winning a second World Bank contracting opportunity in Hungary in a partnership with a consulting company from the Netherlands (DHV). Finally, a long-term co-operation developed between a Canadian College (SIASST) and the Hungarian Ministry of Education to extend the partnership of co-operation to a third country (Slovakia) where assistance can be provided for its transition. In addition to the sustainable and measurable results, this comprehensive project has accumulated a wealth of information and experience that can become a resource for additional multi-country agreements in CEE countries.

There are a number of reasons for this generally positive picture. One of the most prominent reasons is the contribution made by Canadians of Hungarian origin. There has been an enormous amount of pent-up commitment on the part of Hungarian

Canadians to assist in the transition process:

- The Chief Statistician of Canada is a Canadian of Hungarian decent;
- Mr. Andy Sarlos, a well-known Canadian financier co-founded the successful International Management Centre in Budapest, where York University became deeply involved;
- The Chief Executive of CUI is a Hungarian Canadian;
- The cardiovascular health project was spearheaded by a Hungarian Canadian;
- The investment promotion activities were carried out by someone of Hungarian descent;
- The Parks Management Training project was initiated by a Hungarian Canadian;
- The various pension reform projects were carried out by a Hungarian Canadian;
- The field coordinator of ACCC's education projects was a Canadian of Hungarian decent.

They all brought commitment, intelligence and drive to their tasks. Their work benefited greatly from an understanding of culture, knowledge of the language, an ability to establish close contacts with their respective partners, and familiarity with the sources of local decision making power. In fact, at least 39 projects or project sets of the 60 sampled enjoyed the benefit of significant involvement on the part of Canadian Hungarians.

The program benefited enormously from the passionate involvement, sustained commitment and cultural acuity of Canadians of Hungarian origin.

**Canadian Urban Institute
Fiscal Decentralization**

In 1990, the number of municipalities in Hungary was doubled to more than 3000. To address this situation, the World Bank launched its Sub-National Development Program (SNDP), which provided policy analysis, advice, city assistance programming, and financing of specific municipal development initiatives. Canada contributed the services of the Canadian Urban Institute (CUI) thereby joining other donors who participated under the World Bank umbrella. The CUI, in collaboration with the Prime Minister's Office as its principal partner, embarked upon a varied program that started with research into the delivery of conventional municipal services to set the stage for a new vision in municipal management. Practical technical assistance was also provided to two carefully selected demonstration towns in order to improve their financial performance and lead them towards fiscal independence. Some examples of the results of this work include: formation of an association of Tax Officers of local governments to "compare notes"; discussions among small towns regarding cooperation in service sharing; establishment of an ongoing training course in municipal fiscal management at the Budapest University of Economics; adoption of the Canadian model of fiscal management in the two demonstration towns; and generally a substantially increased awareness among municipalities of modern fiscal practices. Of considerable importance also is the fact that Hungary now is ready itself to provide technical assistance in this area to other transition countries.

4.3 Partnerships

Successful partnerships were based on a genuine feeling of *equality*, with *joint* involvement in project design, both partners keen to assume a *champion's role*, willing to go the *extra mile*. Canadian partners have to be willing to *integrate into the local process*. It is very useful to be *well connected* to facilitate necessary decisions and approvals. A *qualified field representative*, sensitive to local culture is key.

QUALITY OF PARTNERSHIP

Rating	Number of projects or sets of projects*	Indicators of Partnership Quality
1 – less than satisfactory	3	✓ Equality
2 – Satisfactory	8	✓ Championing roles
3 – More than satisfactory	19	✓ Local integration
		✓ Well connectedness
		✓ Continuity of Canadian partner
		✓ Qualified field representative
		✓ Burning need to address
		✓ Canadian competitive advantage
Weighted Average	2.5	

*Note: Projects in several phases were rated as a set, not individually. Some projects were rated as "not applicable".

The longevity of a partnership depends on many factors, chief among which is a source of funding. The duration and intensity of project collaboration plays a role, as well as the potential of mutual benefit. It has been shown with the Public Sector Bridge project that attempted to establish linkages between Canadian Government departments and Hungarian counterpart departments through the use of consultants rather than department staff was one of the reasons why partnerships did not last. In addition, budgetary reasons prevented the flourishing of partnerships. Yet, Statistics Canada has maintained a vital relationship with the Hungarian Central Statistics Office that started even before Canada commenced its assistance program. Thus a partnership's chances of survival may depend equally on the vision and wisdom of top leadership. It was suggested that even a token financial contribution could sometimes be the catalyst to longevity in a relationship.

A few partnerships continue to operate actively:

- The Canadian Urban Institute maintains numerous contacts in Hungary; recipients of its strategic economic development training have been engaged in the new Local Government Support Program for the Visegrad 4 (Hungary, Poland, Czech & Slovak Republics);
- The ACCC has been awarded a World Bank project in Romania, which involves expertise from its Hungarian partners for implementation with hopes for expansion to other CEE countries;
- York University and the International Management Centre maintain a partnership through mutual course accreditation, and faculty secondment. York was offered representation on the Board of the IMC;
- A joint certificate arrangement exists between Niagara College and the College of Finance and Accountancy that requires detailed work on curriculum that extends beyond the life of the project; and,
- The promising partnership that has developed between the Ottawa University Heart Institute and the Hungarian Institute of Cardiology, and now seems to linger because of budgetary challenges, may yet rally for further collaboration in the development of artificial heart technology.

The quality of partnership has proven to be a vital predictor of success.

4.4 Sustainability

Sustainability of project results constitutes a vital element of success. Not all projects were concerned, or had to be concerned, with the institutionalization of activities. Thus, trainee exchanges could be considered successful in spite of the fact that course material was not formally accredited within an institution of learning. Sustainability in such a case results from the use that is made of the learning imparted. The first consideration in the design of a project is how project results can be sustained. If it is decided that a project activity requires a formal and ongoing process that needs to be institutionalized (training of trainers, accreditation of course material, establishment of new systems and procedures), a conscious and up-front decision to do so is necessary. A small number of projects failed to provide a process of sustainability, thus undermining long-term impact.

SUSTAINABILITY

Rating	Number of projects or sets of projects*	Indicators of Sustainability
1 – less than satisfactory	7	✓ Continuation of project activities ✓ For training programs, accreditation ✓ Legislative provisions
2 – Satisfactory	6	
3 – More than satisfactory	19	
Weighted Average	2.4	

*Note: Projects in several phases were rated as a set, not individually

4.5 Gender Equality

When the program was administered by DFAIT, gender equality was not a specific concern in the projects, which were approved. When the program was transferred to CIDA in 1995, a more conscious effort to integrate gender concerns became apparent. Analysis and interviews with participants indicate that despite an explicit GE policy in CIDA, extensive work to integrate GE into projects was not as effective as other indicators. These findings are consistent with other CIDA corporate reviews in Basic Human Needs, Infrastructure Services and Private Sector Development.

GENDER EQUALITY

Rating	Number of projects	Indicators of Gender Equality
1 – less than satisfactory	3	✓ Focus on women
2 – Satisfactory	12	✓ Involved primarily women as participants or beneficiaries
3 – More than satisfactory	11	✓ Roughly equal gender ratios involved
Weighted Average	2.3	✓ Scope for structural impact

Note: Projects in several phases were rated as a set, not individually. A number of projects were rated as “not available”.

Gender equality consideration in project design and implementation appears to have improved over time, but it has not been integrated into the majority of projects.

4.6 Social Impact of Transition

The importance of the social impact of a rapid process of transition has resulted in a population of the permanently poor, half of whom are Roma. The evaluation has identified the very positive role of the CFLI in reaching out to civil society. It has been argued that consolidation of its program would be very beneficial from many points of view, and may take much more time than the one and a half year remaining. The Dutch, in fact, have recognized the merit of their own Embassy-run small grants program, KAP, which they have recently extended to 2007.

Generally speaking, recipient NGOs demonstrated a clear sense of their target population. Projects targeted Roma, visible minorities and refugees, the poor, the disadvantaged, and the physically or mentally disabled. At least 60% of beneficiaries fell almost exclusively under the category of either youth or women. The women: men ratio of beneficiaries was 60:40. When asked about their mandate, more than one third of NGOs highlighted helping the disadvantaged as their top priority. Not unexpectedly, this objective also received the largest number of additional mentions.

The CFLI in Hungary has exercised sound judgement in its selection of NGOs which cover a broad spectrum with a strong developmental potential. The funding has strengthened the recipient NGOs in a number of ways, such as gaining skills and experience, moral support, network extension, organizational empowerment, community building and creating building blocks for future activities.

Contact is maintained with recipients during formal or informal occasions, which provide an opportunity for public acknowledgement of Canada's contribution to the efforts of civil society.

With limited staff, numerous requests for funding, a large ongoing portfolio requiring appropriate and constant monitoring, the CFLI receives high marks for efficiency and effectiveness in reaching the poor.

4.7 Private Sector Development

Although the jury is still out, there is evidence to suggest that the REE contributions to front-end feasibility studies have harvested marginal results in terms of actual joint ventures. Causes for the weak outcomes include the ebb and flow of private enterprise in a transition country, important cultural gaps and a different concept of ethics. It is not that business linkages are impossible, they are merely unpredictable as a long-term proposition, and expensive to support, particularly in the absence of a clear understanding of the level of return CIDA expects from its investment.

Earl's Restaurant

In 1998, the Board of Directors of Earl's Restaurant, decided to test the waters in Hungary. Earl's is a chain of restaurants with no overseas experience, but with a high reputation at home. After a detailed market study in Budapest, there was no doubt in management's mind that the city was ripe for the type of service and menu Earl's could offer. Rather than seeking a joint venture, Earl's went in on its own. The plan was to open one restaurant to gain experience in a foreign culture, and then to expand to a total of 4-5 restaurants. An application for a \$75,000 CIDA contribution to train staff was approved in October 1999 and training took place both in Budapest and in Canada. A Hungarian-Canadian associate was found to cross the cultural gap, a reliable local manager was hired to supervise operations and there were no significant linguistic barriers since most young staff members spoke English. One would think that all possible conditions were in place to launch a successful business. There was only one significant flaw that eventually became apparent: ethics. Food theft, supplier kickbacks, electronic financial manipulations, under the table transactions and other misdemeanours were constant. Dishonesty and fraudulent behaviour were evident at all levels. This puts Earl's at a distinct disadvantage. Aside from wishing to maintain high ethical standards, Earl's restaurant system could not engage in questionable behaviour either in Canada or Hungary. After losing US\$ 3 million Earl's ceased operations.

Support to private sector development requires a more holistic approach and a clear, comprehensive strategy that builds on synergies between projects. It can be seen, for example, that entrepreneurship training at a variety of levels was and remains an important need. Also vital is support to the development of dynamic business associations that have the attitudinal and functional capacity to serve their membership. Hungarian firms have a distinct sympathy for doing business with Canada but lack the profit margin needed to explore opportunities. A sector strategy would allow for project synergies and a "ladder of opportunity" model that takes account of different levels of preparedness, on both the Hungarian and the Canadian side, to advance to something more concrete such as a joint venture.

With the fraud index rising and the cultural gap widening as one goes east, careful consideration should be given to all elements of investing in a commercial venture.

4.8 Graduation

With the 1997 publication of proposed plans to terminate Canadian cooperation in Hungary, (with no further bilateral allocations following FY 2000-01) the wind was taken out of the sails of partners. The terminology used ("shrink the budget" rather than, say, "transform the relationship") was especially discouraging. While tentative in nature, the "graduation" plan was dated some seven years before EU accession in 2004. At that time, graduation was anticipated sooner than 2004. In addition to the timing of the announcement, and the ambiguity of its immediate implications for all stakeholders, the process of graduation needs to take into consideration a number of factors. Several appropriate graduation principles were indeed articulated, including the importance of consolidating achievements and partnerships, but the announcement served to inhibit further project proposals and was vague about the nature of a transformation towards a future relationship between the two countries.

A most creative way towards graduation has been found in the establishment of the Official Development Assistance for Central Europe program (ODACE). It is very symbolic for signalling Hungary's transition from recipient to donor; it develops a strategic partnership with DFAIT's main counterpart (the

Hungarian Ministry of Foreign Affairs); it increases the donor community; it can potentially strengthen existing linkages between Canadian and Hungarian partners by making it possible to work together in a third country. At the same time there may be transparency issues that could be positively influenced by CIDA's decades of experience in this area (e.g. project selection, hiring of consultants, procurement, etc.).

In planning graduation, it is important to choose the timing of the announcement correctly, to define with utmost clarity a transformation to a future relationship that should include political and socio-economic considerations, as well as the virtues of key partnerships that should continue to be encouraged, and the role the CFLI could play in this overall process.

5.0 Conclusions

The objectives of this evaluation were to: capture results; identify lessons and further learning about countries in transition.

In Hungary responsive programming allowed Canadians to articulate their own ideas and work with partners they knew and liked. It encouraged partnerships between organizations, requiring buy-in and commitment on both sides. It tended to avoid bureaucracy, a very important consideration when dealing with government departments. It also often managed to stay clear of local politics. Hungarian partners felt they were full-fledged colleagues and were taken seriously. In this respect Canadians realized very well the benefits of working with a highly educated society

in which Hungarians were focused on achieving their objectives. A responsive program also allowed for projects that might be less politically palatable (e.g. Roma).

Notwithstanding the positive features of a responsive approach, there are of course well-known drawbacks. It can favour supply-driven projects, with limited scope for the articulation of needs from the Hungarian side. On a programmatic level, it can mean greater fragmentation, less synergy with other projects, and less receptivity to CIDA input even where it might be warranted. Projects performing well in the field may have no visibility or leverage with public politicians or Ministries in Hungary. Conversely stated, a directive approach negotiated with the Government can provide an opportunity to reach policy makers, which should be a key consideration, at least for some types of projects.

In spite of the generally positive fruits that resulted from responsive programming, it is important to note certain disadvantages: a dispersal of assistance tending to be in small amounts, the absence of longer term commitments often necessary to promote lasting institutional change, missed sector opportunities where Canadian comparative advantage could have played an important role, and possibly failed opportunities to introduce complementarily with other donors' initiatives. In his 1994 report the Auditor General recommended that the program "concentrate on the identification of the most appropriate sectors for Canadian assistance, as a critical mass of projects in a smaller number of sectors (as opposed to projects in too many sectors) will result in greater impact".

As was remarked earlier, a responsive programming strategy does not allow for clear strategic direction. A good case in point is the environment sector. DFAIT/CIDA project administrators were aware of pressing needs in the sector and knew that Canada had the comparative advantage for addressing them. Yet, there were hardly any projects in this area simply because Canadian organizations did not come forward. Canada's well-developed infrastructure and research communities in other areas such as geomatics, laser and optical electronics, health care, and agri-food, equally might have been a tremendous asset to Hungary. Moreover, the collaboration of Hungarian colleagues in these areas could conceivably have generated new research and development gains to benefit both Hungary and Canada. Even though much of Hungary's public sector reform in the later years was geared to harmonization with the European Union, there is evidence that Canadian government expertise might have been more fully exploited.

As may have become evident from the foregoing, Canada's support to the transition process in Hungary has been very successful. Only in a few instances can we speak of a less than satisfactory project result. But even in most of those cases, we cannot speak of outright failure: there were always some redeeming factors. Generally speaking there was much appreciation for Canada's efforts. Perhaps the area where most difficulties were experienced dealt with the traditionally challenging task of stimulating a connection between Canadian and Hungarian private entrepreneurs. This area requires highly sophisticated principles of project management as it deals with a process

normally left to the ebb and flow of market forces.

In looking at the overall experience over the last twelve years, we may be able to extract a number of lessons that should be kept in mind when moving on to provide support to other transition countries in Eastern Europe, the Americas and Asia.

6.0 Lessons

1. A responsive programming approach should be complemented by strategic guidelines reflecting traditional Canadian values and priorities, Canadian comparative advantages, potential for ongoing partnerships in various fields, key local transition requirements, and the advantages of focus to achieve impact;
2. With the proven emergence of a class of the permanently poor as a result of rapid transition, especially among ethnic minorities, specific attention should be placed on the social sector dealing with poverty issues;
3. The participation of Canadians with roots in the beneficiary country, all other things being equal, should be encouraged;
4. There needs to be a clear strategy in the design of a project dealing with sustainability of results. Elements of sustainability need to be defined in terms of specific objectives in the project design document;
5. Special attention needs to be paid to the sustainability of partnerships, from the very first step of project design to the need for follow-on phases (including ODACE, joint multi-country projects or token contributions to encourage future collaboration);
6. The planning, definition, timing and communication of a graduation strategy require sensitivity to its impact. The message conveyed should be clear, and carries a sense of finale and transformation, rather than shrinkage or withdrawal;
7. With closure pending, the CFLI will need to embark on a well-defined consolidation phase. Many suggestions in this respect have been made in this report, ranging from an increase in the budget for the remaining years, to consolidating the “recipient community” through capacity building, or mentoring selected NGOs for participation in ODACE;

8. It would be advantageous to draft a conceptual framework leading to a business support strategy that acknowledges different needs along a spectrum, which can be addressed with interlocking projects. Such an approach would retain the option of promoting business linkages with Canada, while shifting emphasis to more developmental considerations;
9. In evaluating other CEE country programs, consideration should be given to a sector-regional approach using local sector specialists, and hands-on participation by CEEB staff for program insights and training purposes;
10. Before embarking on other program evaluations in Poland, the Baltics, Czech and Slovak Republics, considerable time may need to be spent on data analysis to ensure the availability and accuracy of program data.

Annex A: Methodology

Sampling: With respect to the bilateral and multi-country projects, a purposive sample was taken. The sample represents a fair distribution of projects over time, an appropriate coverage of main sectors, an appropriate coverage of main themes and recognition of portfolio focus where this was detected (i.e. sets of similar projects or phases of projects). In total, the sample comprises 62 projects, or 35% of the 177 projects contained in the bilateral/multi-country portfolio. Many of these projects constituted a set with sufficient similarities that an evaluation could be performed on the total, not on each project individually (e.g. the CESO Classic set of projects). The sample amounted to about \$19million in commitments, or 60% of total. The very large number of small projects can explain the difference between the two percentage figures, particularly during the early days of the programme when the waters had to be tested. Because of its importance in the overall portfolio, there was blanket coverage in the evaluation of education and training projects.

The Canada Fund for Local Initiatives contains a total of 160 projects of similar size (all less than \$10,000) and focusing on support to NGOs. A stratified sample was taken with minor adjustments to reflect fairness in terms of sector, date, amount, district and contribution type. The sample contains 33 projects, or a little more than 20% of total.

A review of the Renaissance Eastern Europe programme presented a certain challenge in that an assessment was made of this portfolio in the year 2000 (interviewing Hungarian business

partners) and 1998 (interviewing Canadian business partners). These reviews were not intended as evaluations as such, but merely provided frequency data on responses to various pre-determined questions. It was considered inopportune to re-do the assessments and introduce cause and effect relationships in the analysis. Instead, the portfolio was situated within a broader overview of private sector development initiatives, for a comparative analysis of the merits and challenges of different project types.

Research. The examination of projects or sets of projects included file research, review of existing progress reports, Project Performance Reviews (PPRs) summarizing achievements (only introduced by CIDA management after 1996), and evaluation reports if available. Various evaluation instruments were produced, key among which was an elaborate questionnaire for the bilateral/multi-country/CPB projects touching upon all previously defined evaluation issues. A separate questionnaire was produced in the Hungarian language for the Canada Fund for Local Initiatives projects. Interviews were performed both in Canada and Hungary at all levels. Findings were verified through a process of triangulation.

Analysis. Projects in the bilateral and multi-country combined portfolio (including projects in the education sector) were analysed on the basis of pre-defined indicators of performance (relevance, project preparation and design, transfer of skills and technology, quality of partnership, management, sustainability, gender equity, and others).

Weighted averages by category

RELEVANCE

Rating	Number of projects or sets of projects*	Indicators of Relevance
1 – less than satisfactory	2	<ul style="list-style-type: none"> ✓ Consistent with CIDA and CEEB policy objectives ✓ Directly linked with specific elements of reform agenda ✓ Critical mass in key priority areas ✓ Timeliness in terms of transition needs
2 – Satisfactory	4	
3 – More than satisfactory	28	
Weighted Average	2.8	

*Note: Projects in several phases were rated as a set, not individually

RESULTS

Rating	Number of projects or sets of projects*	Indicators of Results
1 – less than satisfactory	5	<ul style="list-style-type: none"> ✓ Outputs delivered according to plan
2 – Satisfactory	12	
3 – More than satisfactory	17	
Weighted Average	2.4	

*Note: Projects in several phases were rated as set, not individually

QUALITY OF PARTNERSHIP

Rating	Number of projects or sets of projects*	Indicators of Partnership Quality
1 – less than satisfactory	3	<ul style="list-style-type: none"> ✓ Equality ✓ Championing roles ✓ Local integration ✓ Well connectedness ✓ Continuity of Canadian partner ✓ Qualified field representative ✓ Burning need to address ✓ Canadian competitive advantage
2 – Satisfactory	8	
3 – More than satisfactory	19	
Weighted Average	2.5	

*Note: Projects in several phases were rated as a set, not individually. Some projects were rated as “not applicable”.

SUSTAINABILITY

Rating	Number of projects or sets of projects*	Indicators of Sustainability
1 – less than satisfactory	7	<ul style="list-style-type: none"> ✓ Continuation of project activities ✓ For training programs, accreditation ✓ Legislative provisions
2 – Satisfactory	6	
3 – More than satisfactory	19	
Weighted Average	2.4	

*Note: Projects in several phases were rated as a set, not individually

GENDER EQUALITY

Rating	Number of projects	Indicators of Gender Equality
1 – less than satisfactory	3	<ul style="list-style-type: none"> ✓ Focus on women ✓ Involved primarily women as participants or beneficiaries ✓ Roughly equal gender ratios involved ✓ Scope for structural impact
2 – Satisfactory	12	
3 – More than satisfactory	11	
Weighted Average	2.3	

Note: Projects in several phases were rated as a set, not individually. A number of projects were rated as “not available”.

TRANSFER OF SKILLS & KNOWLEDGE

Rating	Number of Projects or Sets of Projects*	Indicators of Skills and Knowledge Transfer
1 – less than satisfactory	3	<ul style="list-style-type: none"> ✓ Significant training component ✓ Onward training took place ✓ Learning is applied ✓ Improvements resulting from training
2 – Satisfactory	6	
3 – More than satisfactory	23	
Weighted Average	2.6	

*Note: Projects in several phases were rated as a set, not individually. A few projects were rated as “not applicable”.

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