

# The case of Budapest: Administrative reorganization and capacity building

In: Rebuilding Effective Government: Local-Level Initiatives in Transition

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In Hungary the 1990 Act on Local Governments stipulated strong decentralization, creating the possibilities for independence of local governments. During the 1990s the major challenge facing the newly elected local leadership was to use the frame created by the Act to transform the inherited, socialist type local council into an autonomously functioning local government.

The old era meant a hierarchical structure, with the local council functioning as a de-concentrated unit of the state. Different fields of local activities were vertically connected to line ministries and local planning was more functioning as a tool of lobbying for central subsidies, than a comprehensive activity. The new era gave the possibility for real local planning, i.e. local aggregation of policies for better synergy of activities and for improved developmental outcomes. Interior reforms had to make the local government capable to independently plan, elaborate and implement strategies.

The goal of reforms could be clear from the beginning: (1) financial independence had to be strengthened by the increase of own revenues to create the basis for decision making independence, (2) the service delivery and management had to be reorganized to create a sustainable and planable system and (3) the administrative and decision making procedures had to be renewed to create a system conducive to coordinated, strategic policies. The process of reforms was less foreseeable than the goals, as possible timing of the introduction of different reform elements has always been dependent on the maturity of the existing system and the actual political context.

1990 – 1994	1994 – 1998	Further Targets
<b>External and internal conditions</b>		
Uncertainty of the new system, fiscal pressure and initially un-experienced leadership.	Continuing fiscal pressure, more certainty of the context, experienced leadership. Short-term financial crisis.	Re-centralizing tendencies of central government and politicised intergovernmental relations.
<b>Goals of financial reforms</b>		
Renewal of decision processes and procedures for new projects. Two years CIP.	Forecasting and medium term planning of capital budgets. Increase of financial independence / own revenues. (privatisation, tax, fees)	Reform of operation and long term financial planning of operation and development.
<b>Planning of sectors and development</b>		
Supervision of previous plans (water, traffic, human sector services, etc)	Elaboration of new sectoral concepts and plans adapted to the new conditions. Financing and implementation programs of sector plans.	Harmonization of urban management and development, shift to continuous strategic planning process.
<b>Results</b>		
Coexistence of old and new elements and routines	Coalition could be built for major structural reforms and restrictive policies.	Sustainable balance. Survival in alien conditions.

In 1990 the Municipality inherited the institutions and development plans of the socialist council. The institutions had problematic infrastructure and the traditional “base financing” system, the development concepts were mostly individual sector plans with extensive lists of all possible interventions. The council discussed new projects when elaborated and after approval the new project could be added to the existing list. This procedure was logical as a larger local “whish list” could increase the possibility to get financing.

In the new situation aggregation and decision had to happen at the local level. For this a comprehensive capital budget and its comparison to forecasted financial capacities had to be elaborated. The Municipality could elaborate the first Two-years Capital Investment Plan (CIP) in 1993 after long negotiations and revisions on earlier sector plans and established a gradual and adjusted decision making process for the elaboration of new projects. Thus capital expenditure planning became better regulated, but reform capabilities and political conditions were not mature yet to the more complicated task of reforming the financing of operation.

The second election term (1994-98) brought the more comprehensive reform. Through the introduction of a seven-years financial forecasting and planning model the structural deficit of the budget could be demonstrated and wider understanding could be developed for a financial strategy leading to sustainable stability. Then, in 1995, a short-term financial crisis could be exploited by the leadership of the Municipality to build the necessary coalition for launching major privatization transactions and for the acceptance of undertaking the political costs of a thorough institutional restructuring. The intergovernmental fiscal pressure balanced by the increase of own current revenues (user charges, fees and taxes) increased financial independence of the Municipality, and the privatization revenues could be turned into the up grading of infrastructure.

Increasing charges supplied better information on demand and on the basis of the improving planning system sectoral development concepts could be harmonized with capabilities.

The most complicated and conflicting reform, the restructuring of operation and financing of institutions, was the latest. Its acceptance could be built on the increased belief in the results of forecasting, the widening understanding of the basics of financial management, on the credibility of the enduring leadership and on incentives and rewards balancing restrictions.

The restructuring of operation had to tackle three tasks: (1) reconsideration of the responsibilities that had started earlier by the revision of sectoral task concepts, (2) introduction of zero based task financing as an effective method to increase efficiency of institutional management and (3) establishment of a Rationalization Fund to cover the one time investment needed for long-term cost saving on operation.

Reforms of operation and development, creditworthiness and a sustainable balance created the basis for the harmonization of operation and development activities and the base for the elaboration of a comprehensive strategic plan, that can later possibly lead to a continuous strategic planning process.

The major proof of the success of reforms is that the Municipality of Budapest could survive with considerable financial health even in the alien conditions of intergovernmental relations of the last two years. The strongly re-centralizing central government policy exploiting all legal possibilities (and some illegal as well) to withdraw funds from the city for the time being could not endanger the sustainability and balance of local management.

### Further reading / References:

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