



DIFFERENT HORIZONS

AID, TRADE AND OFFICIAL DEVELOPMENT ASSISTANCE IN HUNGARY

CENTER FOR POLICY STUDIES
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DIFFERENT HORIZONS:
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IN HUNGARY

Edited by
Andrew Cartwright

FOREWORD

State development assistance is constantly changing. There are new countries involved such as Turkey, Brazil and Venezuela and the central and eastern members of the European Union. Not so long ago, some of these new donors were themselves recipients of grant, cheap loans and technical assistance. Their status as emerging democracies or transition countries gives them an alternative perspective on development co-operation and external support, and for some of the more established international development organizations, this can translate into a different kind of solidarity, less tinged with ambivalent post-colonial relations.

Non-state development assistance is also changing in size and importance; in some fields, private philanthropy outspends state programs tenfold; in other cases, lines between business and development are blurred as more and more companies participate in actions that are part profit making but also with a clear social agenda. Although the stress is on partnerships, there are still those involved in development that stress more political agendas, for example, cross border democracy promotion and the different colour revolutions.

In this context, it is worthwhile having a clearer idea of just who are these new development actors and how far are they working to traditional models of development assistance and support? What is the actual meaning of partnership within countries and between countries? How does one country get to be a priority partner and what does the general public think of all these efforts to improve living standards abroad?

This report represents the Hungarian chapter of a nine country inventory of current development practices in central and eastern Europe. Led by the Center for Economic Development in Sofia, it is the first systematic attempt to provide detailed information and analysis on Official Development Assistance in these countries and the respective roles of the civic and private sector in both policy and practice. We hope that it can make a useful contribution to debates on the future of this emerging sector.

TABLE OF CONTENTS

FOREWORD	III
LIST OF FIGURES	VII
LIST OF TABLES	VIII
LIST OF CONTRIBUTORS	IX
EXECUTIVE SUMMARY	
<i>Andrew Cartwright</i>	II
CHAPTER ONE: 'AID FOR TRADE' OR 'AID TO TRADE': HUNGARIAN TRADE RELATIONS AND INTERNATIONAL DEVELOPMENT	
<i>Marton Leiszen</i>	17
1.1. Introduction to Hungary's International Development	17
1.1.1. <i>Historical perspective, Hungary as a "New" Donor</i>	17
1.2. Purpose Objective and Scope of the Research	19
1.3. Methodology	19
1.3.1. <i>The Country Selection Process</i>	20
1.3.2. <i>Limitations of the research</i>	21
1.4. International Development Policy and Foreign Policy Strategy	22
1.4.1. <i>Observations</i>	24
1.4.2. <i>Hungary's Foreign Policy Strategy</i>	26
1.4.3. <i>Assessment of the Foreign Policy Strategy Priorities</i>	27
1.4.4. <i>Official Development Assistance</i>	29
1.4.5. <i>Bilateral ODA</i>	31
1.4.6. <i>Section Summary</i>	33
1.5. Current State of Bilateral Trade and Applied Trade Regimes	34
1.5.1. <i>Trade Agreements</i>	34
1.5.2. <i>Country profiles</i>	35
1.5.3. <i>Other Trade Related Activities in Recipient Countries</i>	44
1.5.4. <i>Bottlenecks and Solutions</i>	49
1.5.5. <i>Challenges in Hungary's Private Sector Capacity</i>	53
1.5.6. <i>Most important areas to facilitate the involvement of Trade in Development</i>	53
1.6. Conclusion and Policy Measures	56

CHAPTER TWO: THE ROLE OF THE HUNGARIAN PRIVATE SECTOR IN THE DEVELOPMENT ASSISTANCE

<i>Attila Bartha</i>	59
2.1. Introduction	59
2.2. Methodology	61
2.2.1. <i>Country Selection</i>	61
2.3. The role of the Hungarian private sector in the selected countries	62
2.3.1. <i>Direct Investment</i>	66
2.3.2. <i>A missing link: Hungarian financial private companies in international development activities</i>	67
2.3.3. <i>Transfer of know-how and technology, building of physical infrastructure and human capital</i>	69
2.4. Hungarian private sector's participation: motivation and potential	71
2.4.1. <i>Employment, social activities, and corporate social responsibility</i>	73
2.4.2. <i>The role of intermediary organizations</i>	74
2.4.3. <i>Tied aid and the Private Sector</i>	75
2.5. Conclusion and recommendations	76

CHAPTER THREE: THE ROLE OF THE HUNGARIAN CIVIL SOCIETY IN DEVELOPMENT ASSISTANCE AND AID EFFECTIVENESS

<i>Anna Selmeczi</i>	78
3.1. Introduction	78
3.2. The context	79
3.2.1. <i>Prehistory and its implications</i>	79
3.3. Surveying the Hungarian NGDO sector	85
3.3.1. <i>The profile of Hungarian NGDOs</i>	86
3.3.2. <i>Involvement in development activities</i>	90
3.4. Understanding the challenges	99
3.4.1. <i>Lack of political support</i>	99
3.4.2. <i>Lack of public awareness</i>	101
3.4.3. <i>Unequal relations with "Old" donors' NGDOs</i>	102
3.4.4. <i>Difficulties of supranational interest representation</i>	103
3.5. Conclusions and Recommendations	104

REFERENCES	107
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ANNEX I: NGDO DATABASE OF THE RESEARCH	114
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LIST OF FIGURES

Figure 1. Hungary's Net ODA Disbursements in Million Euros	30
Figure 2. Hungarian exports and Bilateral Trade of Goods to Selected Recipient Countries, 2003-2011	62
Figure 3. Exports and Bilateral Trade of Services with Selected Recipient Countries, 2006-2011	63
Figure 4. Main challenges of private companies in international development projects	72
Figure 5. Use of local partners	72
Figure 6. Contacts with Government Agencies and Business Associations	74
Figure 7. If your organization has carried out development projects, in which field was/is it active?	91
Figure 8. Hungarian NGDOs' work around the world	92
Figure 9. How does your organization try to influence official policies related to international development?	95
Figure 10. What resources did your organization draw on to fund its development and humanitarian activities in the past five years?	96
Figure 11. Proportion of private funding NGDOs' past 5 years' budget	97
Figure 12. If your organization fundraises from different sources, who are the main donors?	97
Figure 13. Which of the following employment relations do your organization's development and humanitarian activities operate with?	99

LIST OF TABLES

Table 1. Selection criteria based on bilateral relations	20
Table 2. Selection criteria based on foreign policy priorities	21
Table 3. International Agreements of Trade Regimes	34
Table 4. Changes in Relative Weights of the Selected Recipient Countries in the Overall International Trade Turnover of Hungary	64

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EXECUTIVE SUMMARY

Governments all over the world have subscribed to the Accra Agenda for Action (2008) and the Busan Partnership for Effective Development Cooperation (2011), where it is stipulated that governments should broaden their “country level policy dialogue on development” and “engage with civil society organizations” in order to build effective partnerships. The declarations reflect a consensus that development is “most effective when they fully harness the energy, skills and experience of all development actors – bilateral and multilateral donors, global funds, civil society organizations (CSOs) and the private sector.”

This research seeks to better understand the extent of cooperation and collaboration between the non-governmental development organizations (NGDOs), commercial businesses, and government agencies in Hungary.

The first part explored the connections between Hungary’s bilateral trade relations and its program of Official Development Assistance (ODA). The aim was to assess how far trade regimes and trade agreements have been used to support the Millennium Development Goals. To this end, the paper begins with a short history of Hungary as a development donor, which showed that the country’s previous experience as a donor in the 1970s and 1980s continued to influence current policy, specifically, the selection of partner countries and the modality of development assistance it provides.

The countries that receive the majority of ODA are neighbours like Serbia or Ukraine, commitments arising out of international coalitions such as in Afghanistan, and countries such as Vietnam where Hungary has historical ties from its past donor life.

There is a substantial difference between the proportion of ODA allocated to multilateral institutions and that overseen by bilateral allocations. This can lead to aid fragmentation with little substantive coordination between the Ministry of Foreign Affairs Department of International Development and Humanitarian Aid (DIDC) and the five other line-ministries who provide BDA. Various ministries provide scholarships – in recent years between 30-40% of BDA was allocated through education based projects- or finance international projects within their mandates. However, these are rarely jointly planned activities.

With its low financial and human capacity, MFA DIDCs role is limited to providing technical consultation with line-ministries, managing ODA statistics and financing projects from its own budget. Without a commonly accepted strategy to coordinate public stakeholders, Hungarian ODA will remain below its potential. Indeed, both the academic and practitioner writing as well as interviews and focus groups, identified the absence of a comprehensive and strategic policy on International Development policy as one of the main shortcomings. Without such a document, it is difficult to elevate international development and make a clear separation with foreign policy. The relative marginality of the issue has inhibited its mainstreaming to other sectors such as trade, with an already scarce budget disbursed among too many countries.

Can Hungary use bilateral trade to support the development capacities of partner countries? External trade has long been the main driving force of the Hungarian economy. However, bilateral trade relations with the ODA recipient countries shows a very mixed picture. With some countries like China, there is a continuous growth in trade, while others such as Bosnia and Herzegovina, there is decreasing tendency.

Perhaps unsurprisingly, there is no clear-cut pattern between changes in external and bilateral trade and the levels of BDA. Bilateral trade with China for example is growing although Hungary discontinued its BDA in 2010. In other cases, such as with Nigeria or Kenya, the levels of BDA have increased alongside a considerable increase in exports of services from Hungary.

The research did not identify any direct relation between these trends. However, it is the case that countries that are priority trade partners are also the main recipients of BDA. Ukraine, Serbia and China are among the main trading partners of Hungary accounting for an average of 6% of overall bilateral trade. At the same time, these countries received an average of 35% of Hungary's bilateral ODA throughout the examined years.

This finding suggests that without a comprehensive ID policy and overarching ID strategy, a substantial portion of bilateral assistance advances agendas that are less connected to the Millennium Development Goals but rather to support foreign policy goals such as economic interest representation, security and energy security.

The second paper offers recommendations concerning the involvement of private sector actors within international development. The explicit admittance of private sector actors into this sphere is a relatively recent phenomenon. In the last decade, various forces have promoted the role and responsibility of the private sector in helping achieve development goals. However, this research found few examples of Hungarian companies combining strong financial, technological and human capacities with a substantial commitment to corporate social responsibility.

As mentioned, there are significant trade relations with the 'partner countries' in the Western Balkan, Eastern Europe, Asia and Africa. With the noticeable exception of several Asian countries, Hungary has a significant surplus of exports within these trade relations. In the Western Balkans, the data do suggest a substantial level of investment activity, however in practice, this is rather limited with a significant part of the "Hungarian" investment being a transit type of foreign direct investment of typically German owned multinational companies.

The potential of companies to be involved in development assistance is hampered by liquidity problems and the credit crunch. There are specialized state institutions (EXIMBANK and the MEHIB) which provide valuable financial constructions for potential participants, the most important of which are tied aid credits. A profile of projects within recent international development activities indicate that the private sector could contribute

significantly in the fields of social investment and manufacturing, especially related to agricultural and food industry technological improvement.

Small and medium-sized companies are interested in international development projects. However, they lack the capacity for this in practically every respect. Whilst several SMEs are active in international markets, most are not providing significant technological value-added. They are typically too small to finance the investment needs of larger-scale projects, and the cluster-development, which has been offered as a possible solution to overcome size problems, is weak. Moreover, the technological and financial capacity problems are frequently aggravated by human resource problems.

Business associations and other intermediary organizations could help fill the gap between the strong expressions of interest and the rather weak financial and human capability. Though inter-organisational cooperation is traditionally not very smooth, we can observe a few promising trends and examples; notable among them being corporate cluster development in the water industry sector.

In these circumstances the critical role of tied aid is unsurprising. Although major international actors and many civic organizations are fundamentally opposed, tied aid has a relatively strong domestic legitimacy in Hungary; partly because of frustrating experiences in untied aid project tenders.

Nevertheless, because of the continuing and foreseeable opposition to this form of support, we recommend that Hungarian government actors gradually reduce the role of tied aid. This may gain greater legitimacy if private actors are more competitive in untied aid tenders. In this respect, additional efforts would be needed to improve companies' capability to participate in international development projects; for example, the technical capacity problems can be partly solved by cluster development drawing on the positive experience of the water industry cluster. Concerning the financial capacity issue, the increasing role of the international-trade-supportive financial institutions such as EXIMBANK and MEHIB is favourable, but improvement in the general business climate is necessary as well.

Human capacity problems of interested private sector actors can be partly solved with a more active cooperation between the NGDO sector and the private sector; in fact, on the longer run relations can be developed that are mutually supportive; in a post-crisis era, the private sector can help support the NGDOs financially, while the NGDOs may contribute with their human resources to increased private sector participation.

Improving cooperation potential of Hungarian private actors is a basic prerequisite for each of these policy measures. Consequently, the role of intermediary organisations, such as the various chambers and sectoral business associations, has especial importance.

Regular and transparent information exchange both personally and via interactive portals is a basic requirement. Finally the improvement of cooperation and participation requires a comprehensive public, transparent and up-to-date data base of opportunities to participate in international development work.

The final paper deals with the activities of Hungarian non-governmental development organizations, including their relation to state actors and the extent that they shape ODA policies, strategies, and activities.

As there is no accurate and up to date database of CSOs active in the field of international development and humanitarian aid, the first step of the research was to create a comprehensive list of relevant actors in the field, which identified just over 60 NGDOs. We then ran an online survey to which we received 29 complete responses.

We were able to draw a profile of the sector based on the scope and extent of their work as well as the geographical coverage. The surveys were complemented with interviews with selected participants and then refined in a focus-group discussion with development experts, academic researchers, as well as civil society and government representatives. Finally, our preliminary findings were shared and tested in a national task force which brought together NGDO experts, practitioners, and members of the academia.

The research indicates that there is a stable and capable NGDO sector in Hungary with many organizations taking part in regular international development activities. Out of our 29 respondents, 27 organizations

participate or have previously participated in international development, with 22 saying that their organization is currently leading or has led development projects in the past. Over the past 5 years these NGOs have carried out development or humanitarian work in 76 countries.

Nevertheless, the civil sector's effective involvement in ODA is very limited, due to reasons rooted mostly in an unfavorable political and societal context. The main challenges for the sector are the lack of political support – development issues weigh very little within political circles, and governments have shown minimal interest throughout the past decade to formulate policies or strategies to operationalize ODA. There is also limited public awareness – there is little interest and support for development activities outside of Hungary, particularly in the context of an economic crisis and when it comes to “far away” countries. Participants identified the problem of unequal relations with “Old” donors’ NGOs – the economic downturn that hit the European Union led to ODA budget cuts which heightened the competition for the already scarce resources and sharpened the inequalities in the capacities and resources of old and new member-states’ NGOs. Finally, there are difficulties of supranational interest representation – the lack of financial and human resources of the Hungarian NGOs translates into underrepresentation in the expert groups as well as the leadership of, among others, European NGO platform organizations.

These major challenges require further investigation and remedial action. The recommendations we propose include:

- Increasing the political profile of ODA through greater policy coherence
- Increasing public support for international development activities through long-term investment into education instead of short-term awareness raising campaigns
- Leveling the relationship between NGOs in old and new member-states through incentives for cooperation and enabling new member-states’ organizations for efficient interest representation
- Fostering cooperation between the NGO and the private sector

1. CHAPTER ONE:

'AID FOR TRADE' OR 'AID TO TRADE': HUNGARIAN TRADE RELATIONS AND INTERNATIONAL DEVELOPMENT

Marton Leiszen

1.1. Introduction to Hungary's International Development

1.1.1. Historical perspective, Hungary as a "New" Donor

At a recent technical workshop¹ many of the official participants argued that the title new donors or emerging donors was misplaced. Even though countries of the former Eastern bloc might be new to the donor community, the practice of development assistance is not new.

International development as part of foreign policy was a feature of the previous system when Hungary sustained foreign aid policies under the term "technical and scientific cooperation". Under this program, it nurtured close relationships with 'developing socialist brother' countries, such as Vietnam, Cambodia, Laos, Mongolia, Cuba and various African and Middle Eastern countries, such as South-Yemen, Angola and Ethiopia (Dreher, Nunnenkamp, and Thiele 2011, HUN-IDA 2004). Support ranged from technical assistance, know-how, scholarships to tied aid credits, and the supply of agricultural equipment, among others. As noted

¹ "Assessing Existing Practices in Capacity Building for the Emerging Donors for the Central and Eastern European Countries" organized by the World Bank Institute, United Nations Development Program and the European Commission in June, 2012 at Corvinus University, Budapest

by Szent-Iványi development assistance was not separated from military aid, which was almost 30-40% of the total aid and accounted for 0.7% of the Hungary's national income of the time (Szent-Iványi 2009). With the fall of the Eastern bloc, almost all of the former socialist countries discontinued suspended their aid policies.

During transition Hungary moved from being a donor to recipient and started its rugged road to become a member of the European Union(EU). In the 1990s, Hungary received assistance from the World Bank and the EU, as well as support on a bilateral basis from Japan, United States, Germany or the Netherlands (Szent-Iványi and Tétényi 2012). These contributions were mostly used to assist institutional change, provide technical expert knowledge, and enhance institutional capacities. The little aid that was provided by Hungary during this period was mainly in scholarships to students of developing countries and ad-hoc contributions to various multilateral organizations. In 1996 Hungary joined the Organisation for Economic Co-operation and Development (OECD), and commenced on its 'second life' as a development donor. In 2004, Hungary became a full-fledged member of the EU and with that came the obligation and responsibility to be a donor country.

The nature of Hungary's international development assistance was, and still is, in a process of change and while mapping its main features is possible, pinpointing specific characteristics is not such an easy task.

The most significant changes came during the EU accession period, when Hungary had to comply with the requirements of the *acquis communautaire*. In the field of international development, the mandatory requirements were limited to the policy areas concerned with the financial perspectives of common programs, i.e. membership contributions and multilateral assistance. The development of bilateral assistance, however, remained within member states competency and without legally enforceable rules (Horký 2010).

1.2. Purpose Objective and Scope of the Research

This research explores the connections between bilateral trade relations and Official Development Assistance (ODA). The objective was to assess the extent that trade regimes and agreements have been used to support the Millennium Development Goals of poverty reduction and sustainable development. The research takes into account Hungary's past as a development donor, its International Development Cooperation (IDC) policy, Foreign Policy Strategy (FPS) and bilateral ODA disbursement trends. Furthermore, the paper scrutinizes Hungary's export and foreign trade with recipient countries of Hungarian bilateral ODA (BDA) to see which non-EU member countries are the main trade partners to Hungary and what are their relative weights in Hungarian foreign trade. The research compares the trade trends with the allocation of BDA to these countries, to see if there are any correlations between the recipient countries trade performances with Hungary, and the amount of allocated assistance. This comparison merely serves as a proxy-indicator to see if trends indicate that the increased flow of BDA can lead to increased trade relations.

1.3. Methodology

To inform the research paper a set of methodological steps has been elaborated and performed in the following sequence. 11 priority countries from the OECD DAC list (Development Assistance Committee) were selected and then, with the assistance of the Ministry of Foreign Affairs, the research identified and contacted additional ministries and agencies involved in International Development Cooperation (IDC). A survey was conducted to explore the nature of involvement of different agencies and line-ministries in IDC activities. Interviews were carried out with line-ministry officials, Chambers of Commerce and other private sector participants. Furthermore, the participants of the interviews contributed to a focus group meeting discussing the potential for private sector participation in development activities.

1.3.1. The Country Selection Process

Table 1. Selection criteria based on bilateral relations

Selection criteria	Trade relations	ODA level	WB or EP ²	HDT
Countries				
Serbia	X	X	X	
Montenegro		X	X	
Bosnia and Herzegovina	X	X	X	
Macedonia	X		X	
Ukraine	X	X	X	
Kazakhstan	X		X	
China	X	X		
Vietnam		X		X
Egypt	X			
Kenya		X		
Nigeria		X		

The 11 priority countries were selected throughout the following process. First, statistical data on bilateral trade and export volumes were analyzed to determine Hungary's priority non-EU trade partners. The list of main non-EU trade partner countries was compared with the countries specified in the Hungarian Foreign Policy Strategy. The selection also considered the sectoral priorities that were linked to each priority countries. The third step was to analyze the level of bilateral ODA to the selected partner countries. At this point the research could identify correlations between countries with high volumes of trade, occupying priority positions within Foreign Policy Strategy, and enjoying the highest allocation of BDA.






During the fourth step countries, which Hungary has, previous historical ties (HDT) were included. As a result, an additional country was selected being one of the oldest IDC partner countries to Hungary.

The table above shows priority countries chosen by trade volume (Serbia, Macedonia, Ukraine, Kazakhstan, China, Egypt) or ODA allocation level

² Refers to the Western Balkan countries, or the European Unions Eastern Partnership initiative

(Serbia, Montenegro, Ukraine, China, Egypt and Kazakhstan) while the table below those that appear on the Foreign Policies priority sectors, such as: Economic Interest representation, Strengthening Security and Energy Security. Two African countries – Kenya and Nigeria – are the exceptions, since they are not listed as Hungary’s foreign policy priorities. However, the continuous allocation of BDA and the increasing trade relations were the determining factors to include them in the list. Vietnam was chosen because of previous historical ties and its priority place among the Hungarian IDC partner countries.

Table 2. Selection criteria based on foreign policy priorities

Selection criteria	Declared foreign policy preference					
	Economy	Security	Energy security	Community Rights of Minorities	Agriculture	Sustainable Development
Countries						
Serbia	X	X			X	
Montenegro	X	X			X	
Bosnia and Herzegovina					X	
Macedonia		X			X	
Ukraine			X	X	X	
Kazakhstan			X		X	
China	X	X				
Vietnam					X	
Egypt		X				
Kenya						X
Nigeria						

1.3.2. Limitations of the research

The research is constrained by the limited availability of relevant and robust data. To compare foreign trade trends with BDA allocation patterns and provide quantitative results would require the observation of these two variables over a longer time frame. The Ministry of Foreign Affairs collects statistical data on ODA allocations for the OECD. As a result, reports are available from 2003 and accessible to all public, civil

and private stakeholders alike. These contain the syllabuses of Hungary's ODA contributions as well. There is a constant progress in their reporting structures providing more coherent data on countries, donor ministries, projects, supported sectors etc. This makes the researchers' position more difficult, because comparison between current and previous reports is hard to make. The naming convention of sectoral intervention areas, for example, has changed substantially between 2008 and 2011. For the sake of transparency and interpretation, the research only used the ODA data from the tables provided at the end of each report which is only available from 2008; hence, comparison of foreign trade trends and allocated BDA is featured only between 2008 and 2011.

As a result this report does not claim to be a comprehensive analysis of foreign trade and BDA, but rather an explorative type testing the potential of such method for a further, more comprehensive approach.

1.4. International Development Policy and Foreign Policy Strategy

What are the MDGs?



In 1996 Hungary became a member of the OECD, and prepared its first international development policy (MFA 2003). In 2001, the Hungarian Government approved the concept paper that signalled a shift from ad hoc and decentralized development policy towards a development cooperation, which complies with UN, OECD and EU norms.

Hungarian Development Policy does attempt to comply with all regulative measures obliged by the *acquis communautaire*, including its normative contributions to the European Development Fund (EDF), to act upon the commitments to the Millennium Development Goals (MDGs), adhere to the principles of the 2002 Monterrey Consensus and the 2008 follow-

up in Doha. To comply with OECD measures, Hungary's ODA contribution needs to reach 0.33% of GNI (MFA 2003).

IDC activity areas

In order to determine IDC activities, the policy uses the OECD interpretation of development assistance, which includes the following international development activities:

Technical cooperation

Mainly consists of education, scholarships, vocational training, and knowledge transfer type contributions. This is the most common type of assistance, establishing long-standing relationship with recipient countries.

Project-based development assistance

The concept is developed to contribute to recipient countries' Poverty Reduction Strategy Papers (PRSP) or Country Strategy Papers (CSP) and finance the implementation of these strategic development plans. Donors can either partly or fully finance projects based on these strategies. The effectiveness of this assistance is often determined by the broader context and the projects' general socio-economic implications and sustainability.

Humanitarian assistance

These are emergency types of aids, aimed at assisting victims of either natural disasters, or man-made catastrophes. In these cases, political considerations are negligible, but it is important to ensure the domestic conditions of fast response by assisting domestic NGOs and other organizations that can deploy assistance (technical or material) to reach the affected areas in the recipient country in a short timeframe.

Requirements of program execution

To ensure the fluent implementation and shape the relevant conditions and institutional frameworks, the following structures and mechanisms

help enable the realization of IDC policy. Delivery is ensured by the MFA supervised technical institution, executed by private sector or civil organizations mandated by the centrally coordinated body through tendering procedures. The delivery mechanism has three main elements:

- The MFA identifies and supervises the implementation of development programs based on Inter-budgetary Committee decision.
- The Delivering agency provides financial and technical assessment, prepares tendering and organizes project implementation.
- The Implementing agency executes the actual implementation of the project.

1.4.1. Observations

The above outlined concept note was formulated in 2001, but MFA officials claim it is out-dated and ill equipped. Unfortunately, this is the only policy overview of Hungary's IDC activities. At the focus group discussions some participants noted that international development activities are vaguely regulated and there is no framework to modulate international development related activities of line-ministries. Some interviewees noted that IDC policy does not interfere with line ministries and other institutions' established to provide aid-support activities (Szent-Iványi and Tétényi 2008). IDC only provides a platform to coordinate IDC type activities which means that it is a soft policy tool which can exert only limited influence over the 'lion's share' of the BDA budget which is provided by the line-ministries.

Financial Framework

Focus group participants agreed that efficient and reliable financial resources are essential to support development competencies within the ministry, but as one official explained, "the policy does not go beyond this recognition. It neither suggests any alternatives, nor has any jurisdiction

to do so. "A predictable two-three year funding framework for example, and a reliable IDC development strategy could substantially enhance aid effectiveness and increase their sustainability.

Monitoring and Evaluation Frameworks

Monitoring and evaluation frameworks can help assess effectiveness of implemented projects, and learn from past mistakes and successes. However, as the surveys revealed, evaluations are not an organic part of the aid planning, therefore the objectives to what the project should achieve are not always clear.

Sectoral Embeddedness

As there is no unified approach to development assistance, some sectors have been identified as areas where Hungary has comparative advantage, but these are often accompanied with little strategic planning. Contributions to these sectors remain dispersed and ineffective. For the same reason that international development is not mainstreamed into other sectors such as trade hence sectoral advantages are not exploited. Officials admitted that Hungary does not have a separate Aid for Trade strategy.

Selection of partner countries and sectoral intervention areas

The selection of partner countries is based both on partner countries' needs for social and economic development and the opportunity to strengthen bilateral relations. Development agreements are based on geographical proximity, regional stability and the continuation of already established broad social and political relationships (MFA 2003). The international trend is that donors should concentrate on countries and sectors where they have 'comparative advantages'; hence they can perform the task of giving foreign aid more efficiently. Hungarian development policy identifies such comparative advantages as transitional knowledge, education, and health sector, agricultural know-how, water management and infrastructure planning and civil society development. However, these advantages are

seldom based on actual relevant experience, but rather follow a trend among the Visegrád countries (Szent-Iványi and Tétényi 2008). The policy paper gives little explanation of the selection criteria. Instead, the emphasis should lie on the actual and proven comparative advantages Hungary has in achieving the development goals.

The DIDC is the body with primary responsibility to plan so called ‘conscious development’ activities. During interviews and in the focus group discussion, the representatives of the MFA announced that the Parliamentary Foreign Affairs Committee had lodged a draft resolution to initiate a discussion on the Hungarian International Development Cooperation Policy and to request the Government to develop a Medium-term International Development Framework strategy by June 30, 2013.

1.4.2. Hungary's Foreign Policy Strategy

IDC does not appear as a separate strategy within Foreign Policy, but in reference to various international commitments and priorities (MFA 2011a). This section should be understood as a short overview.

Hungary's Foreign Policy Priorities

Regional Policy: the representation of Hungarian interest including domestic economic interest, interest of Hungarian ethnic minorities living outside of the country's borders in Central – and South-Eastern European countries.

Euro-Atlantic orientation: National interest representation at the EU and the NATO to promote a strong and unified Europe and realize Hungary's goals in furthering the Trans-Atlantic cooperation.

Global Opening: To renew Hungary's relation with countries that fell out of focus of the foreign policy, strengthen Hungarian presence in the international community and increase its activities to tackle global challenges.

1.4.3. Assessment of the Foreign Policy Strategy Priorities

Since the main focus is on sectoral and priority objectives towards countries that receive ODA or are significant trading partners, the FPS's implications on Hungary's Euro-Atlantic Orientation will not be addressed. The section provides a description of the role of priority sectors at the Regional and Global Policy Levels.

Regional Policy

Hungary's strategic partnership with central and eastern neighbours suggests an interest in a Central European interest group that seeks to apply pressure on the EU and counter balance western political and economic leverage. This explains the priority position of Economic Interest Representation, and Security, to ensure state integrity and stability as a sectoral priority. Harnessing dynamic economic development between these countries is hampered by weak transport and energy infrastructure although attempts to develop this infrastructure are unfolding within the Danube strategy.

With the EU expansion towards the West-Balkan region, security policy received an exclusive second position on the FPS priority list. European integration can provide a great opportunity to provide technical experience to economies in transition or to facilitate institutional development and democratic transition in candidate states. Priority countries in this regard are *Serbia* and *Montenegro*. The question of security in *Macedonia* is also crucial in for political stability in the region; however it received a more modest position on Hungary's ODA distribution list.

An additional priority country is *Ukraine*. Fostered by the Eastern Partnership Program, *Ukraine's* adaptation of European standards is key to ensure the energy transit routes towards Central Europe. The continuous transport of goods and personnel to the Central European region brings a possibility to develop the relevant infrastructure and helps maintain the priority of the Eastern Partnership on the EU agenda.

Global Opening

Hungary seeks to revitalize relations to Asia and the post-Soviet region and strengthen its international position by diversifying foreign trade. These ambitions can also support the objective to increase job creation.

Central Asia, Post-Soviet Region

Revitalizing relations with Kazakhstan serves three purposes; first, to ensure an uninterrupted flow of a crucial energy source; second, to gain access to other regions with Hungarian minorities; third, to ensure the Central Asian countries' transition towards democratic political values, with stable, more predictable and transparent legal and economic systems that will help secure access for Hungarian goods.

Since a significant portion of Hungarian capital appears in this region it is an economic priority to maintain good relations. Potential areas of cooperation are economic and environmental sustainability, democratic transition, and fostering cultural diversity. Hungary can help modernize food production, energy and food-crop production technologies on an industrial scale in south-central Caucasus region. Hungary's potential intervention areas are the development of sustainable water irrigation systems and soil quality mitigation.

Eastern Asia

To sustain growth and development, countries in this region have to meet their increasing needs for raw materials. Countries often struggle with food security, climate change, floods and droughts, all of which contribute to soil deterioration. In spite of the small share of Hungarian export there is a considerable experience in scientific cooperation with Asian countries such as Vietnam and Laos. Asia is key for the country's FP that seeks to intensify its exports to meet the increasingly growing demand from Asian markets.

Middle East and North Africa

These regions are important from a safety and security standpoint, especially in the light of the "Arab-spring". Hungary's objectives are to ensure the

security of the state and support peace in the region, encourage democratic processes and enhance the regions external market capacity.

Sub-Saharan Africa

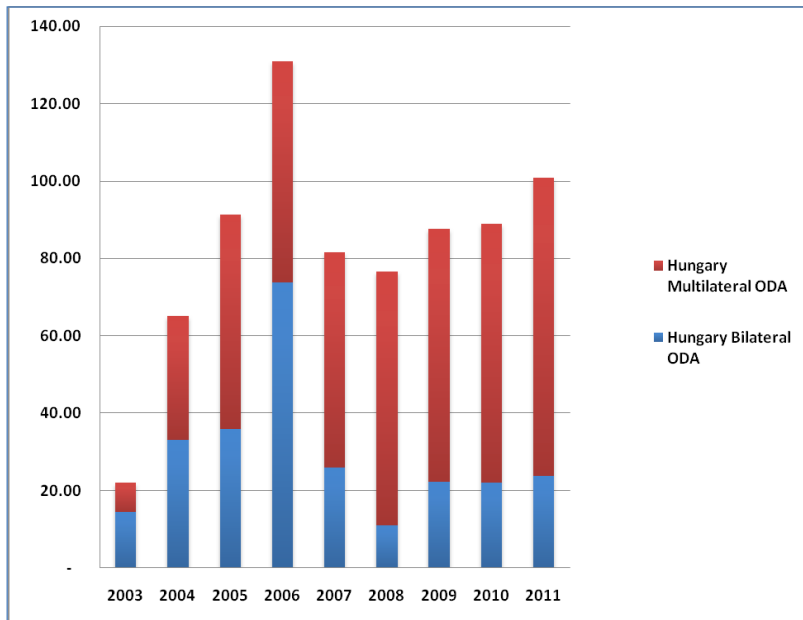
During the Cold War, Hungary's political interest towards Africa was bloc-based. In the aftermath, while most African countries were going through political re-structuring, the region did not attract considerable Hungarian investment. Business interest was low mainly because of state instability. With EU accession, Hungary's interest towards Africa gained a new institutional and political context, but till this day it has not been utilized to a full extent. Since it is rich in minerals, Sub-Saharan Africa's global and economic role has been re-evaluated and as a consequence of its integration in the world market, rapid economic growth appeared in a number of countries. Strengthening ties with Africa could be beneficial for both Hungary and the African nations. To increase Hungary's involvement, the EU's common external policy framework and humanitarian aid programs can be useful to gain experience and further Hungary's role as an international development actor. To pursue active participation in the African development process will require the introduction of Hungary's 'Own Africa Policy'. If Hungary was to develop an Africa policy, humanitarian and food aid, agricultural, environmental, water-management and health related issues should compose the core of such policy.

1.4.4. Official Development Assistance

Hungary's donor activities changed considerably over the past 10 years. Hungary is expected to provide assistance to the least developed countries (LDCs). According to the OECD targets, Hungary should have provided 0.17% of its GNI by 2010, and 0.33% by 2015 as ODA (Kiss 2012). At the same time, international development standards also define common targets such as the Millennium Development Goals (MDG). These expectations have strong influence over which countries receive ODA from Hungary, and how much.

Hungary's ODA contributions increased from 22.11 million EUR to 100.76 million EUR between 2003 and 2006. This steady climb from 0.03% of GNI to 0.13% of GNI came to a halt in 2007 only to climb again from 0.08% to 0.10% between 2007 and 2009. Data from 2011 shows a 0.02% increase, though it is only a preliminary estimate. Focusing on the targeted 0.17% by 2010 commitment, Hungary seemed to have a clear chance in 2006 to reach it. However, this never materialized as ODA came 0.08% in 2010. Parallel to this process, Hungary's share of multilateral and bilateral ODA contribution also went through a strong transformation. (See Fig. 1). Due to the limitation of the sources and the constant development of the MFA's reporting structure, the titles and categories within ODA activities (e.g. education, agriculture, technical cooperation) are not consequent throughout 2003-2011 which means it is very difficult to examine how funds earmarked for one type of activity increased or decreased over time.

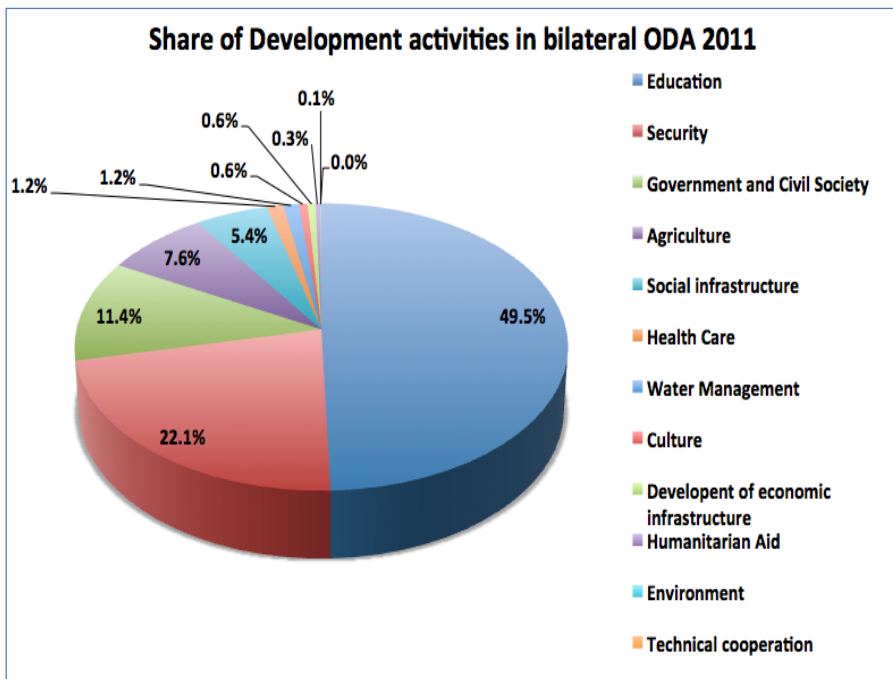
Figure 1. Hungary's Net ODA Disbursements in Million Euros (Euro 2011 price)



Source: OECD

1.4.5. Bilateral ODA

Bilateral assistance is a more direct interaction between the donor and recipient, allowing political and economic interest representation of the donor countries, as well as the expression of the donor identity. In case of Hungarian development assistance however, the trend is different - most ODA is channelled through multilateral aid and it is disproportionately higher compared to ODA channelled through bilateral agreements (Kiss 2008). The reason is the priority given to the international commitments and membership contributions. The already small budget allocated to ODA has to fulfil multinational needs and as such, the portion of bilateral aid carrying the potential to accentuate Hungary's development profile is ever shrinking.



Source: MFA 2011b

Legal Challenges

Planning, implementing and coordinating international development projects are within the purview of the MFAs DIDC.

The official position is that line ministries have bilateral international activities related to their mandates, where they provide specific financial assistance to partner countries, in the form of scholarships, financing trainings, facilitating technical cooperation or small projects, etc. Their role in relation to ODA is merely to provide statistical data based on these activities. Hungary's ODA contributions are financed from a central budget. The Minister of Finance proposes a budget for development assistance in the annual Budget Bill. A certain share is earmarked as international development, and is within the discretion of the MFA. The line ministries' budgets and activities are not earmarked as international development, despite the fact that they actually support international development goals which leaves the exact relation between international development and ODA somewhat vague. The DIDC provides an annual statistical analysis of Hungary's ODA for the OECD. It collects information from line ministries on those items that can be accountable as ODA but it would be fair to say that line ministries are not generally sensitized to international development activities.³

Sectoral Allocation of Bilateral Development Contributions

Over the past 4 years Hungary provided between 14% and 23% of its ODA through bilateral channels. The following section gives an account for the titles, sectors and the distribution of recipients of the bilateral contributions.

In 2010, bilateral ODA was disbursed among 84 countries, which appears somewhat inefficient considering the scarce financial resources the country can provide for ODA (Kiss 2012). This type of distribution is also ineffective considering that more than 50% received aid was worth less

³ Interviews revealed, in order to increase awareness of development issues, the MFA provided capacity building for line-ministry officials who manage ODA type activities. There is also a written guideline – available internal only – on how to determine if an expenditure item is 'ODA-able'.

than 3.500EUR in total. Many of the expenses recorded as bilateral ODA cover the costs of a flight ticket.

In 2011, the distribution of Hungary's bilateral ODA was the following: Education, scholarship, exchange programs cover almost 50%; Security (mostly costs of missions to Afghanistan, Kosovo, Iraq), 20%; Government and Civil Society (mostly capacity building to facilitate democratic institutional development) 10%; and Agriculture (FAO supported and other projects) 7%.

In terms of partner countries, Hungary developed a list of 15 countries that should receive a considerable part of ODA. The data shows that these countries are less likely to be among the LDCs, but they appear selected because of international commitments or their geographical proximity to Hungary. Figure 3 shows the first 10 recipient countries of BDA in 2011.

1.4.6. Section Summary

In sum, there are important conceptual differences between IDC activities managed by the MFA's and the BDA contributions, which are provided by line-ministries. These are mainly due to the domestic political legitimacy issues that stem or are reflected in the lack of a comprehensive policy measure. Despite its efforts MFA competency is limited to and does not have tangible influence over other ministries' BDA allocations. However, the stakeholder interviews suggested informal co-operation between for example the MFA and the Ministry of Rural Development. As one interviewee said: "This is not to say that BDA provided by other ministries does not contribute to the development of the recipient countries, but rather implies if coordination was stronger, it would have a greater impact." The poorly regulated management of BDA funds also raises concerns in terms of monitoring and evaluation. Without a strategically designed and coordinated BDA framework, the impact assessment of these funds is altogether difficult. The sectoral allocation of BDA shows a strong emphasis towards education, scholarship, which is understandable considering Hungary's potential to provide education type contributions opposed to project based ones. One

rational argument is the respective administrative and management costs and knowledge requirements of scholarships compared to project based approaches. Also in terms of development contributions, interviewees noted, providing education scholarships to students from developing countries contributes to MDG2. At the same time, providing scholarships to developing countries is a clear continuation of the FPS goal to strengthen a positive country image, and provides Hungary with potential networks for later business and diplomatic relations. Several interviewees referred to Hungarian educated ministry officials in Nigeria or Mongolia as great assets that could foster bilateral economic relations. However, there was little evidence that these relationships have actually been maintained effectively in the past decades.

1.5. Current State of Bilateral Trade and Applied Trade Regimes

1.5.1. Trade Agreements

The following table summarizes the existing trade agreements in relation to Hungary's main BDA recipient countries. Hungary's bilateral trade agreements are in accordance with WTO (WTO 2013) and EU (EC 2013) rules and regulations.

Table 3. International Agreements of Trade Regimes

Hungary's Bilateral ODA priority Countries	EU Trade Agreements				WTO	CEFTA
	Stabilization and Association Agreements (SAAs)	FTA	EFTA	Interim Economic Partnership Agreements		
Bosnia and Herzegovina	Interim Agreement 2008		Ongoing		Observer	2007
Serbia	Interim Agreement 2010		2010		Observer	2006
Montenegro	2010		2012		2012	2006
Macedonia	2004				2003	2006
China			Ongoing		2001	

Vietnam		2012 ongoing			2007	
Ukraine		2012 DCFTA ongoing	2010		2008	
Kazakhstan			Ongoing		Observer	
Egypt			2007	2004	1995	
Nigeria				Ongoing	1995	
Kenya				2007	1995	

Bilateral Economic Agreements

Hungary established several bilateral agreements with countries in different areas, such as economic, scientific and technological, financial or diplomatic cooperation. Unfortunately, not all agreement documents are available publicly. The formulation of economic agreements follows a general scheme.

Hungarian Bilateral Trade of Goods 2003-2011

Hungarian exports increased by 9% between 2003 and 2011. However, all trade activities were affected by the 2008 crisis and hence, the trade performance was rather poor. Most exports are manufactured goods (29%), machinery and transport equipment (61%) followed by food and beverages (6.5%). Crude materials (2.1%) and energy (1.6%) were the lowest ranked export goods. Unfortunately, the export dynamics shows a discouraging picture, as those product groups with the most relative weight in export between 2003 and 2011 were the least dynamic relative to overall exports. Machinery and transport equipment performed 7.5% below average growth and manufactured goods only showed a 2% growth between 2003 and 2011.

1.5.2. Country profiles

The following section will provide an overview of the development of bilateral trade of Hungary with *Bosnia and Herzegovina, China, Egypt, Kenya, Kazakhstan, Montenegro, Macedonia, Nigeria, Ukraine, Vietnam and Serbia*. The analysis will focus on the *exports of goods, exports of services,*

*bilateral trade of goods and bilateral trade of services*⁴ between the periods 2008-2011⁵. As mentioned above, sufficient ODA data provided by the MFA is only available between 2008 and 2011 therefore the research is limited to this period.⁶

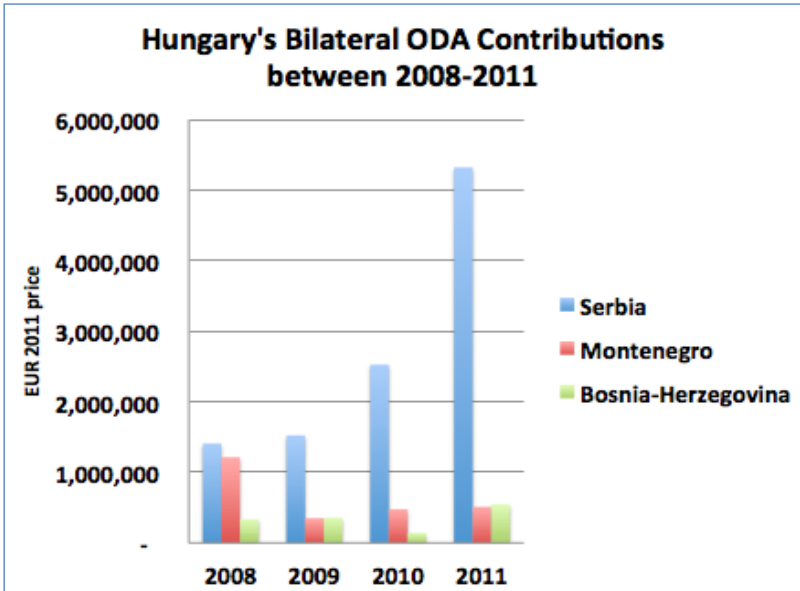
The Western Balkans: Bosnia-Herzegovina, Macedonia, Montenegro, Serbia

Among the Western Balkan countries Serbia is the strongest trade partner of Hungary, while BiH, Macedonia and Montenegro occupy a marginal position in terms of bilateral and foreign trade. Altogether Hungary has a significant trade surplus with South-Eastern European countries: the imports from the countries of the region typically amount to 10-30% of the Hungarian exports. In addition to machinery industries' exports that is the flagship of Hungarian foreign trade, pharmaceutical companies are also outstanding exporters in the Western-Balkan countries. Hungarian agricultural and food industry companies have an important role in food supply to Bosnia and Herzegovina and the energy sector is an important provider for Serbia. The only exception from this general profile is Montenegro: due to the outstanding volume of imports from Aluminium and articles there of (99% of the imports from Montenegro), Hungary registers a deficit with Montenegro.

⁴ Export and foreign trade dynamics is own calculations based on the data from the Hungarian Central Statistical Office (KSH 2013). All prices are calculated in EUR 2011 constant rate.

⁵ Also it is important to stress here, that the observed 2008 – 2011 timeframe is an enduring crisis period, therefore the analysis about trade dynamics refer to a particularly negative period and it gives a darker picture than the long-term trend.

⁶ Calculations of Bilateral ODA allocations and the detailed analysis of sectoral allocations are based on (MFA 2011b); (MFA 2010); (MFA 2009); (MFA 2008) reports and own calculations. All bilateral ODA amounts are calculated in EUR 2011 constant price.

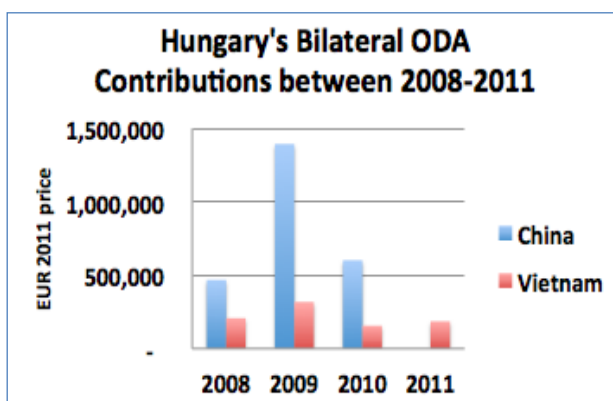


In terms of BDA, Bosnia and Herzegovina, Macedonia, Montenegro and Serbia received continuous aid flows from Hungary in this period. All four countries are part of the EU's Neighbour Policy, and are considered in the FPS. However, BDA allocations show very dissimilar picture. Between 2008 and 2011 *Serbia* received the highest amount of ODA among the analysed countries (altogether 10,777,521 EUR in 2011, which corresponds to 19.3% of the overall BDA in 2011) demonstrating a 278% increase by the end of the period. A substantial part of ODA was channelled through the educational sector, either in the form of scholarships or training, accounting for 60% of the overall. There was a slight departure in 2009 when the cultural sector received 58% of all the ODA allocated to Serbia. This activity was labelled as “supporting Hungarian Minorities over borders”(MFA 2011b).

Montenegro shows a very different trend. While it received 11% of bilateral ODA in 2008, in 2011 it accounted for only 3.5% of the overall sum, experiencing a staggering 58% decrease. *Bosnia and Herzegovina* shows a third type of dynamic. Starting with 3.2% of bilateral ODA in 2008, it climbed to 3.7% in 2011. Bosnia and Herzegovina also has a tied

aid credit agreement with the Government of Hungary amounting for 41% of its ODA in 2008 and 22% in 2011. Supporting an experimental project to plan and realize a community based rural development, 71% of bilateral ODA was allocated to the agricultural sector in 2011.

The trend in *Macedonia's* ODA allocation is somewhat similar, except that Macedonia can only account for an average 0.01% or 35.424 EUR in 2011 of total bilateral ODA between 2008 and 2011. In 2011 ODA was spread across three sectors: 35% went to education and scholarship, 36% was used in agriculture, and 28% was allocated for governance and civil society. While scholarships, trainings and exchange programs accounted for only 4% of ODA in 2008, these types increased markedly by 2011.



Asian Countries: China and Vietnam

Hungary's trade relation with the Asian countries shows an unbalanced picture as well. China is an important trade partner receiving 1% of Hungary's overall export in 2008, while Vietnam receives a smaller fraction of overall Hungarian export showing a moderate growth (19%) between 2008 and 2011.

Global trade flows dominate the profile with the Asian countries. However, in the Chinese and Vietnamese relations Hungary has a trade deficit – the volume of that is moderate with Vietnam, but it is very high in relation to China. Machinery products and chemical products are the

most common trade products. Concerning Vietnam, the Hungarian trade flows comprise several food industry products, pharmaceutical, chemical and furniture articles.

With 2.5M EUR between 2008 and 2010, China is the 6th largest ODA recipient to Hungary. The trend of ODA allocation is hard to analyse, since data is available for only 3 years, nevertheless it is possible to see that education and scholarships play a smaller role compared to the previous countries. China's BDA in 2008 consists of two larger sums (40% and 44% of the overall BDA) both humanitarian in nature, aiding the victims of the 2008 earthquake, and two smaller allocations (1% for education, 14% for international development).

These sums amount to 4.5% of Hungary's total bilateral ODA in 2008. This figure almost doubled the next year when Hungary's total bilateral ODA to China reached 8.4%. The largest amount in 2009 (1M EUR, 76%) was allocated to the Hungarian-Chinese joint research fund and 3.1% to education and trainers exchange program. Interestingly, the funds seem to have been exhausted by 2010, as the Hungarian bilateral ODA to China decreased with 57% and accounting for scholarships, training, R&D, and trainers exchange programs.

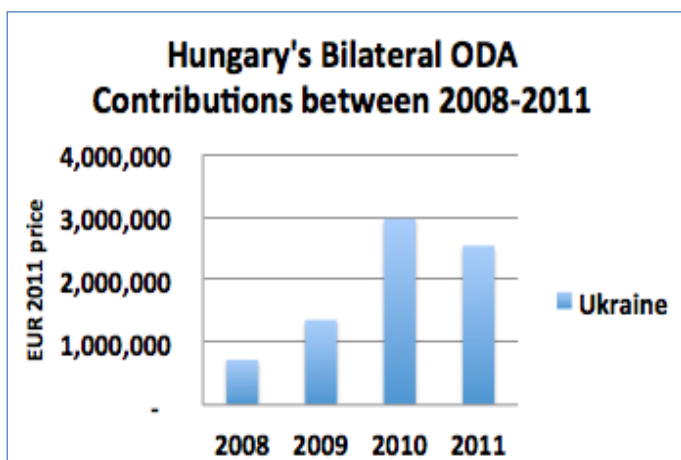
Vietnam is among the oldest aid recipient partners to Hungary. The two countries' bilateral relations reach back to the 60's, when Hungarian and Vietnamese experts participated in technical cooperation programs. Vietnam still maintains a good relationship with Hungary, receiving an average 1.53% of its total bilateral ODA. In 2005, Hungary and Vietnam signed a framework agreement on international development cooperation mainly aiming at know-how transition to modernize Vietnam's economic structure. The trend of BDA allocation shows a 53% increase from 2008 to 2009, although this was almost halved in 2010 increasing only 4% by 2011. In terms of sector, in 2008, 99% of ODA was counted by the MFA as 'exchange of experience' whereas in 2009 education and exchange costs were broken up in two distinct categories: 'Scholarships and Education' 22%, and 'Scientific and Technical cooperation' 39%. By 2010 BDA was markedly reduced providing 92% of the overall amount in scholarships and

trainings. 2011 shows a similar distribution among the sectors with 81% going to education and 11% to governance and civil society.

Ukraine and Kazakhstan

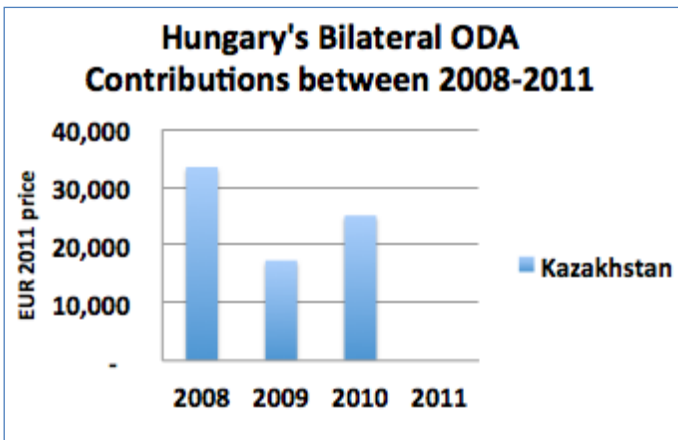
Ukraine and *Kazakhstan* are significant partner from an energy security policy perspective. *Ukraine* is the most important trade partner for Hungary, not only because of its close proximity, but also because it is an energy transit country. Interestingly *Kazakhstan's* position on the Foreign Policy agenda as an energy trade country is not matched by its trade performance with Hungary.

The Hungarian export profile is rather similar to the above although one noticeable difference is that the Hungarian trade surplus is less significant because of the high volume of energy imports from Kazakhstan and the more balanced trade flows of machinery products with Ukraine. Besides pharmaceutical and machinery exports also food- and plastic-manufacturing industries play an important role.



Within the timeframe analysed, 2008 to 2011, *Ukraine* is the 3rd most important recipient absorbing 13.27% of Hungarian BDA. It is also noteworthy that Hungary increased its BDA to Ukraine between 2008 and 2010 four-fold. While the highest portion of aid to Ukraine was humanitarian aid (52%) in 2008, education only received 15%. The portion

of education type contributions usually contain scholarships, trainers exchange programs, and other cultural type projects. Their proportions to Ukraine make 82% in 2009, 86% in 2010 (education and cultural), and 76% in 2011. This increased allocation of funding for the educational sector in Ukraine, which accommodates a substantial portion of Hungarian minorities, is arguably related to Foreign Policy goals to support Hungarian minorities outside the borders.

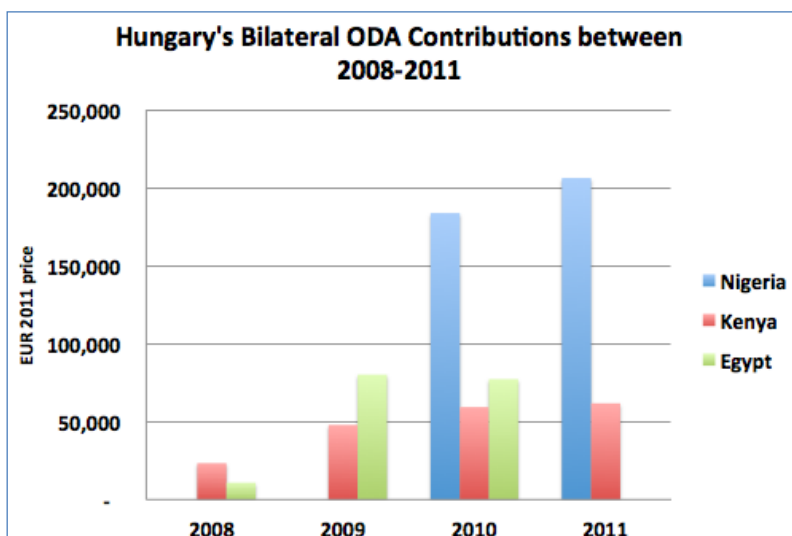


Kazakhstan is a low priority recipient country of Hungarian BDA accounting for only 0.14% between 2008 and 2010. Furthermore, it was not listed as a partner country in the 2011 official MFA documents. The trend of BDA allocations shows a slow decreasing pattern, losing 25% of its aid allocations during 2008-2010 periods. In 2008, 67% of the BDA allocated to Kazakhstan was project support labelled as 'democratic transition', providing capacity building to collect best practices on migration management issues and build partnerships. During the project the partners conducted expert missions and organized working group meetings in both countries. The remaining 30% of BDA to Kazakhstan was allocated for language trainings and 3% for scholarships. By 2009, allocated bilateral ODA was only half the previous year's allocation, with most supporting English, French and German language trainings (90%) and scholarships (10%). In 2010 the entire bilateral ODA was labelled as 'scholarship,

training, technical cooperation, training exchange', which makes it very difficult to establish whether technical cooperation or education benefitted of more support.

Egypt, Nigeria and Kenya

These African trade partners have relatively low trade weight in exports from Hungary, however exports of services to Kenya and Nigeria did go through a notable transformation. Nigeria and Egypt weighted 0.1% and 0.2% respectively in 2008, while Kenya's trade involvement was only 0.02% of overall trade volume.



Hungarian foreign trade is especially unbalanced with the African countries. The volume of imports from Egypt, Kenya, and Nigeria covers less than 10% of the value of exports to these countries. In the case of Kenya and Nigeria the ratio is even below 1% (!). Machinery products dominate, but Hungarian companies also deliver significant amount of organic chemicals, plastic articles, textile products, ceramic products and furniture as well. The volume of Hungarian imports is significant from Egypt in agricultural, chemical and paper industry articles, and in the machinery, optical and ceramic products groups. We practically cannot

mention significant import products from either Kenya or Nigeria – the only exception is the import of live trees from Kenya.

Among the three countries, Egypt is mentioned among the Middle-Eastern priority countries in the FPS, where Kenya and Nigeria are represented among the sub-Saharan countries. In terms of BDA allocation, Kenya is the only country to receive aid consistently during all four years. Nigeria received BDA only in 2010 and 2011, and Egypt received it in all years except 2011. All three countries received an equally low per cent of bilateral ODA from Hungary: Nigeria 0.33%, Egypt 0.25%, and Kenya 0.23% of the overall bilateral ODA on average for the 4 years.

Nigeria is an ODA recipient since 2010 and it has received most aid in the form of scholarships, 100% in 2010 and 99.8% in 2011; with the remaining 0.17% being allocated for technical cooperation and training.

In case of *Egypt*, the BDA contribution of 10,000 EUR allocated in 2008 increased eight times by 2009. A similar sum was allocated in 2010 (77,000 EUR) before Hungary discontinued the flow of aid. In terms of sectors, in 2008 the BDA consisted of 44% scholarships, 40% support for conference participation, and 16% to support the relevant official participation within the Hungarian-Egyptian Mixed Economic Committees. By 2009 the portion of scholarships and aid for education reached 82% of the overall BDA commitment to Egypt, with some support for the International Parliamentary Cooperation (12%) and 6% labelled as 'bilateral cooperation'.

Kenya, being the only consistent recipient of Hungarian BDA among the three countries, succeeded to increase its bilateral ODA by 163% from 2008 to 2011. In 2008 only the MFA that provided BDA to Kenya by supporting a safe drink-water project, equipment for an educational centre, and financing Slums Information Development & Resource Centres. In 2009, 66% of support went through various scholarships while the rest of 34% was spent on finalizing the previous year's three projects. In 2010 more than 99% of BDA was allocated for education, scholarships, trainings with only less than 1% for technical cooperation. The way ODA funds were allocated changed somewhat in 2011, when 21% of Kenya's bilateral ODA from Hungary was directed to the health sector, through a project

looking to modernize a health care facility and provide medical equipment. Nevertheless, the remaining 79% was allocated, just as in the previous years, to education and scholarships.

Section Summary

Comparing the flow of trade and the flow of bilateral ODA allows us to identify certain trends and see whether aid allocations are directly financing or creating elevated export levels in recipient countries. Most significant trade flows are with Ukraine and Serbia, countries that also enjoy a substantial proportion of the Hungarian BDA. This raises the question, whether Hungary intentionally channels its aid to the countries with significant export potential to return its investment. If the intention is to improve economic relations with Ukraine and Serbia and to increase market access through financing economic, social, and institutional infrastructure, one could argue, that bilateral ODA is indeed linked to trade interests. However, the disproportionate amount of scholarships undermines this conclusion, as one would expect trade-supporting aid to be channelled directly to infrastructure development rather than education.

If a country received increased bilateral ODA contribution in one year and performed above average in export of goods and services in the other or even the same year, one could speculate that bilateral ODA is to encourage bilateral trade and business. However, there is very little proof of such a tendency. There are only a few cases such as Ukraine, Serbia, Kenya and Nigeria, or China where the increase of ODA was followed by an increase in export of goods or services. This does not mean that there could be no potential in promoting trade through aid. Bilateral aid projects can attract certain business activities in the recipient country that could yield promising future business relations.

1.5.3. Other Trade Related Activities in Recipient Countries

Hungary's main participation in development assistance is providing scholarships, training programs, trainer exchange programs, and language

acquisition. Hungary also provides know-how, capacity building and transfer of good practices in democratic transition and institutional development. These projects are generally focusing on neighbouring countries such as Bosnia and Herzegovina, Serbia, Montenegro, Macedonia and Ukraine, but also to a lesser degree in Kazakhstan, China, and Vietnam (MFA 2010).

As the interviews revealed, some development and capacity building projects are related to Aid for Trade, but they are not reported or managed separately. They do not constitute complex structured approaches, but rather belong to capacity building type projects. Unfortunately, at the moment, the MFA itself has limited capacity to strategically plan and design these projects. In spite of the fact that these trade type activities are not reported or represented separately, many bilateral projects are related to trade. Respondents mentioned technical assistance concerning customs tariff, tariff-management trainings, plant and animal health regulation courses and the incorporation of food and animal health standards into domestic law. These serve as examples as to how development projects earmarked as BDA are related to trade. Unfortunately, the MFA does not either frame Aid for Trade as a separate strategy or earmark these activities at each and every project report to the OECD.

Facilitating Hungarian Know-How in the Agricultural Sector

The MFA together with the Ministry of Rural Development (MoRD) organized in 2011 a three-day training in the agricultural sector for the partners from Moldova, Georgia, Azerbaijan and Ukraine. The training aimed at increasing the coherence between the partner countries legal frameworks and the EU. Based on the needs of the EU's Eastern Partnership countries, the plant and animal health training was designed to facilitate information on the relevant EU regulations, and point out the areas where development was needed the most. The training was financed and jointly organized by the MFA DIDC and the MoRD with the local office of the Food and Agriculture Organization of the United Nations (FAO) providing technical experts.

Cooperation between FAO and Ministry of Rural Development

The scholarship cooperation between MoRD and the FAO is considered one of the most successful projects. MoRD provides scholarships to students from DAC recipient countries that are strongly reliant on the import of food and agriculture products. The courses provide quality technical material on agriculture and food production technologies, animal health and other standards. There is a great need for such expert knowledge in developing countries in order to foster competitive sustainable farming and help increase export capacities. The courses provide quality technical material on agriculture and food production technologies, rural development, animal health and other standards. The students are mostly from the Balkans, the Eastern Partnership countries, CIS and Central-Eastern Europe, Asia (mostly Afghanistan) and Africa. The list of eligible countries is revised annually. Focusing on these countries, there is a strong reiteration of old positive experiences. The FAO also maintains an Alumni Network to foster the use of Hungarian educated foreign professionals and create potential joint businesses. Business relations can lead to technology transfers to contribute to increase production effectiveness, hence provide support to enter export markets.

Technical assistance to trade policy – the CEFTA project

The Hungarian MFA and the OECD Investment Compact for South East Europe organized a joint roundtable meeting series in Budapest between 2006 and 2008. The overall objective has been to assist those party to the Central European Free Trade Agreement (CEFTA) to derive full benefits through the reduction/elimination of non-tariff barriers (NTB), particularly but not exclusively, those that impact the main trade flows (OECD 2011).

Besides facilitating these meetings, the Hungarian counterpart contributed by assisting with the identification, classification and prioritization of the most significant NTBs. It did this with particular emphasis on those NTBs identified by the business community as the most pressing. These findings provided the CEFTA sub-committee and the CEFTA Joint Committee with enough information to draft an action programme to reduce/eliminate the prioritised NTBs. The participants

also agreed to further discussions with the relevant CEFTA bodies and to continue the Multilateral Monitoring Framework assessment process over the next three years and extend the scope of the assessment to final goods in 2012-13 (OECD 2011). The CEFTA roundtable meetings are considered one of the successful Aid for Trade projects, where Hungary utilized its accumulated trade related knowledge and technical experience. It also played an important role as a facilitator, establishing the platform and creating the opportunity for the CEFTA countries to identify and classify technical and other barriers to trade, and eventually drawing a roadmap for their effective elimination.

Tied Aid

The governmental decision 1516/2012 (XI. 22.) regarding the concept and verifications of Hungarian Tied Aid has made it mandatory to utilize the tied aid credit opportunity provided by the Ministry of National Economy under the umbrella of “eastern incentive”. The main aim was to encourage exports and provide sufficient financial assets for the

continuation of the Tied aid credits allowances. The Minister of National Economy is expected to assign the target areas for the 2012-2020 budgetary periods such as the Commonwealth of Independent States, South and Far-East Asia, the entitled African Regions, and the Western Balkans (Magyar Közlöny 2012).



Tied Aid Credits

Tied aid credits are official or officially supported Loans, credits or Associated Financing packages where procurement of the goods or services involved is limited to the donor country or to a group of countries, which does not include substantially all developing countries (or Central and Eastern European Countries (CEECs) / New Independent States (NIS) in transition).

Institutional Framework and Participating Institutions

To promote growth of export volume with direct support of State guarantee, tied aid credit is supported by a dual institutional export-credit system where financing and credit insurance are done by two separate institutions. Hungarian Export Credit Insurance (MEHIB) provides insurance against

the foreign debt payment, while EXIM (former EximBank) undertakes the pre-, and re-financing mechanisms, with preferential interest rate on export credit guarantee. Inconsistencies of technical guidance persist, since the institutional framework for external economics and trade in both cases of MEHIB and EXIM remain under the supervision of the Hungarian Development Bank (MNE 2011).

The institutional link between private sector and export is the State's background trade agency: the *Hungarian Investment and Trade Agency* (HITA). HITA is the responsible entity for external economic and trade related issues under the supervision of the Minister of External Economic Relations from Ministry of National Economy. The link between the private sector and HITA is supported by the *Chambers of Commerce of Industry and Trade* (MKIK), which provides a platform segmented into regional departments to foster entrepreneurial community network cooperation.

Inter-governmental Agreements for Tied Aid Credits

Because of the special requirements of the Hungarian system, two government decisions are needed to establish an inter-governmental agreement for the provision of tied aid credit agreements. Included in the agreement is the list of financed projects, which are tendered by the recipient country to establish documentation, regarding the financial and technical requirements for the project. The role of EXIM – besides providing financial credit – is to consult potential companies about the requirements and possibilities. Companies then compete for the tender and if they win, EXIM continues more detailed consultations. The ministry concludes the inter-governmental agreement but the negotiation of the credit compact falls within the sole jurisdiction of EXIM. EXIM – together with MEHIB – is also responsible to provide the bank guarantee for the advanced payment to the contractor company.

The prerequisite of tied aid credit is an official request from the Ministry of Finance from the recipient country to initiate an agreement with the Hungarian Government. According to the interviews, the motivation for such a request is often the result of the persistent networking and pressure applied on the recipient country government by Hungarian companies

already rooted in that country. It is very important to emphasize, that there is a strong competition on the market of aid credit financing, and without the relevant connections and private sector pressure most of these agreements would not be realized.

1.5.4. Bottlenecks and Solutions

Hungary's bilateral economic relations are governed by the relevant EU standards, thereby leaving a marginal space for individual negotiations. Such bilateral agreements encompass technical or economic agreements with no legally binding power. The research did not find any specific trade policies between Hungary and ODA recipient countries. In terms of ODA allocations, Hungary's priority recipient countries are mostly its regional policy priority countries, where Hungary can exploit its comparative advantage in 'transitional experience'.

Bilateral Economic Relations

The External Trade Strategy as well as the Foreign Policy Strategy outlines priority countries and priority areas through which, the growth of Hungarian SMEs can be facilitated. The main goals of Foreign External Trade are to contribute to economic growth and employment ambitions (MNE 2011). The strategy fosters export acceleration, modernizing the export structure, providing impetus for domestic enterprises and encouraging greater foreign markets representation by winning strategic positions on international markets. To foster bilateral economic relations, the Foreign External Trade Strategy supports regional clustering through mixed economic and business committees.

As one informant noted, "some of the ambitions of the government's strategies to promote regional clustering are too good to be true. The underlying power relations remain hidden from the uninitiated eye."

By looking at the preferred partner country selection much of the trends can be seen. In terms of regional priorities, the government's main objectives are: to achieve state security in neighbour countries, to maintain

energy security, promote Hungarian economic interest and advocate for Hungarian minorities outside borders. To a small extent environmental sustainability and the rehabilitation of the Danube region emerge as secondary policy objectives.

In Hungary's ambition to re-position itself in the global arena, most dominating discourses are economic representation, state and energy security. It highlights the set back of "western" political leadership (MFA 2011a) and the gradual emergence of economies – such as China, India, Brazil, South Africa or Indonesia. Hungary aims at surfing the waves generated by the shift in the global political arena as emerging economies secured their position in the world economy. The rapid economic growth of these countries increases their needs for energy, raw materials, and commodities. Hungary's objective is to promote the emergence of stable democratic states and at the same time to secure its position on the supply side of the equation as a potential provider for these emerging market economies. Humanitarian or more altruistic values are not high on the Hungarian Foreign Policy agenda; yet the increasing attention to Hungary's role as a development actor has a potential to induce a new sector in Foreign Policy. The coinciding fact that Hungary's main BDA recipient countries are among the important trade partners is not a unique phenomenon. Minoiu and Reddy argue, aid flows motivated by donors' geostrategic considerations, may not be extended to recipient countries for developmental purposes but rather to build and sustain political allegiances (Minoiu and Reddy 2009).

In case of Hungary international development aid does not have its own strategy, hence it remains a foreign policy tool. Furthermore, Hungary being in an economic recession cannot afford the luxury to provide altruistic aid without an economic agenda. This is normal in the case of countries strongly impacted by the economic crisis. Fostering relationship with manageable economies implies a natural risk minimization. If countries are not indebted, and the chances to gain economic market advantage are present, the opportunity is there to be seized. Generally speaking, there is a positive reception of Hungarian produce but Hungary's potential mainly

lies in the distribution of technological know-how. Bilateral economic agreements have a potential to provide a framework for such endeavours. To help elevate developing countries from poverty depends on, their own capacity to introduce domestic production of goods instead of importing them. Some donors are less willing to provide the technical knowledge for this process; therefore it is a market segment that could and should be utilized by Hungary.

The research has found little direct evidence that bilateral economic relations and the consistency of national policies are effectively promoting an open rule-based equitable predictable, non-discriminatory bilateral trading system with ODA recipient countries. There are a few trade related development projects managed by the MFA and MoRD, but there was no evidence to indicate a direct link between national trade policies and the development projects. Hungary's development goals are not linked to reform steps of recipient countries sectoral policies; therefore, Hungarian development activities cannot achieve sustainable structural change in recipient country's trade liberalization. To the same reason, it is also difficult to indicate if the sustained trade regimes and trade agreements have been used to support the Millennium Development Goals of poverty reduction and sustainable development efforts.

Common type Non-Tariff Barriers to Trade

Hungary's external trade underwent a series of reforms in the last three years and the strong opening towards the East required the vertical re-structuring of trade. External trade and foreign policy aims to support sectors such as water management and agriculture-food industry where Hungary has comparative advantages and substantial production know-how. There are only a few companies that have the human, financial and network capacities to trade with new priority countries, and most of these trade practices are based on long standing business relations, hence trade barriers have either been eliminated or are clear in terms of procedures. The following barriers are the most commonly observed issues.

Visa and other administrative types of barriers

The most common problem is to obtain the relevant visa and documentation to be able to operate in the recipient country and receive experts and specialists in the donor country. These formalities pose administrative barriers and time delays, which in the long run is not cost-efficient. Bilateral economic agreements do not have the jurisdiction to simplify visa type requirements; however, some government websites such as the MFA or HITA provide relevant information on how and where to get visa, what are the requirements, the costs and the timeframe.

Advancement and pre-financing problems

Some countries like Egypt can only provide 15% as advanced payment until delivery of goods, and payments afterwards therefore arrive in instalments. These practices can significantly increase risks and decrease producers' real capital to continue investment.

Limited Financing Opportunities

There is a lack of financing opportunities to start a business in host countries. In China, for example, the government provides generous start-up financing opportunities for domestic producers, delimiting the flow of foreign investment into the country. Bilateral Economic Agreements foster joint R&D cooperation, which has the potential to turn into joint investments, which would benefit from both countries' government subsidies.

Other administrative barriers

Limited toolkit for external trade practices in recipient countries is a bar to effective administration processing. Similar observations were made for health administrative practices. One interviewed company noted that the recipient partner only receives the goods if the administrative paperwork and health permissions are validated by the Chambers of Commerce (CoC) of both countries. Another prevalent issue is the lack of use of International Commercial Terms, which are widely used guidelines to avoid complications

and misunderstandings in insurance costs and identify the risks associated with the transportation and delivery of goods.

1.5.5. Challenges in Hungary's Private Sector Capacity

The Hungarian economic and production structures went through a prolonged transformation process and while some companies gained strength in domestic markets, they still lack the know-how and experience to enter into the international market. Some interviewed private sector companies complained about out-dated external trade strategies, a lack of strategic state financing and administrative mechanisms and insufficient cooperation among state actors. All these weaknesses can extend the preparation time that they [companies] need to enter international markets. Convincing private actors about benefits of external trade, as well as how to use given channels and financial mechanisms to enter external markets is a long and challenging process. The benefits of long-term market gains by winning external market segments are also not always clear. Therefore, it is imperative to promote and strengthen sector 'clusterization' to start the learning process. Another prevalent problem is the limited lobby representation of SMEs, and the ancillary administrative processes that devastate much of the strength of the investment sector. There are specific programs managed by HITA to provide access to World Bank development initiatives. These initiatives have the potential to provide companies with relevant international experience, network connections and references to successfully compete for future tenders.

1.5.6. Most important areas to facilitate the involvement of Trade in Development

Coordination

Much of the sizable opportunities for the private sector to utilize Aid for Trade type activities depend on the coordinating structures. The survey results confirm that inter-ministry coordination is very important to increase

the potential for joint projects and dissemination of potential tenders. As the interviews suggested coordination will not be part of the IDC strategy, as it cannot provide the division of labour between the line-ministries. However, the MFA will try to outline an Action Plan to determine the preferred direction of the IDC strategy and how the different institutional roles can support it.

Internal Assessments

There is also a great need for market assessment exercises to determine potential priority countries. The subsequent interventions areas can be established based on strategically selected priority countries. A capacity assessment would estimate the participating ministries' 'in-house' capacities and allocate the tasks according to available human and technical resources. A joint project assessment framework is needed to create a baseline for the inter-ministerial development activities and determine the sectoral intervention areas based on existing comparative advantages. These joint assessments should provide the baseline for strategically designed ODA budget.

Resource Mobilization

In terms of aid modalities, there is little flexibility. Hungary's contribution is dominated by project-based approaches, technical assistance, and scholarship type aid. There is very little hope for programming, or any advanced modalities, such as General Budget Support (GBS). Since these require a substantially larger budget, they can only be effective, if bilateral agreements entail a substantial volume in the medium to long-term period. GBS is a great mechanism if the annual budget is large enough, and the 'guarantee mechanisms' are built around to ensure accountability. Current aid modalities used by MFA are small scale, and not linked to reform steps of any of the sectoral policies of recipient countries. Therefore, Hungarian development activities cannot achieve sustainable structural change in recipient country, such as trade liberalization. Bilateral or multilateral agreements or export strategies could facilitate effective trade

related activities, but if financial mechanisms to promote sectoral market access are missing, the sectoral lock-in effect will decrease the effectiveness of economic agreements.⁷ Considering that the market presence of the private companies depends on the financing portfolio, if 'Automatized' financing infrastructure is missing from the system, these capacities will remain un-tapped.

Policy Mainstreaming

In light of the above discussion, it is unlikely that the MFA will pursue joint reporting structures with line-ministries. Instead, ODA contributions may well continue to be developed around individual mandates and at the discretion of ministries. Second, having synergy between the different mandates is important, but since development goals such as poverty reduction are not explicitly mainstreamed into the FPS or SET, but exclusive to MFA's activities, Hungary's bilateral ODA budget remains fragmented and unevenly distributed. Hungary's comparative advantages related to development activities are somewhat reflected in the FPS and the SET, but they are not clearly explained. Finally, both monitoring and evaluation strategies are completely missing, trade related indicators are not directly linked to development policy; hence there is no connection between the development aid and trade.

Private sector involvement

The private sectors role would be to implement development projects, and to create an enabling environment for the sustainability of these projects. Preparing companies to penetrate external markets and act as service providers requires strategic positioning of SMEs in the IDC arena. This

⁷ Introducing and consequently applying open rule based equitable trade policies, Hungary has the potential to induce a change in trade related practices and sustainable market access for partner countries' in trade sectors where it has comparative advantage, such as agriculture. The lock-in effect occurs, when Hungarian companies that should conduct much of the trade under the relevant trade agreements cannot gain market access due to the lack of domestic financial mechanisms. Therefore, the potential to trade with recipient countries is either lost, or delayed until relevant financial mechanisms are introduced.

would require the increase of tendering capacities, encourage ‘clusterization’ and improve the requisite know-how to gain market access. In case of knowledge-transfer type projects, Hungarian development strategy should act as a bridge between Hungary and the partner country, to link product know-how and technology with consumers and induce business relations. Hungary’s positive image in distributing technological know-how should be utilized through bilateral agreements. Recipient countries are in need of production know-how not financial aid. To elevate countries from poverty they need to produce and export their own goods instead of relying on imports. Hungary, as a small country with limited finances could take advantage of this situation and through technical cooperation and knowledge transfer ensure a win-win scenario for both the donor and the recipient.

1.6. Conclusion and Policy Measures

The overall conclusion of this report is without an international development strategy and with substantial financial and human capacity constraints of the MFA; Hungary’s development activities are not exploited to their full extent.

There is an ongoing concern with the proportion allocated to BDA and the fragmentation of contributions. These lead us to believe that ODA is principally a statistical obligation towards the OECD, and that there is little legitimacy of ODA as a development contribution within the line-ministries. Better coordination over ODA utilization and the MFAs stronger influence within the public sector could promote the more strategic dispersion of these financial efforts from the relevant line-ministries. However, this would require reform of budgetary accountability and a shift of legitimacy to a joint ODA budgetary committee. This is not very likely in the short run, even though bilateral aid can help achieve stronger ties between the donor and the recipient countries and develop a more characteristic donor profile.

In terms of BDA, the contributions of the MFA that are strategically applied as conscious development activities constitute only 5-7% of the annual BDA budget. On the other hand, over 30% of BDA goes to

education and scholarships, which does have a long-standing history in Hungary's development past. One motive could be that Hungarian educated professionals filling influential positions in partner countries can later be utilized for the benefit of both bilateral business and trade relations. No proper impact assessment or evaluation of such activity has ever been carried out though. A Hungarian educated diaspora can be a great asset for future business relations, with the understanding that these relationships need to be nurtured and maintained over time. Unfortunately, there was very little evidence of such activity; an Alumni network program exists only in case of the MoRD and FAO provided scholarships.

One heavily neglected area is monitoring and evaluation. While there are sporadic initiatives to monitor and evaluate projects, there is no overarching strategy or framework for such practices. Information about development projects should be collected and assessed on a regular basis to monitor progress and evaluate the effectiveness of delivery mechanisms.

Aid assistance is scattered across ministries with little coordination and strategic planning. To increase the potential of trade related aid, relevant public stakeholders should be more involved in development policy and planning. At the same time the role of private sector actors are completely neglected. The need for cooperation and coordination is of crucial importance to utilize technical capacities, existing in-country business networks, as well as the knowledge and experience of the private companies. This would require assessments of the capacity of relevant partner countries, relevant sectors and private stakeholders. Furthermore, to increase the potential of Hungarian SMEs within international markets, the opportunities to take part in prospective projects must be given greater publicity. HITA does maintain a database of Hungarian companies with international business potential, but the link to a database of conceivable tenders is undeveloped.

IPA or ENPI type development tenders can provide a great platform for Hungarian companies to gain international know-how and access development projects, but if the tenders are not analysed and promoted in an accessible format companies' access remains limited. A tender monitoring

exercise could bridge this gap and connect possible implementers to upcoming projects. However, supporting financial mechanisms have to be available with advantageous financing solutions, such as pre-financing or project based financing. Some are already available at EXIM's financial portfolio, but since the monitoring and evaluation of these modalities are not available, it is difficult to estimate their practicability.

In spite of the weak coordination between public stakeholders, the officials at the MFA are making substantial efforts to develop Hungary's international development profile. Altogether, the limited financial and human resources and rigid institutional regulations further delayed the progression of this portfolio. Hungary's main capacity lies in technological know-how, experience in economic transition, and in sectors such as agriculture and water management. Should the government decide to harvest these potentials through development assistance, it could also result in considerable market advantage. Small development projects should pave the road for larger business opportunities. It would be helpful to resolve the regulation of the support system to foster such initiatives. It is possible to map the progression and direction of economic development trends. If Hungary can move towards these regions where the need for this type of knowledge and production is present, it would be possible to break out from this unchanging environment. As one of the interviewee said:

“Unit of growth requires demand on corresponding levels of development as well. In the coming years 4-500 million people of the developing world will reach middle class Eastern European living standards and in 15 years they will want to shop and eat and live better. Everybody wants to supply these emerging markets... the question is, who will get to them first?”

2. CHAPTER TWO

THE ROLE OF THE HUNGARIAN PRIVATE SECTOR IN THE DEVELOPMENT ASSISTANCE

Attila Bartha

2.1. Introduction

This chapter provides recommendations for Hungarian policy-makers about the *involvement of private sector actors in the field of international development*. The suggested recommendations come from the findings of a research into the current role of the Hungarian private sector. The analysis is one part of a wider research agenda that looks into the role of governmental actors and civil society organisations in international development. In addition, the same research is carried out in eight other new European Union member states that joined since 2004.

The explicit admittance of private sector actors in international development projects is a new phenomenon. The classical approach of development aid considers private sector participation in international development activities as a refined and hypocritical form of promoting particular business interests. Leading scholars of international development aid are critical about the aids' commercial purposes (Lancaster 2007). While nongovernmental organisations (NGOs) have long been considered legitimate and supportive actors of international, the inclusion of for-profit actors is still considered a sensitive and problematic area, indeed for some, the implicit involvement of business actors is one of the main causes of aid ineffectiveness. The issue of tied aid, in other words, assistance that had

to be spent by purchasing goods or services from the donor country, has become an especially suspect form of aid, even if donor governments in the past 'regarded it as a means of maintaining domestic support for aid from important commercial interests' (Lancaster 2007:55).⁸

However, during the last decade „political and social agendas have increasingly been promoting *the role and responsibility of the private sector in helping to achieve development goals*” (United Nations Global Compact 2010, Hoxtell et. al. 2010:9). The idea of stronger private sector inclusion is supported by various arguments: the need for additional financial resources, the potential for technological innovation as well as the shared responsibility for the social and ecological effects of private economic activities. In this respect, the ideal type of private sector actors involvement draws on several propositions (1) private companies are able to achieve huge profitability thus they possess additional financial resources for investing in global development issues, (2) they have the technological capacities as well as (3) the human resources to promote innovation also in countries with less favourable business environments. Moreover, this vision about private companies implicitly assumes that (4) private companies are aware of corporate social responsibility (CSR) issues and are willing to act in a globally responsible way in poorer developing countries.

The idea that there are private companies with strong financial, technological and human capacities and a substantial commitment to CSR, could be at best partially valid for Hungary. The domestic economy has been struggling on the verge of recession since the last quarter of 2006; unlike other EU new member states that experienced economic decline only for a limited period in 2008-2009. Consequently, it is more realistic to assume that as a result of an enduring crisis, the majority of Hungarian private companies lack profitability and they have a rather limited financial, technological and human potential to significantly participate in international development projects. Instead of strong global economic players, the *Hungarian private companies are fragile actors that can potentially play a valuable development role*

⁸ As a result, since 2001 there is an agreement to partially untie aid, at least to the least developed countries.

only in a small number of countries; such as states on the EU's Southeastern and Eastern borders such as Serbia and Ukraine or with those countries which Hungary has particular historical ties such as Vietnam.

2.2. Methodology

The empirical research was based on the following steps: first, we selected 10 countries from the OECD DAC list of ODA Recipients effective for reporting on 2011 flows. Then we identified for-profit companies that were active in these countries and conducted a survey with them about their activity in the specified countries as well as their attitudes towards international development. We interviewed representatives of line ministries and governmental agencies dealing with development cooperation, and we had a focus group discussion on the topic with private company managers, representatives of business associations, ministries and government agencies. Finally, we discussed our findings with our 'task force' group members (representing all of the major stakeholders) and included their feedback in the final version.

2.2.1. Country Selection

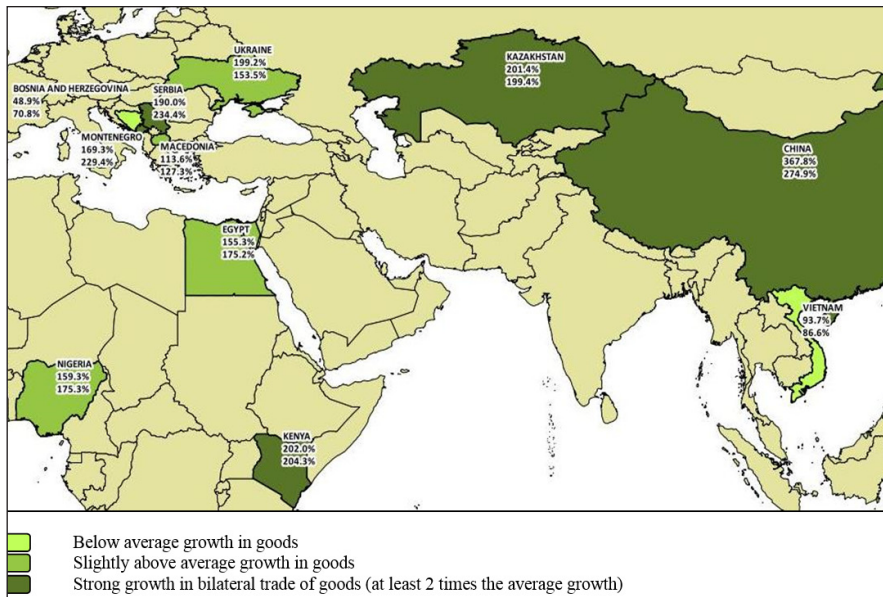
Hungary has strong bilateral trade relations with the relatively more developed upper-middle-income countries on the DAC list. However, our research sought to explore private sector activity and potential in lower income countries as well. As a result, the bilateral trade volume criterion was supplemented with additional criteria: *foreign and economic policy preferences*, *ODA allocation levels*, *geographical position* (situated in the Western Balkan or in 'Eastern Partnership' area) and *historical development ties*. Nevertheless, for our analysis *a valuable trade volume was a necessary condition*, therefore we have only 5 states (Egypt, Kenya, Nigeria, Ukraine and Vietnam) that are non-upper-middle-income countries, while 6 states (Bosnia and Herzegovina, China, Kazakhstan, Macedonia, Montenegro, Serbia) which are upper-middle-income countries⁹.

⁹ Refer to Table 1 and Table 2 of the previous chapter

2.3. The role of the Hungarian private sector in the selected countries

Exports have been a driving force in the Hungarian economy since EU accession. Between 2003 and 2011 the external trade with all countries increased by 90% in euro terms (measured at current prices), and even between the crisis period of 2008 and 2011, it increased by 4%. Regarding services, we only have comparable data since 2006: in this period, foreign trade of services increased by 45% (and in the latter period by 13%). In general, bilateral trade of goods with recipient countries expanded much more than the average: the trade value in euro terms in 2011 was almost 4 times larger than in 2003, though since 2008 the increase was only 6% (only slightly above the average). Concerning bilateral trade relations in services, the tendencies are less promising: they increased significantly below the average since 2006 (and the same is true in the crisis period).

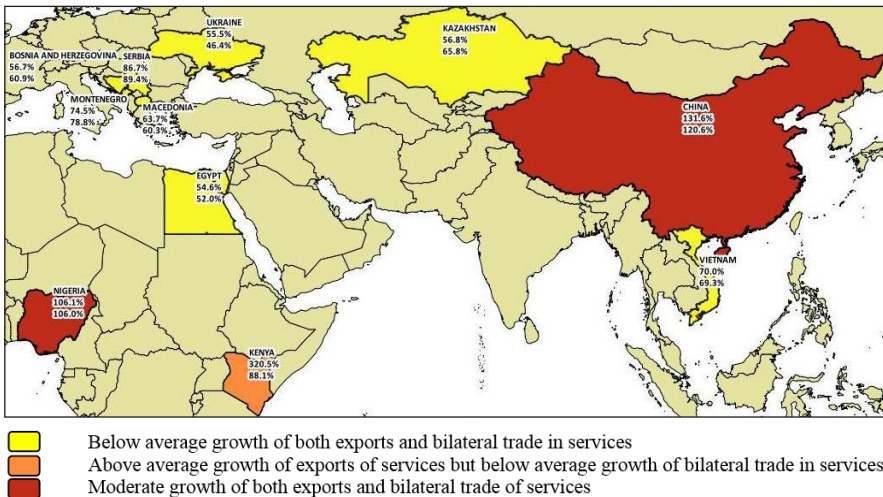
Figure 2. Hungarian exports and Bilateral Trade of Goods to Selected Recipient Countries, 2003-2011 (average growth with the countries of the world =100%)



Note: Before 3 June 2006 Serbia and Montenegro formed one country; their 2003 data are decomposed based on the average exports/trade ratio of the two countries between 2007 and 2011.
Source: Own calculation based on data from the Hungarian Central Statistical Office. Available at: <http://www.ksh.hu>

The dynamics of worldwide Hungarian exports of goods between 2003 and 2011 was even slightly higher than exports and imports together. Moreover, the growth of exports to the selected recipient countries was 3.8 times higher than the average. However, this exceptional bilateral trade dynamics applies only for 8 countries: China, Serbia, Montenegro, Ukraine, Kazakhstan, Egypt, Kenya and Nigeria, while it increased below the average to Bosnia-Herzegovina and Vietnam (it was slightly above the average in the Macedonian relation). The moderate dynamics of exports to Vietnam is especially conspicuous if we consider that total Vietnamese imports increased by 242% in euro terms between 2003 and 2011.¹⁰ While this might indicate a problem of cost-competitiveness of Hungarian exports, the low dynamics of the trade with Bosnia and Herzegovina is more a consequence of weak Bosnian demand. In this respect, during the 2008-2011 crisis period, the demand for imports decreased especially in Bosnia-Herzegovina, Montenegro and Serbia. It stagnated in Macedonia and Ukraine, increased slightly in Kazakhstan, Egypt, Kenya and Nigeria, while it expanded strongly in China and Vietnam.

Figure 3. Exports and Bilateral Trade of Services with Selected Recipient Countries, 2006-2011 (average growth with the countries of the world =100%)



Note: Before 3 June 2006 Serbia and Montenegro formed one country; their 2006 data are decomposed based on the average exports/trade ratio of the two countries between 2007 and 2011. Source: Own calculation based on data from the Hungarian Central Statistical Office. Available at: <http://www.ksh.hu>

¹⁰ The statistical source is The World Bank, DataBank, World Development Indicators, and calculated in current euro terms to ensure comparison

The following table summarizes the changes in bilateral trade relations between Hungary and the selected recipient countries:

Table 4. Changes in Relative Weights of the Selected Recipient Countries in the Overall International Trade Turnover of Hungary (%-points, between 2003/2006 and 2011)

Bilateral trade indicators Countries	Exports of goods (2003-2011)	Exports of services (2006-2011)	Exports + imports of goods (2003-2011)	Exports + imports of services (2006-2011)
Bosnia and Herzegovina	-0.34	-0.09	-0.09	-0.11
China	1.11	0.20	2.34	0.39
Egypt	0.05	-0.07	0.04	-0.10
Kazakhstan	0.01	-0.27	0.004	-0.24
Kenya	0.09	0.003	0.07	-0.0005
Macedonia	0.02	-0.01	0.03	-0.01
Montenegro	0.02	-0.04	0.02	-0.06
Nigeria	0.02	0.004	0.01	0.01
Serbia	0.64	-0.15	0.54	-0.05
Ukraine	1.02	-0.32	0.60	-1.12
Vietnam	-0.003	-0.02	-0.01	-0.03
11 countries together	2.63	-0.77	3.55	-1.33
10 countries (without China)	1.53	-0.97	1.21	-1.73

Note: green background indicates an increase and red stands for decrease of the weight of the particular country in bilateral trade relations.

Sources: Own calculation based on data from the Hungarian Central Statistical Office. Available at: <http://www.ksh.hu>

Time series data for *international trade of services* are only available at the level of total services. Among the 11 countries the only one that increased its relative weight is China, with slight increases for Kenya and Nigeria albeit starting at an extremely low level. The increasing role of non-European countries in international trade of services is even more obvious in the crisis period: since 2008 Kazakhstan and Vietnam joined China, Kenya and Nigeria among the expanding markets. Nevertheless, service

trade level between the selected 11 countries and Hungary is still very low with only 1-2 projects bringing virtually outstanding changes. For lack of country-specific data we may only note in general that *transport services, construction and IT services* are the internationally most competitive sub-branches of the Hungarian service sector.

Concerning the external trade of goods, the following bilateral trade profiles can be drawn based on the volume of exports and imports and the product-level trade flows between the recipient countries and Hungary.

With Southeast Europe Hungary has a significant trade surplus: imports from these countries typically cover only 10-30% of the value of Hungarian exports. In addition to the flagship machinery exports, pharmaceutical companies are also outstanding exporters to this region. Moreover, Hungarian agricultural and food industry companies have an important role in the food supply of Bosnia and Herzegovina and the Hungarian energy sector is an important energy provider for Serbia. The only exception is Montenegro; because of the outstanding volume of imports from aluminum and articles thereof (that covers almost 99% of the Hungarian imports from Montenegro) Hungary registers a deficit in Montenegrin trade relations.

Hungary's export profile is rather similar with Ukraine and Kazakhstan. However, the Hungarian trade surplus is less significant because of the high volume of energy imports from Kazakhstan and a more balanced trade flow in machinery products with Ukraine. Besides pharmaceutical and machinery exports also food- and plastic-manufacturing industries play an important role in exports to these countries.

Hungarian external trade is especially unbalanced with African countries. The volume of imports from African amounts to less than 10% of exports to Egypt, Kenya, and Nigeria; in the case of the latter two the ratio is below 1%. Machinery products dominate exports to these countries, but Hungarian companies also deliver significant amount of organic chemicals, plastic articles, textile products, ceramic products and furniture. The volume of Hungarian imports is significant from Egypt in agricultural, chemical and paper industry articles. There are no significant import products from either Kenya or Nigeria – the only exception is the import of live trees from Kenya.

Global trade flows dominate the Hungarian trade profile with East Asian countries. However, with China and Vietnam, Hungary has a trade deficit; moderate with Vietnam, but very high in relation to China. Machinery products dominate Chinese-Hungarian trade relations, while Hungarian trade flows with Vietnam also comprise several food industry products, pharmaceutical, chemical and furniture articles.

2.3.1. Direct Investment

At first glance Hungary plays a relatively important role in direct investment activities in the Western Balkans. The perceived ‘frontrunner’ status of Hungary among the EU new member countries, its earlier liberalization and privatization generated a significant outward foreign direct investment to the neighbouring countries (Szemplér – Éltető 2012). However, an important part of this OFDI is so-called transit FDI when multinational companies reallocate capital between countries via their operational subsidiaries. “According to the Hungarian National Bank, € 2.5 bn of the € 4 bn FDI and of the € 2.7 bn OFDI was thus related to this type of multinational activity, which is actually recorded in the balance of payments in FDI and OFDI, but in reality does not result in lasting direct investments inside and outside of Hungary” (Szemplér – Éltető 2012:27).

Besides tax optimization purposes (partly in Cyprus, Switzerland and the Dutch Antilles) Hungarian OFDI is valuable in Croatia, Slovakia, Romania, Bulgaria and two of the selected recipients, *Serbia and Ukraine*. Nevertheless, Hungarian companies’ investment activity is rather limited: both Serbia and Ukraine have a weight of about 2% of total OFDI.¹¹ In addition, there is a lower, but statistically still measurable Hungarian OFDI in Macedonia, Montenegro and China whereas in the other 6 countries, Hungarian investment activity is statistically insignificant. *The Macedonian and Montenegrin OFDI are mainly transit type foreign direct investment*: through their local subsidiaries the Magyar Telekom

¹¹ For comparison, Serbia’s weight in the total Hungarian exports is 1.4% in goods and 1% in services and that of Ukraine is 2.1% in goods and 0.4% in services.

is the main investor, the ultimate owner and decision-maker is Deutsche Telekom.¹² In Macedonia some smaller investment activity is observable in the food industry and other manufacturing sectors (Milanov 2012:19). Hungarian investment in China is even smaller amounting to less than 0.2% of total Hungarian OFDI. China is the only country among the 11 where Hungarian private investment activity has been rising every year since 2008. In sum, the impression of significant Hungarian investment activities along the Southern and Eastern EU border is misleading with a significant part of “Hungarian” investment being the transit type of FDI. In addition, the Hungarian presence is based on a few large companies generally active throughout Central- and South-Eastern Europe (Magyar Telekom, MOL, OTP, Richter Gedeon) whilst the investment activity of other, smaller Hungarian companies is very low.¹³

2.3.2. A missing link: Hungarian financial private companies in international development activities

The participation of Hungarian financial private companies in international development activities is limited; the fact that the otherwise very extensive research of Szent-Iványi (2009) does not mention this is not accidental and there are several reasons behind this.

Foreign ownership has dominated the Hungarian banking sector since the second half of the nineties (Várhegyi 1998: 908); since 1997 the ratio of foreign ownership in the overall banking assets has been above 60%. The role of domestic private ownership is even weaker if we consider that most Hungarian financial companies are locally oriented saving banks. In fact, only one bank with (partial) domestic ownership has a realistic potential to significantly participate in international development activities, namely the OTP Bank. The international development preferences of the

¹² See the annual report of Magyar Telekom at http://www.telekom.hu/static/sw/download/2011_MT_IFRS_Annual_Report_hun.pdf

¹³ A good illustration is the practically non-existent OFDI of the ‘flagship’ automotive industry.

foreign-owned banks are in practice unrelated to Hungarian international development policy.

The international financial crisis has had negative consequences on the position of Hungarian banks (Várhegyi 2012). Sustained crises clearly undermine the willingness to participate in development activities. In addition, Hungarian private financial companies have been constrained by a special extra banking tax and the burden of an early repayment scheme for credits denominated in foreign currencies. The consequence of these crisis-management measures is that the multinational banking groups devalue their Hungarian affiliated banks in their regional financial strategies (Várhegyi 2012: 234) fundamentally undermining aid development activity of these banks.

The only private Hungarian bank active in international projects is the OTP Bank which besides its operations in Hungary, the OTP Group currently operates in 8 countries in the region. Among these, Serbia, Montenegro and Ukraine might be relevant in international development projects. However, the Serbian and Montenegrin subsidiaries are the weakest performers in the banking group and the Ukrainian affiliated company is not among the best performers either.¹⁴ As a result, we could not realistically expect significant international development activities from the OTP Bank.

Hungarian financial institutions or local subsidiaries of international banks indirectly support *financial development projects in the poorer regions of Hungary*. A good example is the Polgár Foundation for Opportunities that combines the expertise of leading bank managers with researchers involved in education and Roma minority inclusion. This foundation has micro loans and the bridging loans projects that could be absolutely relevant for of international development.

Nevertheless, Hungary's main contribution to the financial development in certain DAC countries is through the activities of *two specialized state-owned financial institutions*, the EXIMBANK (Hungarian

¹⁴ This is in sharp contrast with the outstanding profitability of the Bulgarian and Russian subsidiaries and the positive Hungarian core profitability, see Annual Report, 2011): http://bet.hu/data/1544339/OTP_Eves_jelentes_2011.pdf

Export-Import Bank Private Limited Company) and the MEHIB (the Hungarian Export Credit Insurance Private Limited Company). Their role is “to facilitate the sale of Hungarian goods and services to international markets”. EXIMBANK and MEHIB are technically supporting Hungarian companies in countries considered as more uncertain markets – and the selected 11 countries clearly fall to this category. Concerning their role in international development, the most important is the provision of *tied aid credits*. However, in this enduring crisis period, in particular because of the drying up of liquidity and a credit crunch in Hungary, the steadily increasing number of indigent companies created a more general use for the services of these institutions and as a consequence, the number of companies interested in tied aid credits and international development projects has been rising.

2.3.3. Transfer of know-how and technology, building of physical infrastructure and human capital

Hungarian private sector play a role in Hungary’s international development assistance projects in a limited number of fields, among the most important being humanitarian aid (donation of foods and medicines) and some aspects of technical assistance (Kiss 2012:374). However, the project-level overview of development activities indicates a more significant contribution.

In addition, it is worth mentioning that private companies contributed to agricultural development projects in Afghanistan and Laos: agricultural companies transported seeds and help open the joint scholarship programme with the UN FAO also to Afghanistan, whilst several projects helped improve technological efficiency of agricultural production in Laos.

The transfer of know-how, technology and good practices are particularly important in *agriculture and related manufacturing industry sectors*; this includes not traditional production methods of foods and beverages, but also latest technologies in viticulture and environmentally sustainable animal husbandry. *Human capacity building scholarship*

programmes play a predominant role in international development policy and the joint programmes with FAO are especially relevant in developing countries.

Hungarian private sector actors can contribute significantly to international projects mainly in the investment and manufacturing fields, especially when the latter is related to agriculture. Private involvement is smaller in the educational and healthcare sectors where state-ownership is dominant and where non-governmental development organisations play a particularly important role in *education*.

Recent development relations with Kenya generated an increasing interest in the support to the *health sector*; the Ministry of Foreign Affairs actively promoted the private sector “to provide Mother and Child Health, Nutrition and Family Planning Services”. In principle, comprehensive health sector projects are opportunities for Hungarian companies construction (planning of hospitals, building and related services), manufacturing of surgical instruments and health-care training. However, the actual participation of private companies in international development projects is conspicuously low. As Ministry of Foreign Affairs underline ‘*the small amount of winners in international development projects are government agencies and civil society organizations and not private companies*’, the winner of a health development project in Langas, the second largest slum of Kenya was the non-profit Foundation for Improvement of Medical Services (Külügyminisztérium 2012:21 and Vitényi 2012).

Examples of the projects

- Infrastructure development in Bosnia and Herzegovina (namely the transfer of water purification technology of drinking water in Tuzla);
- Agricultural and food industry training in Kenya (as part of the joint Scholarship Programme with the United Nations’ Food and Agriculture Organisation);
- Adult training project in Macedonia;

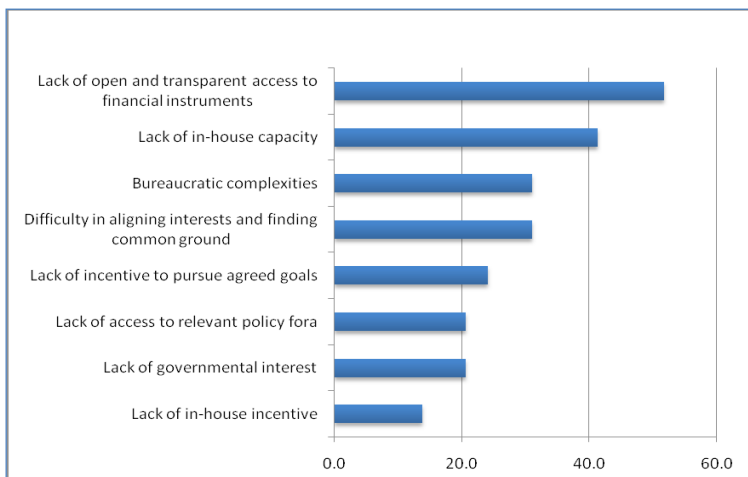
- Construction activities in Montenegro's educational infrastructure (kindergarten, primary school, healthcare vocational school and adult training centre);
- Viticultural training and technological improvement in preserving the genetic profile of indigenous goat and sheep breeds in Serbia;
- Bilateral scientific and technological cooperation projects with Ukraine;
- Joint Scholarship Programme with the UN FAO for Vietnamese applicants.

2.4. Hungarian private sector's participation: motivation and potential

In order to explore the motivation and potential of Hungarian private sector actors to participate in development activities we carried out a survey in late 2012. We have 32 response units representing 11 countries; though this meets the methodological guidelines our results can only be considered initial findings of an explorative research.

The most important finding was that the vast majority of companies are *too small to be able to participate successfully in international development projects*. About a half of the respondent companies considered the '*lack of open and transparent access to financial instruments*' as the major difficulty for taking part in international development projects. However, a significant part (41.4%) is aware of their own capacity problems. This is in contrast with their *high level of motivation* – 86% of respondents do not have problems with in-house incentives.

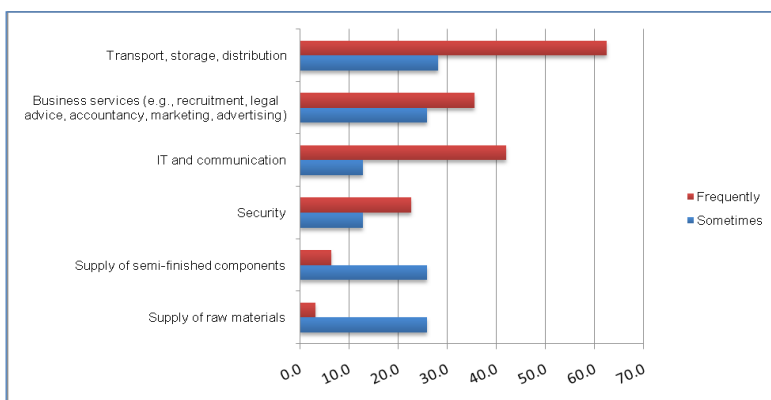
Figure 4. Main challenges of private companies in international development projects (% of respondents)



Source: CPS Survey with the Hungarian private sector about international development (October-December 2012)

The capacity problems likely account for the *low level of cooperation with local partners* present in the selected 11 countries. The main field of cooperation is transport, storage and distributions, followed by cooperation in business services as well as IT and communication fields; less than one-third have regular production cooperation with local partners.

Figure 5. Use of local partners (%)



Source: CPS Survey October-December 2012

The main suggestions to improve their involvement in international development projects concentrate on three fields: (1) joint participation in specific sectoral working groups (mentioned by 38% of respondents); (2) more active opportunity to define the framework of co-financing mechanisms (mentioned by 52%) and first and foremost, the possibility to participate in *regular professional consultations* (mentioned by 68%!).

There was a conspicuous *scepticism concerning the role of foreign-owned private for-profit companies in contributing to development goals in poor countries*. At a scale from 1 to 5, they gave slightly above-average evaluation only for two components: encouraging the development of basic infrastructure and improving employment standards and conditions. According to the respondents, foreign companies have only a moderate role in transferring know-how and technology, promoting fair market competition, facilitating access to finance and enhancing local human capital. Moreover, they consider the supposed development-supporting impact of foreign companies especially weak in the transparent implementation of law and regulatory frameworks.

2.4.1. Employment, social activities, and corporate social responsibility

It is difficult to provide valuable information about the role of the Hungarian private companies in the field of employment and related social activities in the selected countries. Trade-based relations dominate bilateral cooperation between Hungarian companies and local actors in the recipient countries. The other types of cooperation, such as involving local producers in sub-contracting and providing market services, are rather moderate. This is also valid for the supposed employment of local workforce, especially because of the small size of the Hungarian companies. In addition, most companies that might provide information about employment relations in selected countries were reluctant to share this information.

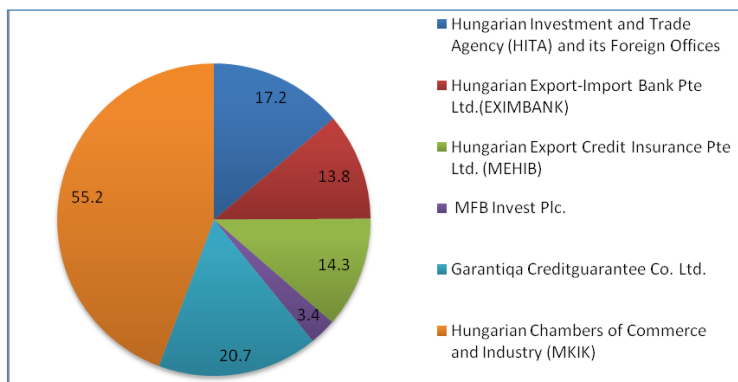
In the rare cases when Hungarian companies employ a local workforce, they employ them without trade-unions. However, 58% of responding companies have a specific employment ethical code which they apply with

the same standards in the selected recipient countries as in Hungary. As our respondents are mainly performing physical infrastructure building activities, it is not surprising that they employ significantly more men than women. However, when the administrative unit is larger, the level of female employment is higher. The typical employment relation of the recruited workforce is full-time employment; part-time employment is atypical. Finally, there are very few traces of corporate social activities: supporting community transport commuting and providing in-house training are the ones observed at all.

2.4.2. The role of intermediary organizations

Intermediary organizations can help transfer information between government agencies and enterprises as well as to promote cooperation in the form of clusters. According to our survey, the Hungarian Chambers of Commerce and Industry (MKIK) could play a strong role. Thanks to its decentralised character more than half of the motivated private companies maintain regular contact with it. The specific function of MKIK and HITA (the Hungarian Investment and Trade Agency) is related to managing corporate data bases, while other significant supportive organizations such as Garantiqa, EXIMBANK, and MEHIB fulfill technical functions.

Figure 6. Contacts with Government Agencies and Business Associations



Source: CPS Survey with the Hungarian private sector about international development (October-December 2012)

2.4.3. Tied aid and the Private Sector

The practice of tied aid plays a specific role in Hungarian international development policy. Tied aid has a strong domestic legitimacy not only within the private sector and intermediary organizations but also with most relevant government agencies. Moreover, one of the leading Hungarian scholars in the field argues that tied aid is a “successful form of the aid practice” (Kiss 2012:385). Under the present economic and social conditions the domestic legitimacy of international development among can hardly be based solely on altruism; it requires additional tangible results that may raise public awareness about international development. Tied aid is considered as a form of international aid that also supports the export market and thereby indirectly promotes the well-being of Hungarian citizens as well.

**A successful example:
the Hungarian Water Business Cluster**



General capacity problems can be partly overcome through cluster development and a successful example is the Hungarian Water Business Cluster that started in January 2008. This cluster brought together different areas of the water industry and by 2013, it had 10 active members in construction, public utility (water and drainage systems) operation, potable water purification, communal and industrial wastewater treatment and environmental services (e.g. flood prevention). In this manner, the otherwise insurmountable gap between motivation and capacity to participate in international development projects can be bridged. Members “can jointly help their potential partners in water management issues using their expertise, knowledge, know-how, capacity and vitality”. It is noteworthy that among others achievements, the Hungarian Water Business Cluster was able to achieve significant business success in China.

2.5. Conclusion and recommendations

The Hungarian private sector has so far made a rather moderate contribution to the international development policy goals of Hungary. One of the principal reasons is that the Hungarian business environment has been on the verge of recession since 2006. Secondly, micro- and small companies dominate the corporate landscape and the vast majority is incapable of taking part in international development projects. The few large companies are mostly multinational and they are embedded in the international development network of their ultimate owner's country. In addition, recent crisis-management measures generated distrust between foreign-owned companies and the Hungarian government, especially within the banking sector.

Although SMEs are very interested in participating in international development projects, they lack relevant capacities and only a few provide significant technological value-added in international markets. They cannot finance the investment needs of larger-scale projects, and capacity problems are additionally aggravated by human resource problems.¹⁵

Business associations can help fill the gap between private sector interest and capacity. Though cooperation is uneven amongst domestic private actors, corporate cluster as evidenced by the water industry, is one promising alternative. However, our findings do not confirm a special role for social network capital acquired by individuals once studying in Hungary and now occupying influential positions back home; this might have been important in the past, but it is rather marginalised nowadays. In addition, though Hungarian NGOs could, in principle, help foster private participation in international development projects, this network is practically non-existent with local NGOs first and foremost embedded in international civic networks.

In these circumstances the particular role of tied aid is not surprising. Both private and government actors have a common position that under untied aid conditions the vast majority of Hungarian private companies

¹⁵ Since the 1990s, SMEs have experienced certain human capital devaluation: the relatively higher and more stable salaries and career opportunities at multinational companies and in various new state agencies attracted those with higher level of education at the expense of domestic enterprises (Lengyel 2003:127).

cannot take part in international development projects. However, tied-aid-related tenders undoubtedly generate additional opportunities to increase exports and support the legitimacy of international development aid in a country that has been experiencing a narrowing domestic market and increasing poverty for the last 7 years. Though it has strong opposition amongst international organizations and civic actors, tied aid has a relatively strong domestic legitimacy.

Nevertheless, taking into account foreseeable international trends we recommend that the relevant Hungarian government actors gradually reduce the predominant role of the tied aid. This may gain greater legitimacy if Hungarian private actors are more competitive which will necessitate additional efforts, within initiatives such as clusters but also through the work of financial institutions such as EXIMBANK and MEHIB. Improvements in the general business climate will help but in the short term, human capacity problems can be partly solved through greater cooperation with the NGDO sector. Intermediary organizations can help foster greater inter-firm co-operation as well as maintain opportunities through an accessible and transparent data base.

3. CHAPTER THREE

THE ROLE OF THE HUNGARIAN CIVIL SOCIETY IN DEVELOPMENT ASSISTANCE AND AID EFFECTIVENESS

Anna Selmeczi

3.1. Introduction

Like most countries in the Central East European region, the current state of development and humanitarian aid activities in Hungary are largely determined by two considerations. On the one hand there is the legacy of a heavily politicized donor practice from the socialist era, and on the other, a relatively swift transition from aid recipient to aid provider in the post-socialist period. At present there is a stable sector of Nongovernmental Development Organizations (NGDOs) in Hungary, however, their participation in Official Development Assistance (ODA) is constrained by a social and policy context still bearing the imprint of recent history.

This research was the first comprehensive study of the NGDO sector in Hungary. It found that there is a significant and, arguably, sufficient number of civil society organizations (CSOs) that can participate in official development aid activities. Certainly, with a relatively high number of NGDOs, an active representative association NGDO platform, up-to-date knowledge of international aid practice norms and membership in EU-level platforms, the Hungarian NGDOs are on a par with other new member states. Indeed, several can be compared to Western European donors as well. However, there is a perception amongst NGDOs and the Ministry

of Foreign Affairs that Hungary is falling behind neighboring Czech or Slovak ODA practices and that civil society involvement in ODA is below average.¹⁶ The present paper will examine some of the reasons for such a situation and point to ways in which they could be overcome. In addition, the chapter provides a comprehensive account of the sector in terms of size, activities, countries, and funding.

The chapter draws a variety of information sources. The list of CSOs currently engaged in international development and/or humanitarian aid was compiled through various public databases. This was then followed by an online survey, and then in-depth interviews with NGDO representatives, a Focus Group, and a Task Force meeting. The latter two provided opportunity for government representatives, NGDO staff, and academic experts to discuss the status and challenges within international development, as well as the preliminary findings of our research.

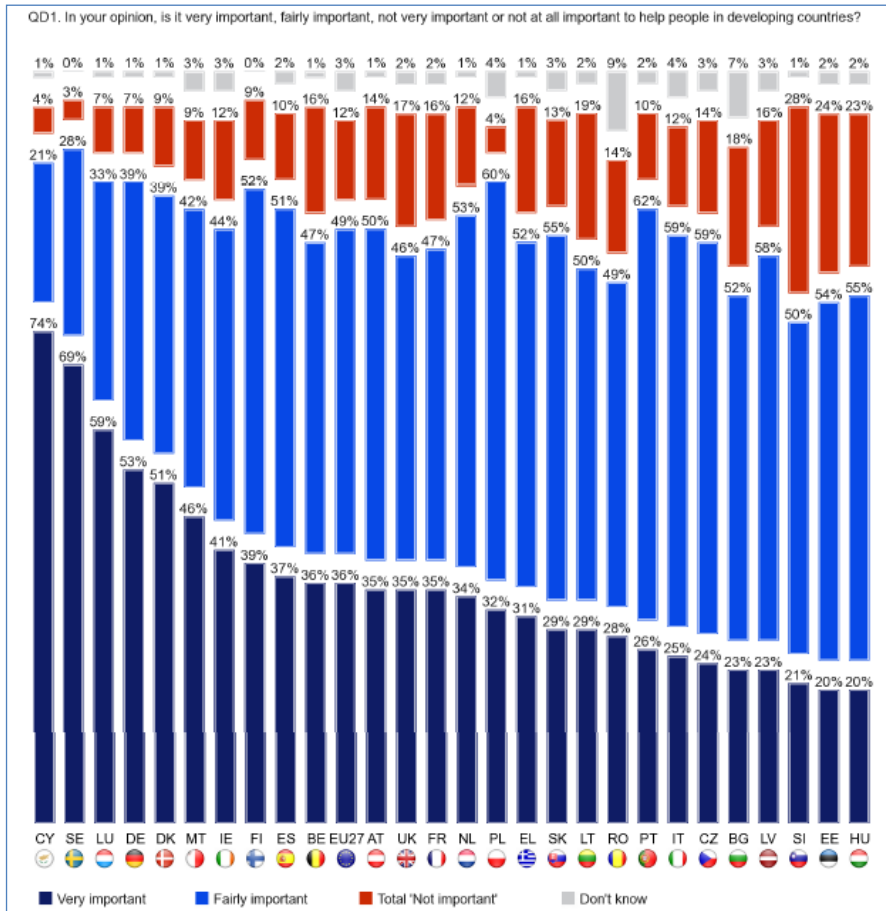
The first section offers a brief overview of the history and current context of NGDOs' operation. It then presents the different types of development organizations, their involvement in international development, and the findings from the survey of their financial and human resources. The penultimate section outlines prominent challenges whilst the final part makes several suggestions to potentially counter these.

3.2. The context

3.2.1. Prehistory and its implications

One of the most constraining elements of the socialist legacy in the region is an apathy, or even negative public attitude towards international development (Grimm and Harmer 2005, Szent-Iványi 2009). This seems to be particularly valid for Hungary: according to a recent survey on Europeans' attitude toward development aid, the Hungarian public appears as one of the least supportive towards helping poor people in developing countries (Special Eurobarometer 2011a).

¹⁶ Focus Group meeting.



Source: Special Eurobarometer 2011a

The proportion of EU members who think it is “important” or “very important” to help poor people in developing countries is the lowest in Hungary, while significant minority thinks that in the present economic crisis, the EU should freeze development aid (43%) or should not increase its amount despite an earlier pledge to do so (23%). While the percentage of those in favor of providing development aid to worse off parts of the world is still relatively high (75%), the results seem to confirm the view that people in Hungary prefer to focus on domestic issues and that international

aid is not a significant concern (see e.g. Vári 2007a).¹⁷ According to one prominent NGDO, the African-Hungarian Union, the Hungarian public is uninterested in international issues generally and the plight of poor people in “distant” continents particularly. Another group, Baptist Aid, noted that in West-European countries, development aid has a longer history with higher public engagement, and an NGDO sector which is much more established than in Central and Eastern Europe.

Although Hungary was an active donor to several developing countries during the Cold War, as Sára Vári (2007a) notes, public awareness about international development issues was non-existent in this period. While it supported developing countries in the name of international socialist solidarity (North-Korea, Vietnam, Cuba, Angola), scientific-technological cooperation (Brazil, Peru, India), or purely business-oriented considerations, beyond the political-military aid provided to leftist decolonization movements, the country seldom engaged in development cooperation in the classic sense (Suha 2011).

Although in the 1990s, Hungary had a relatively short period as an aid-recipient country, social attitudes still can manifest a sentiment of aid-dependency (Vári 2007a.). In this sense, EU-accession primarily meant access to external resources and the opportunity to approach old member states’ living standard. For most people, Hungary has not yet reached the level of economic development where it can, or should, support other countries. Coupled with decision-makers’ convictions that the region still lags behind old member-states’, the allocation of large funds for international development can appear difficult to justify (Szent-Iványi 2009; see also Paragi, Szent-Iványi, Vári 2007).

One additional explanation can be derived from immigration trends. Hungary is a transit rather than a target country, which means that people are less directly exposed to concerns of developing countries and their expatriates (Vári 2007a). Likewise, there is a popular perception (and shared

¹⁷ According to 23% of the respondents, providing aid to developing countries is “not important”. Although support in 2009 was much higher: 86% (Special Eurobarometer 2011b, 20), the previous two surveys (2007 and 2009) seem to be largely in line with the findings of the most recent one, reaffirming the points above.

amongst decision-makers too) that Hungary's geopolitical position spares it from many of the security risks emanating from the world's weak or failed states (Szent-Iványi 2009).

It is perhaps unsurprising then that there is an absence of development issues from almost all levels of education (Vári 2007a). While many NGDOs specialize in promoting global education, the integration of such material into official curricula has not yet been achieved. In fact, according to one such NGDO, during the past few years the prospect of introducing global education into primary school curricula has diminished further. Despite a rather successful ODA module funded by EuropeAid, an MFA-funded design of an ODA course and the publication of a corresponding textbook at Corvinus University, Budapest, there is no ODA program available in higher education.¹⁸ As for the general public, there are occasional TV-programs, news features, and even regular radio programs focusing on developing countries, but these concerns remain largely marginal in the mainstream media. Several NGDOs run activities and events to bring the cultures of, among others, African countries closer to the Hungarian public.¹⁹ However, as the Foundation for Africa noted, most who attend such events are already open to questions of development or the African continent; the uninterested majority is much harder to reach. According to the Anthropolis, these events and campaigns can also be wasteful and reaffirm stereotypes about developing countries and poverty.

At the level of foreign policy, Hungary does not have extensive ties to developing countries and, correspondingly, both its political and economic relations with these countries are contingent and minimal (Szent-Iványi 2009; Suha 2011). There is a discrepancy between the **official priority countries** and the focus of many Hungarian NGDOs, with the latter apparently more in line with the common European aim to increase the support of the least developed countries and in particular that of Africa. More generally too, as Judit Kiss (2008, 386) notes, the issue of ODA is not

¹⁸ This is in spite of the fact that the launch of an ODA program was a more or less articulate element of the CIDA and UNDP capacity building projects provided to Hungary in the 2000s (see Balázs Szent-Iványi Capacity Building report).

¹⁹ See for example activities of the Foundation for Africa or the Ebony African Cultural, Art, and Human Rights Association.

embedded within Hungary's foreign relations and, accordingly, lacks proper attention and status within the country's politics.

This is reflected in the very decentralized institutional structure that emerged during EU-accession negotiations between 2001 and 2003 (Kiss 2007). Although the MFA and the Department of International Development and Humanitarian Aid (NEFE-FO) has the main responsibility for formulating and coordinating policy, a large proportion of ODA activities are managed by line ministries and the distribution of labor between these actors remains unclear. The ODA obligations of the OECD and the EU continue to pose

**Hungarian ODA Priority countries
as defined by the Ministry of
Foreign Affairs**

Cooperation based on a medium-term development strategy:

Bosnia-Herzegovina, Moldova, Palestinian Authority, Serbia, Vietnam

Project-based partner countries:

Africa (Sub-Saharan), Cambodia, Kyrgyzstan, Kosovo, Laos, Macedonia, Mongolia, Montenegro, Ukraine, Yemen

IDC based on international

commitments: Iraq, Afghanistan

Eligible for tied aid credit: according to the OECD DAC categorisation

major challenges to the Hungarian foreign affairs administration. As Beáta Paragi notes, questions of development aid did not feature prominently on the accession negotiations agenda and, eventually, this lack of attention dawned on both Brussels and the new member states as a "mutual surprise" (Paragi, Szent-Iványi, Vári 2007, 157). By way of compensation, the European Commission made funds available for knowledge transfer and capacity building programs, involving both governmental and civil society organizations (see Szent-Iványi and Tétényi 2012).

Through such capacity building programs as the Canadian International Development Agency's (CIDA) Official Development Assistance to Central Europe (ODACE), in the early 2000s, there emerged a small but relatively stable sector of civic organizations engaged in international development and humanitarian aid (Paragi, Szent-Iványi,

Vári 2007). With very limited possibilities during the socialist period, there was no past experience to draw from, especially for those without a church affiliation. During the Cold War, international charity activities were carried out by the Hungarian Solidarity Committee and its issue-specific funds created on the occasion of natural or man-made disasters, for example, the Patriotic Popular Front (*HazafiasNépfront*), the National Council of Hungarian Women (*Magyar NőkOrszágosTanácsa*) or the National Association of Hungarian Journalists (*Magyar ÚjságírókOrszágosSzövetsége*). Their campaigns, however, were limited to occasional humanitarian aid for example, for Vietnamese orphans, (Paragi, Szent-Iványi, Vári 2007).

One important step in fostering diversification, raising public awareness about global development and making an impact on policy making, began in 2002 when the umbrella organization Hungarian Association for Development and Humanitarian Aid (HAND) was formed. While its founders had great enthusiasm and willpower, the establishment of HAND's was neither spontaneous nor a bottom up process, but part and parcel of the Canadian capacity building program. In the beginning, there were 12 full and 5 observer founder members, and currently there are 16 full members of HAND (see also Trialog 2005).

The membership of HAND is heterogeneous. Beyond the environmental and volunteer recruitment bodies, the associations fostering

Hungarian Association of NGOS for Development and Humanitarian Aid



Mission:

contribute to the formulation of an effective, transparent and sustainable development cooperation policy, based on years of professional experience of the member organisations.

Main activities:

representation of the NGDO sector, awareness raising campaigns, services to member organizations.

intercultural understanding, and NGOs promoting civic activism, there are only 5-6 member organizations whose primary focus is international development and humanitarian aid (see also Trialog 2005). Over the past decade, HAND has become the most important civil society actor in the Hungarian development scene. Beyond representing many of the major NGOs, the organization is also active in platforms such as the Visegrad Four and CONCORD Europe. Their Aid Watch Working Group prepares Hungary's country pages in CONCORD's yearly reports, as well as the Hungarian Aid Watch report since 2007. Perhaps reflecting the limited influence of civil actors in Hungarian ODA, the majority of the 12 recommendations that the Aid Watch author made in her first report in 2007 linger on in the 2012 edition (Hodosi 2012, 16-17).



CONCORD is the European confederation of Relief and Development NGOs made up of 27 national associations, 18 international networks and 2 associate members that represent over 1,800 NGOs.



AidWatch is a pan-European project of development NGOs, monitoring aid quantity and quality across the EU 27.

3.3. Surveying the Hungarian NGDO sector

HAND and its member organizations do not encompass the entire NGDO sector in Hungary. Several major church-affiliated humanitarian organizations are not members although some were past members and others are in the process of becoming members. Although there are some overlaps, there is a group of Africa-focused organizations that formulated their own platform, the Hungarian Africa Platform (Magyar Afrika Platform).²⁰ In addition, government reports of ODA activity list CSO organizations that belong to neither platform, nor appear active in the lobbying activities of the sector.

²⁰ However, according to one of the member organizations, this platform is largely inactive today.

To the best of our knowledge, an up to date list of active Hungarian NGDOs did not exist, and it seemed useful to create a more comprehensive database. In compiling this, we used the following resources: the searchable online database of the Court of Registration, the list of 1% tax-pledge eligible CSOs maintained by the Nonprofit Foundation,²¹ the Central Statistical Office's list of nonprofit organizations, membership lists of platform organizations (HAND, MAP), the MFA's yearly ODA reports, Trialog's country-specific NGDO database, and the Hungary-chapter of a global directory of development organizations.²² We identified nearly 70 organizations that engage in activities related to development or humanitarian aid and the entire list can be found in Annex One of this report. Our aim was to include organizations involved in ODA, but those whose activities are located beyond Hungary's strictly understood ODA-activities, for example, those operating in Romania and those active in capacity building for Hungarian CSOs and others that are less integrated within existing NGDO networks.

With around 10-13 percent of the database turning out to be inactive at the initial stage of making contact, our survey sample was reduced to around 60 organizations, out of which altogether 29 completed the survey. While some declined to fill out the survey because they thought it irrelevant for their activities, others said they lacked time and capacity during the end-of-year crunch-time. However, a nearly 50 percent response rate still provides a good picture of the Hungarian NGDO sector.

3.3.1. The profile of Hungarian NGDOs

Faith-based humanitarian organizations

As The composition of Hungarian civil society organizations working in development and humanitarian aid is very diverse and the number of NGDOs *per se* is rather small. By far the most visible and relatively well-funded civil actors are the faith-based organizations. While these

²¹ Available at www.nonprofit.hu

²² Available at www.devdir.org

organizations are (closely or more loosely) institutionally affiliated to a particular church, their development and humanitarian aid activities are not religious in nature. Development work is complemented with emergency humanitarian aid activities and many also operate in the domestic sphere.²³ This provides one of the primary lines of fragmentation within the sector, with these large organizations on the one side, and a very heterogeneous group on the other.

As representatives of these organizations acknowledge, they are in a more advantageous position than the smaller NGDOs because they can, for example, participate in pre-existing international networks. According to Baptist Aid, organizations of the same church in different countries can build cooperative projects on the relationship of trust that their shared denomination provides. Similarly, as their primary audience is their respective religious communities they are more experienced in fundraising that is targeted at private individuals. Having garnered a substantial body of experience over the past couple of decades, organizations such as Baptist Aid, the Hungarian Interchurch Aid or the Hungarian Maltese Charity Organization are in the forefront of the MFA's attention. These NGDOs can carry out projects in many countries, allowing them to draw on active connections when designing and implementing further projects.²⁴ It is hardly surprising that these organizations can access Europe Aid funding, either as project leaders or as partners alongside old member states' development agencies. Finally, illustrating their independence, while some are members of HAND (Hungarian Maltese Charity Organization and Caritas Hungarica), others such as Baptist Aid or Hungarian Interchurch Aid are not members of the platform, although they might be part of other organizations such as CONCORD through their mother organizations or networks (e.g. EU-CORD).²⁵

²³ 4 out of 7 organizations who responded in our survey that they have previously worked in the area of emergency relief and reconstruction were large faith-based organizations.

²⁴ Among our respondents, the average number of countries in which they have been active over the past five years is 8.5 in case of the four faith-based humanitarian organizations, where for the whole survey sample this average is 5.1.

²⁵ Baptist Aid coordinators, interview. Yet, according to the representative of a smaller HAND-member, without the major humanitarian organizations, HAND has much less legitimacy.

Regular NGDOs?

If NGDOs are civic organizations engaged primarily in activities related to international development (Trialog 2003), in Hungary this only applies to a handful of organizations operating in far fewer countries than the faith based groups. Members of Western NGDOs are usually perplexed about the relatively small international development civil sector in Central-East Europe compared to the plethora of domestically focused CSOs. Nevertheless, some development organizations have been operating for several years now and are present in two-three countries, where they typically have one or two projects run over an extended period. Such is the work, for example, of the Afrikáért Alapítvány (Foundation for Africa), the Mezőtláb Alapítvány (Barefoot Foundation), and the TAITA Foundation for African Children, each of which operates an orphanage or multiple orphanages and associated schools and kindergartens. As they focus on ongoing undertakings rather than distinct development projects, their access to ODA funding is relatively limited. This is particularly true for the Foundation for Africa. As Hungary has no diplomatic mission in the Democratic Republic of Congo where the Foundation operates, the MFA does not include the country in its funding calls.²⁶

While these three organizations approximate the characteristics of Western NGDOs, there are others that engage in publically funded development projects, such as DemNet: Foundation for Development of Democratic Rights. There are additional small organizations that do not carry out development work themselves but transfer funds to affiliated individuals or organizations operating in the recipient country. One example is the Third World Foundation, a small faith-based organization that, since 1991, has been collecting donations in Hungary and among members of the Bokor [bush] Christian Base Community to support the charitable and educational activities of specific pastors in India and Argentina. As

²⁶ While there is no written rule to this effect, in previous years the pattern has been to fund projects in countries where Hungary has diplomatic representation. However, the call for 2012 (published in February 2013) does now include the Democratic Republic of Congo as well (MFA 2013).

former HAND-coordinator Réka Balogh noted, summarizing the findings of HAND's own research on CSO effectiveness, a significant proportion of the twenty NGOs she interviewed effectively do not work abroad.

Educational organizations

A relatively large number of NGOs with a predominantly domestic focus are educational organizations; those bodies that work towards intercultural understanding, changing perceptions of immigration and global poverty, and popularizing environmental consciousness. While rarely involved in development projects directly, groups such as the Artemisszió Foundation, Anthropolis, the BOCS Foundation or the National Society of Conservationists are the principal actors of raising the profile of international development in Hungary. With 10-12 members, the Global Education Work Group is the largest of HAND's task forces. To be sure, this distribution of profiles is very much the product of the limited resources and scheme of public funding. According to several experts interviewed for this research, the available ODA funds are disproportionally geared towards awareness raising projects.²⁷

On the margins

The final group is small organizations that engage in international development or humanitarian aid, but are not integrated into broader institutional structures of the field. Some are CSOs that work in Hungary, but have successfully applied for public funding for the occasional international projects. A case in point would be the Magosfa Foundation whose program of education for sustainability in Bosnia and Herzegovina has received both Europe Aid (in 2007) and governmental ODA funding (in 2011), or the Faipari Tudományos Egyesület (Scientific Association of Forestry), whose biomass project for rural communities in Vietnam was twice allocated Hungarian ODA funds. Others include those helping transborder Hungarian

²⁷ Conversely, according to Réka Balogh, such bias towards awareness raising is only characteristic of Europe Aid funding and this activity has not been featured among the MFA's calls for applications for several years now.

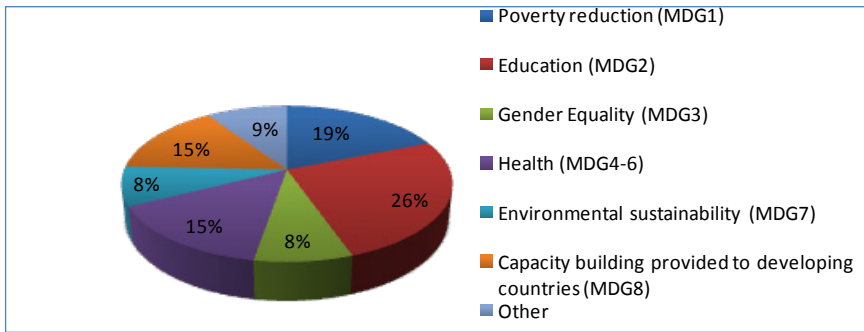
communities, most of whom now live within the European Union, thus placing such activities beyond the ODA framework. A typical example of the latter is HELP Nemzetközi Orvosi Alapítvány (HELP International Medical Foundation), that regularly delivers humanitarian aid and medical equipment to poor communities in Transylvania, Romania. Finally, a different kind of marginality characterizes those international organizations that have offices in Budapest. While the Hungarian Committee of the UNICEF is part of the NGDO platform, it clearly does not function as an NGDO. On the other hand, the Hungarian branch of Relief International operates the Human Resources activities of that organization, but there are no development activities carried out from Hungary. A similar case is that of Terre des Hommes – an international NGO promoting children’s rights – for which the relevance of the Hungarian office is mostly administrative and as such, they are not integrated in the Hungarian NGDO field.

3.3.2. Involvement in development activities

How do Hungarian CSOs take part in international development activities? Asked whether they have participated in international development, 27 of the 29 responding organizations said they had, whilst 22 said that they are currently leading or have led a development project in the past.²⁸ When asked to define their work in terms of the Millennium Development Goals, the following distribution of activities takes shape:

²⁸ As our survey did not ask here whether leading a development project implied that the organization itself carried out a project in a recipient country, this response has to be qualified by the preliminary finding of HAND’s cited above study: a significant proportion of Hungarian NGDOs do not effectively work abroad.

Figure 7. If your organization has carried out development projects, in which field was/is it active?



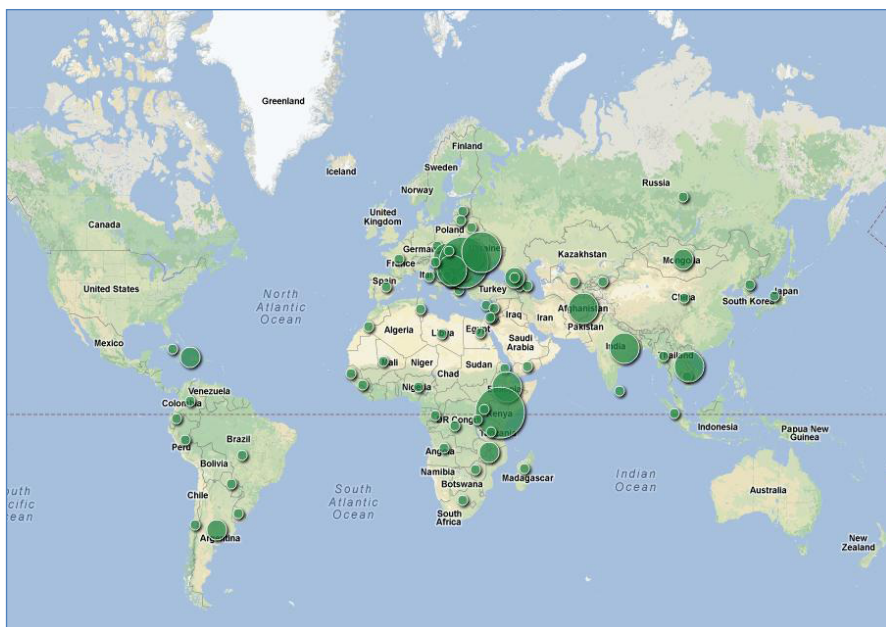
Emphasizing the importance of awareness raising, the most frequent area of activity mentioned is education (MDG2), with 19 organizations. The second most frequent is poverty reduction (14 respondents), including all the faith-based humanitarian organizations as well as the Africa-focused regular NGOs.

Regarding their participation in ODA activities, 14 organizations responded that their work has been funded by the MFA. Most frequently, this refers to grants for a development or humanitarian aid project (9 cases), while more than a third of the cases involve contributions towards national ODA law or policy-making. More than a quarter of ODA-grantee organizations received funding as project partners while a fifth provided consultancy work or carried out national public awareness raising campaigns. With the exception of the Hungarian Reformed Church Aid (which received funding as a partner organization of a development project), all the major humanitarian organizations have cooperated with the MFA in the autonomous realization of a development project. Beyond them, BOCS Foundation, DemNet, the International Center for Democratic Transition (ICDT), and TAITA Foundation for African Children have received funding (including awareness raising, consultancy, as well as the realization of development projects), while the remaining positive responses come from three smaller organizations for individual projects.

In terms of geographical location, Hungarian NGOs have carried out development or humanitarian aid work in 76 countries over the past five

years. As mentioned, while the major humanitarian organizations typically deliver humanitarian aid in ten or more countries, regular NGOs have been active in between 2-4 countries. In our effort to generate and distribute a more comprehensive picture of the international development sector in Hungary, we created the following map of NGO's work.²⁹

Figure 8. Hungarian NGOs' work around the world



Most Hungarian NGOs say they try to popularize international development among the general public and decision-makers. The vast majority (26) of respondents take part in efforts to raise public awareness of development issues. The most frequent form are ad hoc, occasional events and media appearances, but regular press releases and newsletters also feature high among methods. Most organizations target young people as their primary audience, but much effort is also directed at opinion leaders, media personalities, educators, governmental representatives and politicians

²⁹ The interactive map will be available on the CPS website and the subsequently on the webpages of HAND. The green circles signal the presence of a Hungarian NGO. The larger the circle, the more projects were carried out in the particular country.

(34.6% respectively). Most organizations target their campaigns on the national level with local and county-level being the second most frequent cited but the European level is not much further behind it. Just 30.8% of respondents focus their awareness raising efforts on the international level.

As the best indicator of their success in raising awareness, most respondents chose the transformation of the public opinion/debate (34.6%), although many thought that an increase in the number of active NGDOs was also a good indicator of increased awareness (26.9%), while the increase in the organization's material resources was the third most frequently cited indicator (15.4%). Not all groups work in this way. One respondent from a small faith-based organization referred to the limited amount of money they can raise, and their wish to dedicate most to the supported project with the least amount of overhead expenses. On the other hand, the coordinator of a much larger faith-based organization highlighted ambivalent public attitudes towards international aid: in times of economic crisis, people ask, why help abroad when there is enough poverty within the country?

Among NGDOs who work in a developing country, twelve organizations engaged in awareness raising activities in the recipient countries. Interestingly, the major humanitarian organizations tended not to do so. Usually awareness raising takes the form of training and education, but regular or occasional publications are also popular means for spreading development related information. Typically, awareness raising in recipient countries is targeted at governmental and municipal decision-makers as well as professional associations or occupational groups, but young people and the business sector are also frequently targeted. According to our respondents, the best indicator of the success of their awareness raising work in recipient countries would be the increase in the number of local CSOs active in the area of development, while an increase in their own resources (both human and financial), and the transformation of the public discourse around development would also signify the success of their efforts.

The majority of our respondents do not carry out awareness raising activities in the countries they operate in. The main reason is that they lack sufficient resources and capacities; others report that their local partners

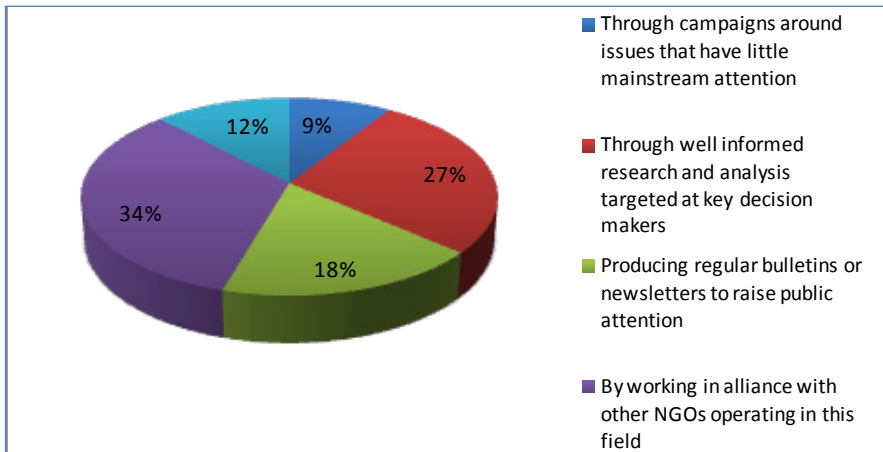
carry out this work, while according to a few other respondents, such campaigns are unnecessary and, in a sensitive political context, can even be dangerous. When asked whether they are planning to undertake awareness raising activities in the future, only one out of the 17 organizations responded positively, while seven could not tell for certain.

Most organizations acknowledge that the problem of weak legitimacy of international development does not solely lie with the lack of popular commitment to helping people in developing countries. In order to counter such negative sentiments, much stronger political support needs to be garnered. However, when asked whether they participate in initiatives to change ODA policies, only a little more than half of our respondents answered positively. The majority of these refer to their limited capacities or their marginal position in relation to ODA policies, while others said that they feel they are not being listened to. Many of these explanations frame advocacy and “actual” development work in terms of either-or: if one chooses to do development, advocacy is no longer available as an option. Such views might explain the reluctance to taking up advocacy work in the future: two respondents said their organization plans to engage in advocacy, three knew they would not, while eight respondents were undecided.

Those who do manage to direct resources at advocacy most typically characterize these efforts as occasional and targeted at the national level of policymaking. DemNet, Partners Hungary Foundation, and, of course, the platform organization HAND define their advocacy work as regular and positioned on the national level, while three NGDOs (BOCS Foundation, the National Society of Conservationists and the Hungarian Committee of UNICEF) focus their regular advocacy campaigns on the international level. As to the aim of their work, the responses show the following distribution:

Signaling the central role of the NGDO platform, most respondents say they carry out advocacy work in cooperation with other organizations working in the field, however, communicating research and analysis towards key decision-makers also featured as a popular form of advocacy.

Figure 9. How does your organization try to influence official policies related to international development?



Among their chosen means of advocacy, media campaigns (9 responses), public awareness raising campaigns (9), scholarly publications (9), and presentations to governmental decision-makers (10) seem to be equally popular. As to the success of advocacy and lobbying, surveyed NGDOs think the best indicators would be specific amendments of official ODA policies and the resetting of government priorities (5 responses respectively).

While scarcity of resources certainly limits this role, instead of realizing development projects themselves in recipient countries, many organizations provide aid through grant-making. In our survey sample, 12 out of 29 respondents reported that their organization has provided grants in the past five years. While for some NGDOs this is a regular activity (once or twice a year typically), for others, particular needs or projects determine whether to employ grant-making, and thus there is no regularity to it.³⁰ According to our respondents' account, grantees are both individuals and organizations – many times it is local CSOs that benefit from financial aid; some organizations give grants to Hungarian CSOs as a form of capacity

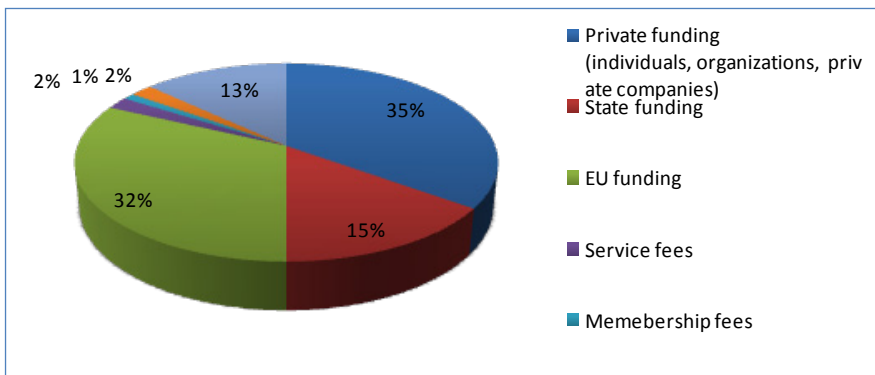
³⁰ One exception is the Hungarian Committee of UNICEF, where grant-making happens on continuous bases.

building, while others resort to this form when there is no other way to help poor families or individuals. As the frequency and the rationale for grant-making are so diverse, defining the portion of their budgets that was allocated to grants is not meaningful. It could, however, be telling of the marginality of this function that 11 out of 17 NGOs do not give out grants nor do they not wish to in the future.

NGOs' financial and human resources

One of the most interesting findings was that the proportion of funding granted by individuals or private foundations to Hungarian NGOs forms the largest portion of their budget and relative to other resources, the share of private funding is significantly higher than for the Hungarian CSO sector in general.³¹

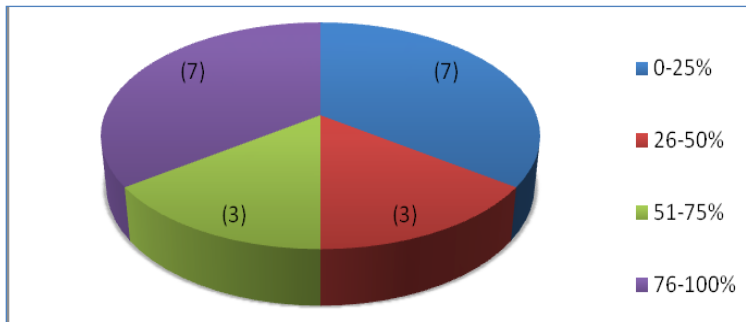
Figure 10. What resources did your organization draw on to fund its development and humanitarian activities in the past five years?



This distribution of resources is even more striking when we take into account that almost a third of the respondent organizations (9) do not collect private funds at all, while for seven of them, private funds have made up only between 1-25% of their budgets in the past five years. Yet, for another seven NGOs, 76-100% of their budget for development and humanitarian aid activities comes from this resource.

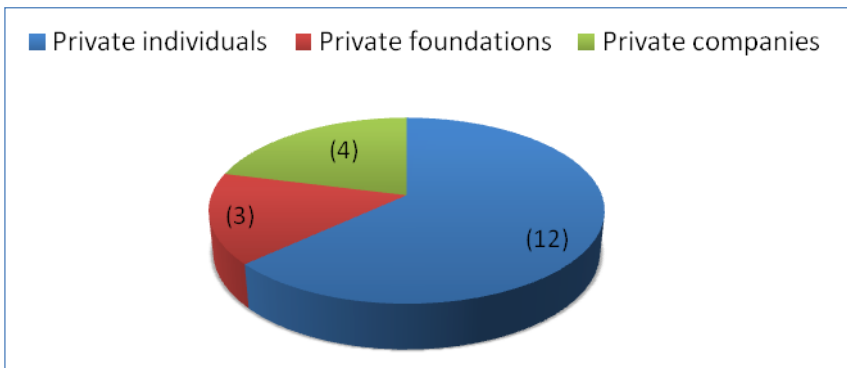
³¹ In the latter, the proportion of private funding is under 20% (Péter Nizák, Open Society Institute, Task Force meeting).

Figure 11. Proportion of private funding NGOs' past 5 years' budget (number of NGOs)



Taking a closer look at who these private donors are, we see that the majority of the NGOs receives funding from private individuals, while less than a quarter of the 19 NGOs who collect private funds reported that their main private donors are companies or private foundations. The private foundations are rarely connected to Hungarian private companies or corporations. More typically they refer to grants made by philanthropic organizations or individuals in old member-states or other Western countries (see Hoxtel, Preysing and Steets (2010)). This underscores the claim articulated in other parts of our research, that cooperative relationships between NGOs and private companies are almost non-existent in Hungary.

Figure 12. If your organization fundraises from different sources, who are the main donors? (number of NGOs)



Based on these responses, our data does not support the claim that the significantly high proportion of private funding is due to donations that faith-based humanitarian organizations raise from their respective religious communities. In fact, only one of the major faith-based organizations reported that all of their international development and humanitarian budget comes from private resources, among which the main donors are private individuals. For the other three, the proportion of private donations in their development budget remains below 50%, and for one of them, the main private donors consist of private companies and not individuals. Based on our survey data, private individuals are much more crucial for smaller faith-based organizations (e.g. Dorcas Aid Hungary and Third World Foundation), and for secular NGOs with a focus on the African continent (as well as for the Hungarian Committee of UNICEF).³²

Among the most frequent methods of fundraising, respondents mention face to face encounters and personal contacts the most frequently (18 responses), but public fundraising events are also a popular tool (10). For those NGOs supporting orphanages and educational institutions, virtual adoption and/or student support programs are common schemes to collect private funding.³³ Raising funds in recipient countries is not very common. Only 5 out of our 29 respondents do so, while none of the others responded that they are planning to raise funds in developing countries in the future, 8 were undecided, and 16 were sure that they would not. For those who raise money or material support for their activities in recipient countries, such funds make up less than 25% of their overall budget for development and humanitarian aid activities.

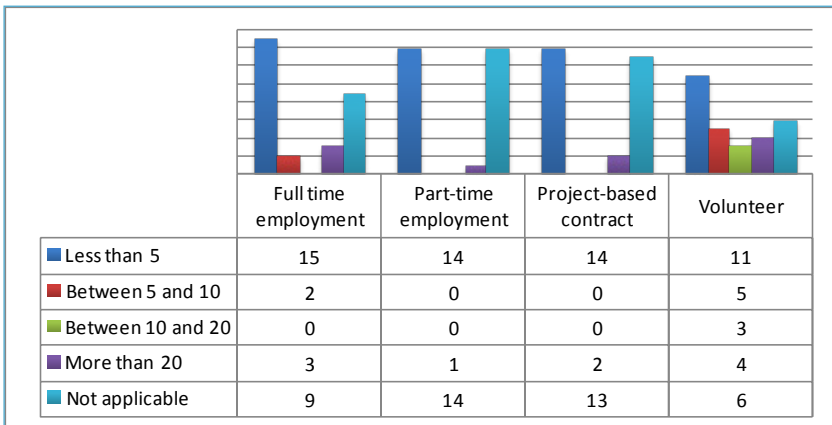
In terms of available human resources, capacities are rather limited among Hungarian NGOs. While a large majority have full-time employees, their number is typically lower than 5, only in two cases does

³² In retrospect, one limitation of our survey is that it did not enquire about real sums of available funding, e.g. how much NGOs spend on development projects and what proportion of their resources cover overhead expenses, thus this data does not allow for a detailed analysis of Hungarian NGO's financial operation.

³³ The Baptist Aid also runs such programs in 11 countries (Romania, Haiti, India, Cambodia, Congo, Malawi, Mongolia, Sri Lanka, Ukraine, Serbia, and Vietnam).

it go higher. Volunteers are relied upon by an equally high number (19) of organizations, and in five cases the whole staff is made up by volunteers. Where four organizations have more than 20 volunteers, in the majority of cases (11) their number remains below 5. Part-time employment and project-base contracts are deployed by around half of the organizations respectively, and it is only at UNICEF that their number exceeds 20. Otherwise both types of employment provide below 5 staff members of the respondent organizations.

Figure 13. Which of the following employment relations do your organization's development and humanitarian activities operate with? (number of NGOs)



3.4. Understanding the challenges

Having outlined the general profile of the sector, this section enumerates the main challenges that prevent it from becoming a more significant agent of Hungary ODA activities.

3.4.1. Lack of political support

One challenge that was unanimously articulated by our interviewees and survey respondents is the lack of support from government and the political elite. The general perception of NGDO representatives is that

the issue of international development carries no weight within political circles. Correspondingly, according to several informants, politicians have only a basic knowledge about the function and the operation of ODA.³⁴ A Bilateral aid is among the “first victims” of budget cuts. Indeed, as one of HAND’s members put it: “[The ODA] sector is still struggling for its survival, just like twenty years ago”. Making the already difficult situation worse, according to a leading development expert participating in our Task Force meeting, the current political atmosphere in Hungary does not favor forms of civic action pursued by NGOs in general.

Despite an unsupportive political context, we have to distinguish between the political elite or government institutions in general, and the MFA’s Department of International Development and Humanitarian Aid. In respect of the latter, and especially with regards to the most recent past, interviewees point to an increasing openness towards the civil sector, manifesting mostly in the growing number of for a where NGDOs can articulate their concerns and share their expertise.³⁵ Thus, to qualify our initial diagnosis, the ODA sector’s struggle for status applies to the responsible MFA department as well. Many of the efforts of the International Development and Humanitarian Aid Department are thwarted by an unfavorable operational context where politicians and other MFA agencies do not recognize ODA as a legitimate means of foreign policy.³⁶ Illustrating this is the fact that Hungary remained until very recently without an official ODA strategy or a basic law that could integrate the topic into foreign

³⁴ One of our Task Force participants recounted that following a speech she gave in the European Parliament as then board member of CONCORD, none of the politicians that came up to her to discuss the topic was Hungarian. As a member of the NGDO delegate to the Hungarian Parliament’s Committee of Foreign Affairs committee added, at a recent meeting, MPs demonstrated a complete lack of information about ODA and how it works (Task Force meeting).

³⁵ HAND interview. According to another interviewee, this increasing openness is valid also in relation to NGDOs and experts focusing their work on Africa (AHU coordinator, email correspondence).

³⁶ According to a Task Force participant this neglect is further sustained by the fact that Hungarian ODA never had “a face”, a personality that could raise the sector’s legitimacy. In addition, as in many other countries, there is a very high turnover in the NEFE Department’s staff.

policymaking. In December 2012 the Hungarian Parliament's Foreign Policy Committee finally adopted a resolution that sets a deadline for the formulation of a development strategy.³⁷ Whether that will be accompanied with an increase in the funds available for NGOs' involvement in ODA activities is, of course, difficult to predict.

3.4.2. Lack of public awareness

A second commonly cited obstacle is the absence of popular interest in and support for NGO activities. As discussed above, this is characteristic of the post-socialist region. NGO representatives stressed the lingering sense of aid dependency and the impact of the current economic and financial crisis which undermined their efforts to sensitize public opinion to problems of poverty abroad. While representatives of humanitarian organizations report successful fundraising campaigns to support victims of natural or man-made disasters (e.g. the 2010 earthquake in Haiti or the 2004 Indian Ocean tsunami), according to our respondents it is much more difficult to collect donations for development projects.³⁸

In conjunction with low state funding for development projects, the lack of public awareness in Hungary directly materializes in the scarcity of financial resources.³⁹ In light of this, it is interesting that only 16 from 29 respondents thought that the aim of awareness raising was "very important" (while 12 thought it was rather important). This attitude could reflect

³⁷ See HAND (2012c). [Since the drafting of this report, the Resolution has been adopted by the Hungarian Parliament.]

³⁸ In response to a related question about the problem of resource drivenness, the coordinator of Dorcas Aid Hungary recounted a story about their 1% tax pledge campaign for a water provision project in an Ethiopian village. At one of their campaign events, a member of the audience asked if the money s/he donates would benefit "these black children". Receiving an affirmative answer s/he said "Then I'll give it to Loki [the local football team] instead!" While this campaign turned out to be unsuccessful, previous campaigns in support of solitary elderly people in Transylvania were much better supported.

³⁹ The amount of ODA-funding that CSOs can apply for through the yearly calls of the MFA varies between HUF 120 and 200 million (cc. EUR 400 000 and 667 000). Individual organizations can usually apply for a minimum of 5 and a maximum of 20 million Forints (cc. EUR 17 000 and 67 000).

previously mentioned experiences with awareness raising campaigns such as high costs and moderate returns. In addition, many believe less in short term awareness raising campaigns and more in long term investment into transforming the way people think about Hungary's place in the world. Thus, global education, in providing the framework for opening up young citizens towards concerns of people in different parts of the world, seems to be a more attractive route to take. Yet, as lack of interests translates into NGOs' financial constraints, in the short term it might be compensated by more inventive fundraising mechanisms – something that many organizations lack the capacity for at present.

3.4.3. Unequal relations with “Old” donors’ NGOs

A significant challenge on the European level is the gap between older and newer member-states' NGOs' capacities and possibilities. While Hungarian NGOs recognize that, in terms of experience and achievement, they are several years, or even decades, behind Western development organizations, when interacting with counterparts from old member-states, they often find that this gap is exacerbated by the latter's patronizing attitude. Although several organizations have recurring partnerships with Western NGOs or development agencies (e.g. the Hungarian Interchurch Aid regularly cooperates with the DanChurchAid), our respondents often believe that they are not being dealt with on an equal basis when it comes to planning or executing joint projects. According to a Baptist Aid coordinator, during cooperative projects, the majority of her energies is wasted on trying to convince Western partners that “this is not the Netherlands”. What she finds puzzling is that these NGOs have been present in the developing world for decades, they cannot seem to manage differences within Europe; neither can they accept that although with a shorter history behind their back, this region's NGOs also have achievements.⁴⁰

While such perceptions can reinforce existing inequalities, these differences have become sharper during the economic downturn. With ODA

⁴⁰ Task Force meeting

budgets curtailed in almost all member-states, competition for EU resources palpably intensified. Under these circumstances, the weaker position of NGDOs from new donor states is likely to increase. Most prominently, this applies to the difficulties of generating own funds as required by Europe Aid tenders.⁴¹ As our respondent from Terre des Hommes – speaking also as the leader of a CONCORD Task Force – notes, NGDOs from old member states are no longer receptive to the positive discrimination of new donors; they believe the distinction between old and new is no longer valid and the same conditions should apply to all.

3.4.4. Difficulties of supranational interest representation

The final challenge to be addressed is the lack of financial and human resources. Material differences and attitudinal patterns still structure the relations between old and new member-states' NGDOs, and while such inequalities could be countered by successful interest representation within European platform organizations, most Hungarian organizations lack the resources to be actively present in such *fora*. Just like with EU-funding, the key to successful interest articulation seems to be constant presence in Brussels, or to be able to closely follow the activities of platforms such as CONCORD. As such options are generally not available to Hungarian NGDOs, they are routinely underrepresented in both the expert groups and the leadership.⁴² Due to increased competition for funding, organizations from old member-states are not so interested in dismantling the status quo which can impede new member-states' organizations' lobbying for application schemes that could compensate for their deficient resources. However, beyond the financial implications, it also obstructs the promotion of practices and ideas that could provide

⁴¹ In recent years a certain portion of MFA funds allocated to CSOs is earmarked for covering the requirement of own contribution within EuropeAid tenders.

⁴² This state of affairs was underlined by an international aid coordinator of Baptist Aid. It was, however, qualified by former HAND-coordinator Réka Balogh: during the "high point" of HAND's operation, 7-8 members were regularly attending CONCORD Work Group meetings, and other new member states' national platforms are even more active.

viable alternatives to a predominantly Western framework of civil society participation in international development.⁴³

3.5. Conclusions and Recommendations

Increasing the political profile of ODA through policy coherence

Although deploying development aid to promote foreign policy is not an unquestionable practice, at the current state of Hungary's ODA activities, framing it as such could benefit the area. Creating coherence between the country's foreign policy and foreign trade strategies, and harmonizing the forthcoming ODA strategy would render development aid more visible and thereby garner greater support among politicians. Heeding a frequent plea from NGOs and academic experts, greater coherence between these strategies might also decrease the number of initiatives and recipient countries, leading to a more concentrated and efficient funding schemes (see e.g. Hodosi 2012). While HAND representatives recount recent positive experiences with winning individual politicians for the issue of development through organizing field trips, at this point in time, strengthening ODA's foreign policy aspect might be more sustainable an approach.

Increasing public support for international development activities

The very low public support for international development needs to be addressed better than simply via costly and short-term sensitizing campaigns. As seen, the Hungarian NGO sector possesses sufficient capacities to promote global education programs into different levels of public education. In addition, greater awareness could be fostered through introducing development and humanitarian aid degree programs into higher education. In turn, such programs would gradually develop NGOs' and governmental institutions' capacities by providing qualified workforce.

⁴³ For example, as Baptist Aid's representative argued, NGOs in NMS can realize development and humanitarian aid projects much more cost efficiently, simply because, among other conditioning factors, they are not accustomed to high rates of staff remuneration.

Leveling the relationship between NGOs in old and new member-states

As suggested above, intensifying competition for EU-resources among development organizations contributes to sustaining the inequality between the two groups. Capacity building programs and incentives for cooperation between experienced Western NGOs and those of the EU12 (such as the lower own funding requirement applied for cooperation in awareness raising projects) should be put into place. For such measures to gain legitimacy, new member states' NGOs need to be equipped with the capacities and resources to be active and able to represent their interests in EU-level NGO platforms and related institutions. Among others, financial means to support operational expenses of new donor's organizations should be provided by government and/or EU-institutions.

Another option was the institutionalization of a strong cooperation framework between regional development actors, building on the positive experiences of the Visegrad Four partnership. While such cooperation already exists among NGOs of this region,⁴⁴ it could be strengthened by the involvement of governmental agencies and the private sector. Thus, development actors of the Central-East European region would form an entity with the potential to mutually strengthen the capacities of countries with very similar ODA profiles, at the same time rendering them more visible as donors.⁴⁵

Fostering cooperation with the private sector

Although the economic and financial crisis clearly has a negative impact on Hungarian private companies, encouraging cooperation with the NGO sector can be mutually beneficial. Through partnership, NGOs would gain access to financial resources, while private companies could expand their activities to new markets. In order to enable this interaction, actors –

⁴⁴ See primarily the V4Aid project. The Hungarian participant of the cooperation is DemNet.

⁴⁵ Such a regional entity could lobby for receiving a portion of all member-states' contributions towards the European Development Funds, thus gaining more resources for bilateral as opposed to multilateral aid, and hence larger control over the allocation of resources.

including governmental agencies – should create possibilities for discussion, so as business actors' lack of information about international development, as well as the civil sector's possible suspicions about the interest-driven approach of private companies can be addressed.

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ANNEX 1: NGDO DATABASE OF THE RESEARCH

No.	CSO	Umbrella (HU)	Website
1	ADRA Adventista Fejlesztési és Segélyszervezet	n.a.	http://www.adra.hu/index.php
2	Afrikaért Alapítvány (Foundation for Africa)	HAND, MAP	http://afrikaert.hu/hu/
3	Afrikai-Magyar Egyesület (African-Hungarian Union)	HAND	http://www.ahu.hu/
4	Anthropolis Egyesület (Anthropolis Anthropological Public Benefit Association)	HAND	www.anthropolis.hu
5	Artemisszió Alapítvány (Artemissio Foundation)	HAND	http://www.artemisszio.hu
6	Autonómia Alapítvány	n.a.	http://autonomia.hu/hu/programok/sims-projekt-tarsadalmi-innovacio-kolcsonos-tanulas-illetve-kisosszegu-megtakaritasok-euro
7	Baptista Szeretetszolgálat Alapítvány (Hungarian Baptist Aid)	n.a.	http://baptistasegely.hu/the-history-of-hungarian-baptist-aid?lang=en
8	BMVA- Békés Megyéért Vállalkozásfejlesztési Alapítvány	n.a.	http://www.bmva.hu/
9	BOCS Alapítvány	HAND	http://bocs.hu
10	CEE Web for Biodiversity (Hun: BOCS Alapítvány, Ecolinst, Green Action (Miskolc), MTVSZ, Nimfea Egyesület (Túrkeve)	n.a.	http://www.ceeweb.org/members/full-members/
11	Demokratikus Átalkulásért Intézet (ICDT, International Center for Democratic Transition)	n.a.	http://www.icdt.hu/
12	Demokratikus Jogok Fejlesztéséért Alapítvány (DemNet)	HAND, MAP	www.demnet.org.hu

13	Dorcas Segélyszervezet - Magyarország	n.a.	http://www.dorcas.hu/
14	Ebony Afrikai Kulturális Művészeti és Emberi Jogi Egyesület	MAP	http://www.afroproductions.hu/ebony.html
15	Európai Nonprofit Jogi Központ (European Center for Not-for-profit Law)	HAND	www.ecnl.org
16	Faipari Tudományos Egyesület	n.a.	http://www.erfaret.hu/imagebase/7a66a678/faipar201034.pdf
17	Global Water Partnership - Hungary	n.a.	http://www.gwpmo.hu
18	Green Cross Hungary	n.a.	http://www.greencrossinternational.net/
19	HAND (Nemzetközi Humanitárius és Fejlesztési Civil Szövetség) -- umbrella organization		www.hand.org.hu
20	Harmadik Világ Alapítvány (Third World Foundation)	n.a.	http://www.bokoralap.hu/HVA/rolunk.html
21	HELP Nemzetközi Orvosi Alapítvány	n.a.	n.a.
22	Híd a Harmadik Világért (Hid Alapítvány)	HAND	http://www.harmadikvilag.hu/
23	Jesuit Refugee Service	n.a.	http://www.jrs.net/about
24	Kárpátaljai Magyar Főiskoláért Alapítvány	n.a.	http://www.kmf.uz.ua/hun114/index.php/karpataljai-fiskolaert-alapitvany.html
25	Kárpátok Alapítvány Magyarország (Carpathian Foundation Hungary)	n.a.	http://www.karpatokalapitvany.hu/en/node/1
26	Katolikus Káritász	HAND	http://www.karitasz.hu/
27	Magosfa Alapítvány	n.a.	http://magosfa.hu
28	Magyar Máltai Szeretetszolgálat Egyesület	HAND	www.maltai.hu

29	Magyar Ökumenikus Segélyszervezet (HIA - Hungarian Interchurch Aid)	n.a.	www.segelyszervezet.hu
30	Magyar Önkéntesküldő Alapítvány (Hungarian Volunteer Sending Foundation)	HAND	http://www.hvsf.hu
31	Magyar Református Szeretetszolgálat Közhasznú Alapítvány (Hungarian Reformed Church Aid Public Benefit Foundation)	HAND (applied for membership)	http://www.jobbadni.hu/index.php?lang=en
32	Magyar Természetvédők Szövetsége (National Society of Conservationists -- Friends of the Earth Hungary)	n.a.	www.mtvsh.hu
33	Mahatma Gandhi Egyesület	HAND	http://www.gandhi.hu/index.php?option=com_frontpage&Itemid=1
34	Maholnap Magyar Jóléti Alapítvány	n.a.	http://maholnap.hu/en/our_goal.php
35	MAP- Magyar Afrika Platform (umbrella organization)		http://www.afrikaplatform.hu/
36	MDAC - Mental Disability Advocacy Center (Mentális Sérültek Jogaiért Alapítvány)	n.a.	www.mdac.info
37	Menedék (Hungarian Association for Migrants)	n.a.	http://menedek.hu
38	Mezítláb Alapítvány (Barefoot Foundation)	n.a.	http://www.mezitlabafrikaban.hu/
39	Minority Rights Group Europe	n.a.	http://www.minorityrights.org/425/campaigns/development-human-rights-and-poverty.html
40	Munkaadók és Gyáriparosok Országos Szövetsége (Confederation of Hungarian Employers and Industrialists)	n.a.	http://www.mgyosz.hu/en/index.php?fo=2&al=2
41	Napfelkelte Alapítvány	n.a.	http://www.napfelkelte.hu/bemutakozas/projektek
42	Nesst - Nonprofit Enterprise and Self-sustainability Team [HU Regional Office)	n.a.	http://www.nesst.org

43	OSI - Hungary	n.a.	http://www.opensocietyfoundations.org/
44	Önkéntes Központ Alapítvány	n.a.	http://www.oka.hu
45	Partners Hungary Alapítvány	n.a.	http://www.partnershungary.hu/
46	Project Hope [HU branch]	n.a.	www.projecthope.hu
47	REC - Regional Environmental Center for Central and Eastern Europe	n.a.	http://www.rec.org/
48	Reflex Környezetvédő Egyesület (Reflex Environmental Association)	n.a.	http://reflex.gyor.hu/
49	RI - Relief International [HU branch]	n.a.	http://www.ri.org/index.php
50	RSCJ - SzentSzív Társaság (Religious of the Sacred Heart)	n.a.	http://www.szentszivtarsasag.hu/
51	Segítő Jobb	n.a.	http://www.sja.hu/fooldal.html
52	TAITA Alapítvány Afrikai Gyerekekért	MAP	http://www.taita.info/
53	Terres des Hommes	n.a.	http://tdh-childprotection.org/projects/great
54	Transylvania Caritas	n.a.	n.a.
55	UNICEF Magyar Bizottsága [National Committee]	HAND	www.unicef.hu
56	Útilapú (Service Civil International Hungary)	n.a.	http://www.utilapu.org/
57	Védegylet	n.a.	http://www.vedegylet.hu/
58	YFU - Youth for understanding	n.a.	http://www.yfu.hu/hu/YFU/szervezet.html
59	Zöld Fiatalok Egyesülete	HAND	www.zofi.hu

Color code
Filled the survey
Was contacted but did not fill the survey
Survey did not apply for them but contributed otherwise (e.g. interview)
Could not be contacted (inactive), or the survey was not applicable for their activities



CENTER FOR POLICY STUDIES
CENTRAL EUROPEAN UNIVERSITY

DIFFERENT HORIZONS

AID, TRADE AND OFFICIAL DEVELOPMENT ASSISTANCE IN HUNGARY

Countries that not so long ago were recipients of grants, loans and technical assistance are now themselves becoming donors. For some onlookers, their status as emerging democracies or transition countries brings the potential for alternative perspectives based on recent experiences and without the impression of historical and colonial ties. Within these countries, development assistance can occupy a marginal position, with ambivalent backing from both public and politicians and institutionally, development assistance being subordinated to foreign policy and export promotion. Given such a situation, it is worthwhile examining the potential for development based co-operation with both the civic and the private sector in these new donor countries. How far might they go in justifying expectations of a development assistance based on solidarity and partnership? Are they in any position to shape official development assistance policy and if so, in what direction and with what consequences?

This report is the Hungarian chapter of a recent EU project that analyzed the new donors in Central and Eastern Europe and specifically, the role that aid and trade play in development assistance policy. Although the connections between the two are far from straightforward, there are areas where historic networks and newly created ones could lead to new forms of development co-operation between business, civic organizations and the public sector.

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